Supply & Demand Outlook for Washed and Semi-washed Arabica Coffee

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Before Determining What the Supply is, One has to Define Specialty Coffee

- When prices for coffee were depressed, it was clear to see which coffees were trading at premium prices.
- Some defined "Gourmet" coffee as anything that traded to a premium to the "C".
- Now that prices of Arabica coffee have rebounded, does a coffee trading at a small premium to the "C" contract still constitute a gourmet or Specialty coffee or does this just reflect more limited availability of that growth; be it a finer quality or not?
- How much over the "C" is Specialty? Will this standard hold the test of time?

Example: 1997 Differentials Fluctuated Wildly

Source: Reuters

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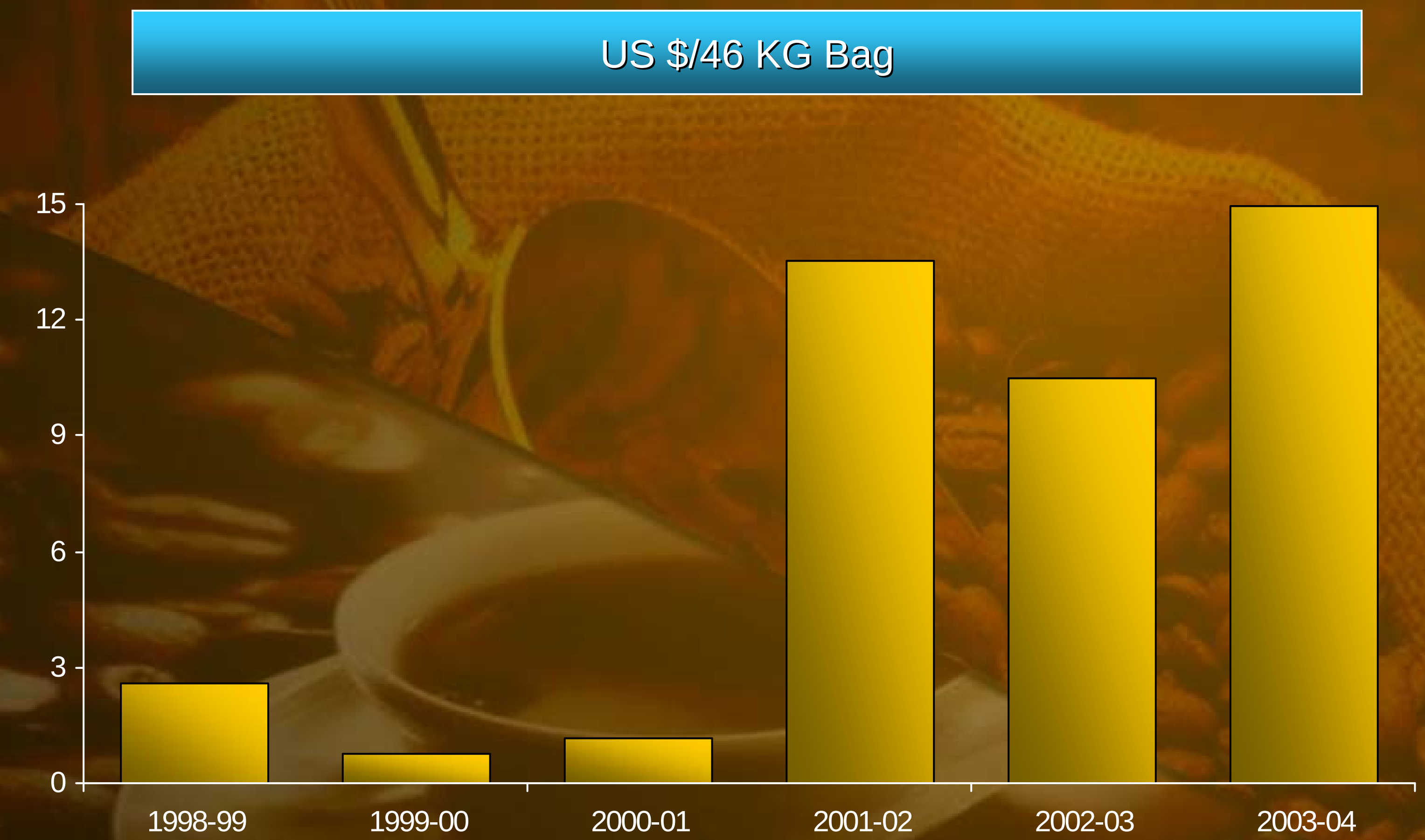
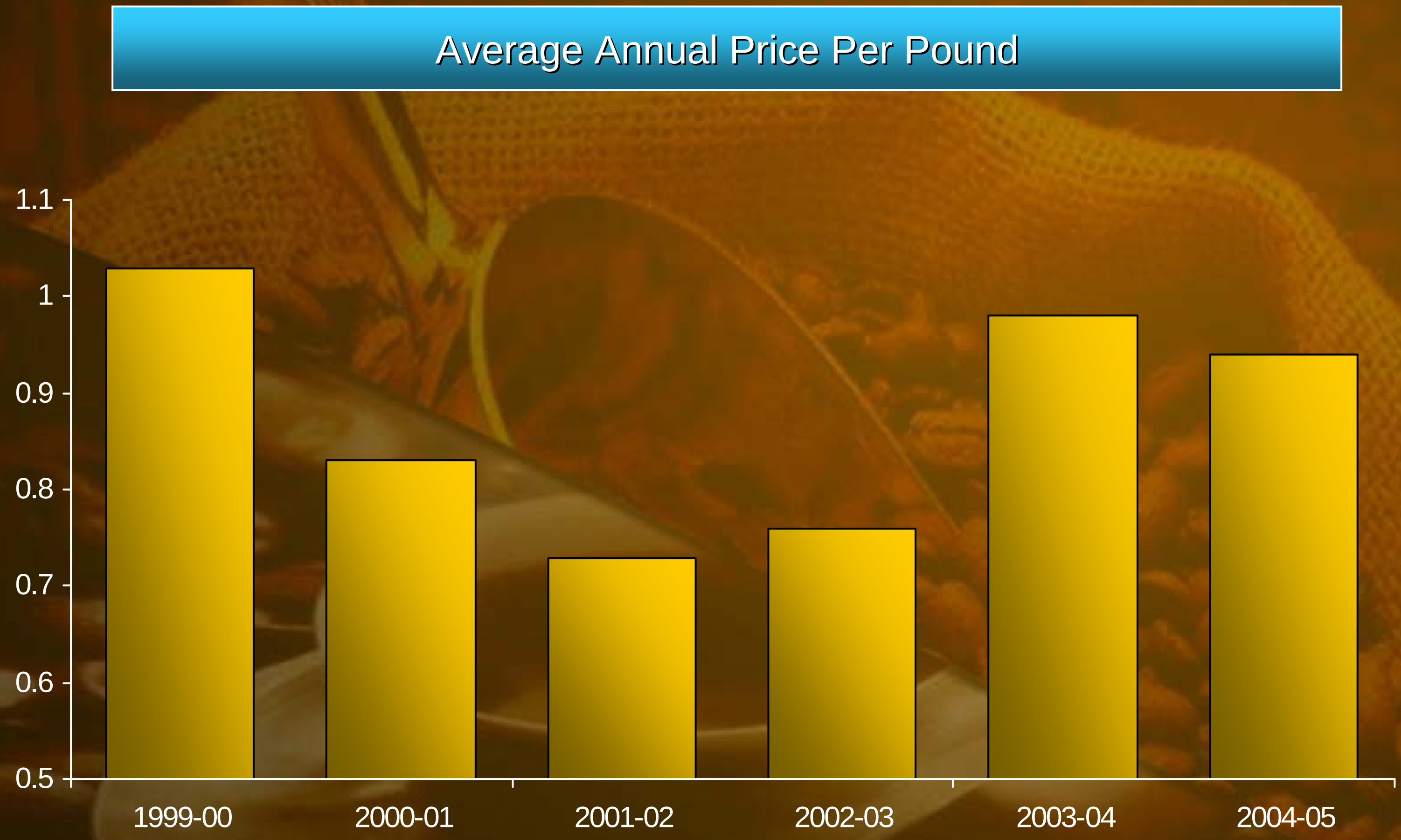
Costa Rican Average Differential Rose as Prices Fell



Source: ICAFE

Panama's Price Approach to Determining Supply of Specialty Coffee--% over "C"



Source: Hacienda La Esmeralda

Internet Auction Results

- Auctions gaining in popularity and success
- Gives farmers opportunity to showcase their unique coffees
- Provides broad exposure
- Stimulates interest in that growth and perhaps other growths of that origin, benefiting even those not featured at auction
- Top prices rising—buyers willing to pay more at upper end of the supply chain

Auction	High Bid	Low Bid
2000 Brazil COE	$3.04	$1.01
2002 Guatemala COE	$8.45	$1.50
2002 Brazil COE	$12.85	$2.05
2003 Best of Panama	$3.06	$1.20
2003 CR Cup of Gold	$7.35	$1.48
2004 CR Cup of Gold	$3.93	$1.75
2004 El Salvador Q	$$1.04	$0.90
2004 Best of Panama	$21.00	$1.25
2005 CR Q Auction 1	$1.50	$1.42
2005 Colombia COE	$19.10	$4.75

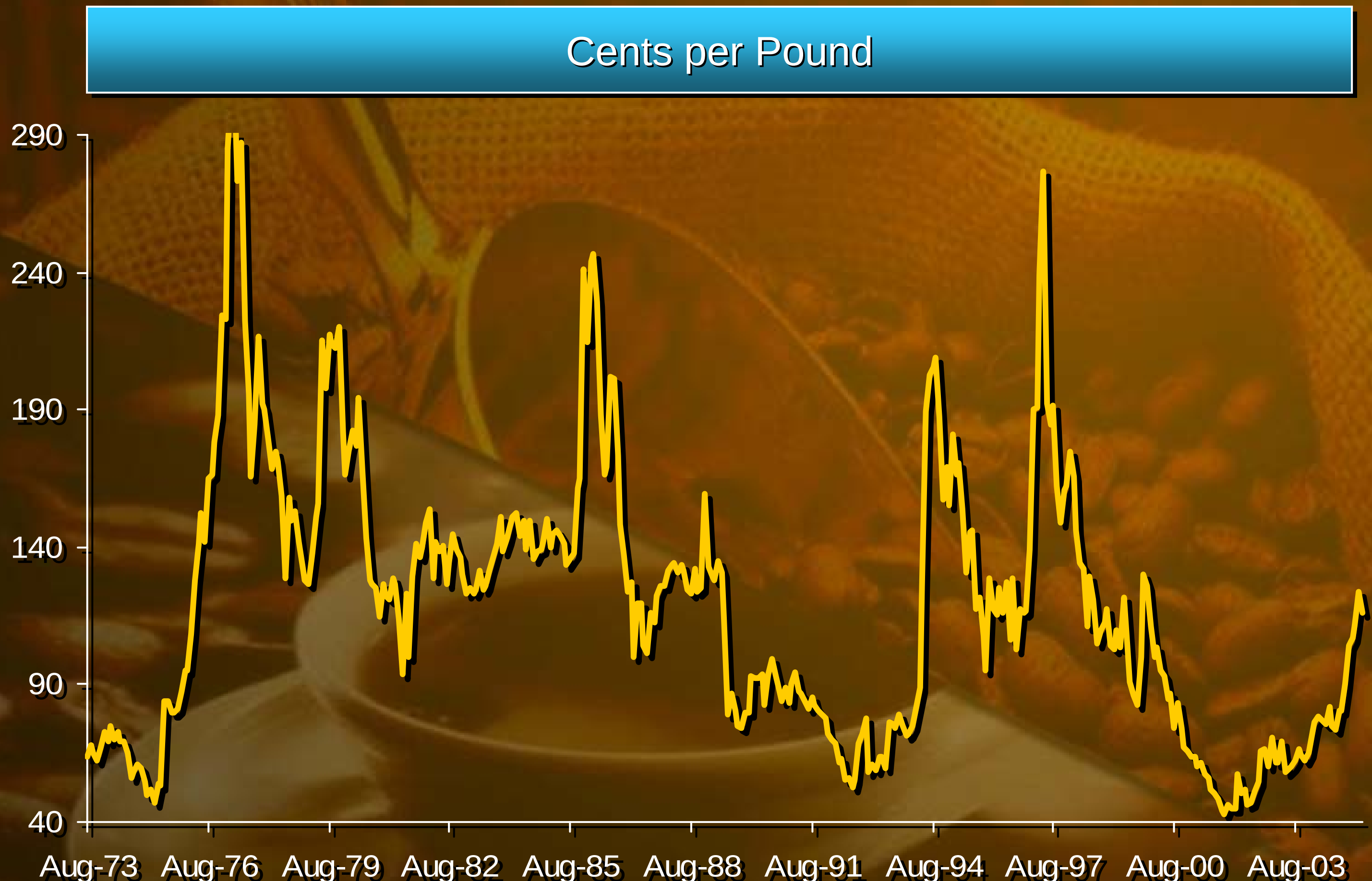
Specialty Coffee Defined by Netnographics?

- Netnography methodology = market research on the internet
- Tectonic shifts in the coffee market place
- Raised consciousness of coffee connoisseurship
- Specialty coffee drinkers are passionate, devoted, enthusiastic, innovative, and knowledgeable
- Most importantly consumers are willing to experiment- how do you measure usage of Specialty coffee with all these innovative new products?

Is Washed and Semi-Washed Arabica Output Keeping up with Demand?

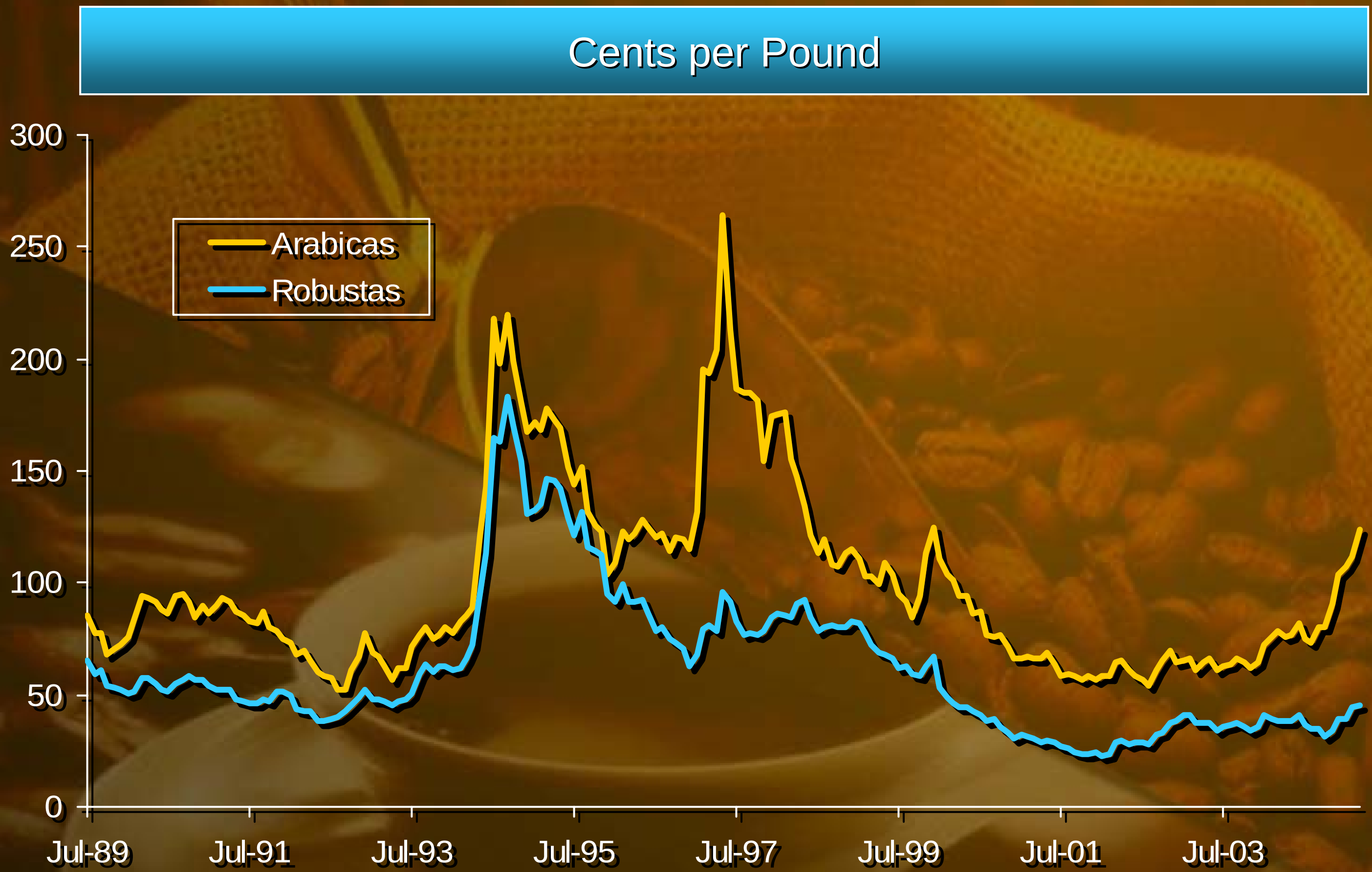
- THREE-tiered market structure has become increasingly more pronounced.
- Global stocks of Arabica coffee are falling.
- Interest in gourmet/specialty coffee continues to grow.

Arabica Coffee Crisis is Over



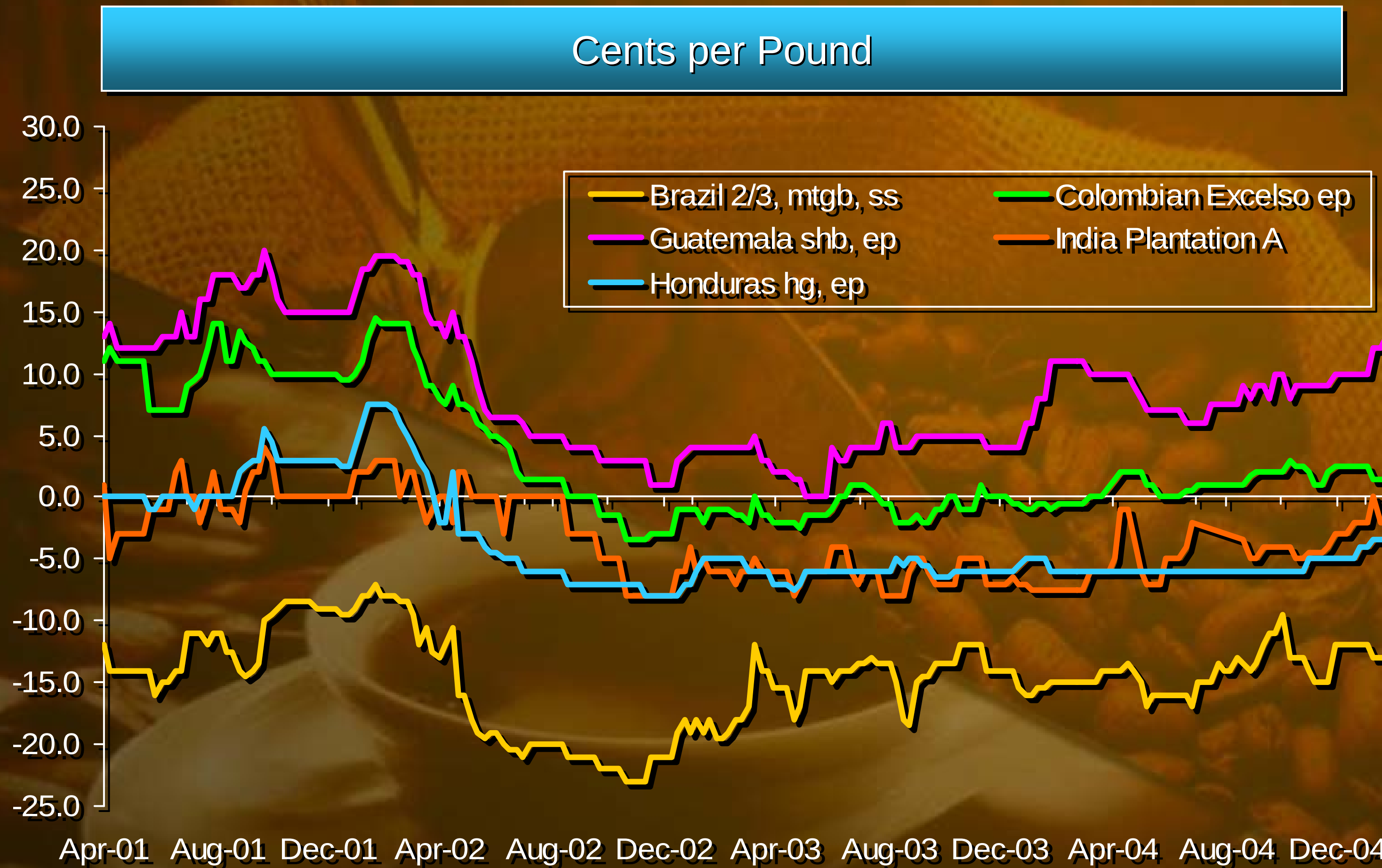
Source: NYBOT

Arabica Premium over Robusta Swells



Monthly through end-March 2005

Cash Differentials Should Firm Again as Structure Tightens



Source: Trade Sources

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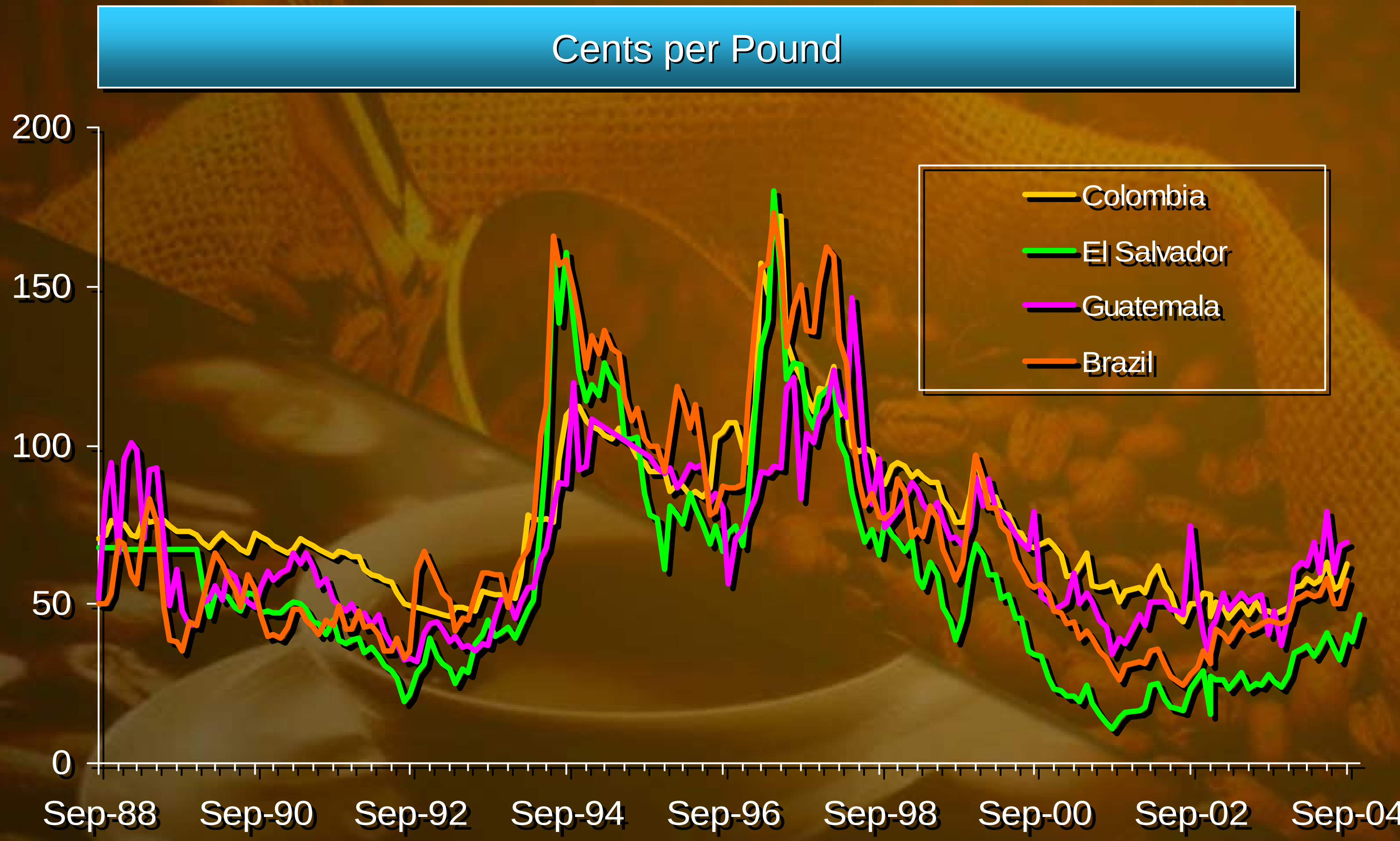
Growers Income on the Rise



Source: ICO

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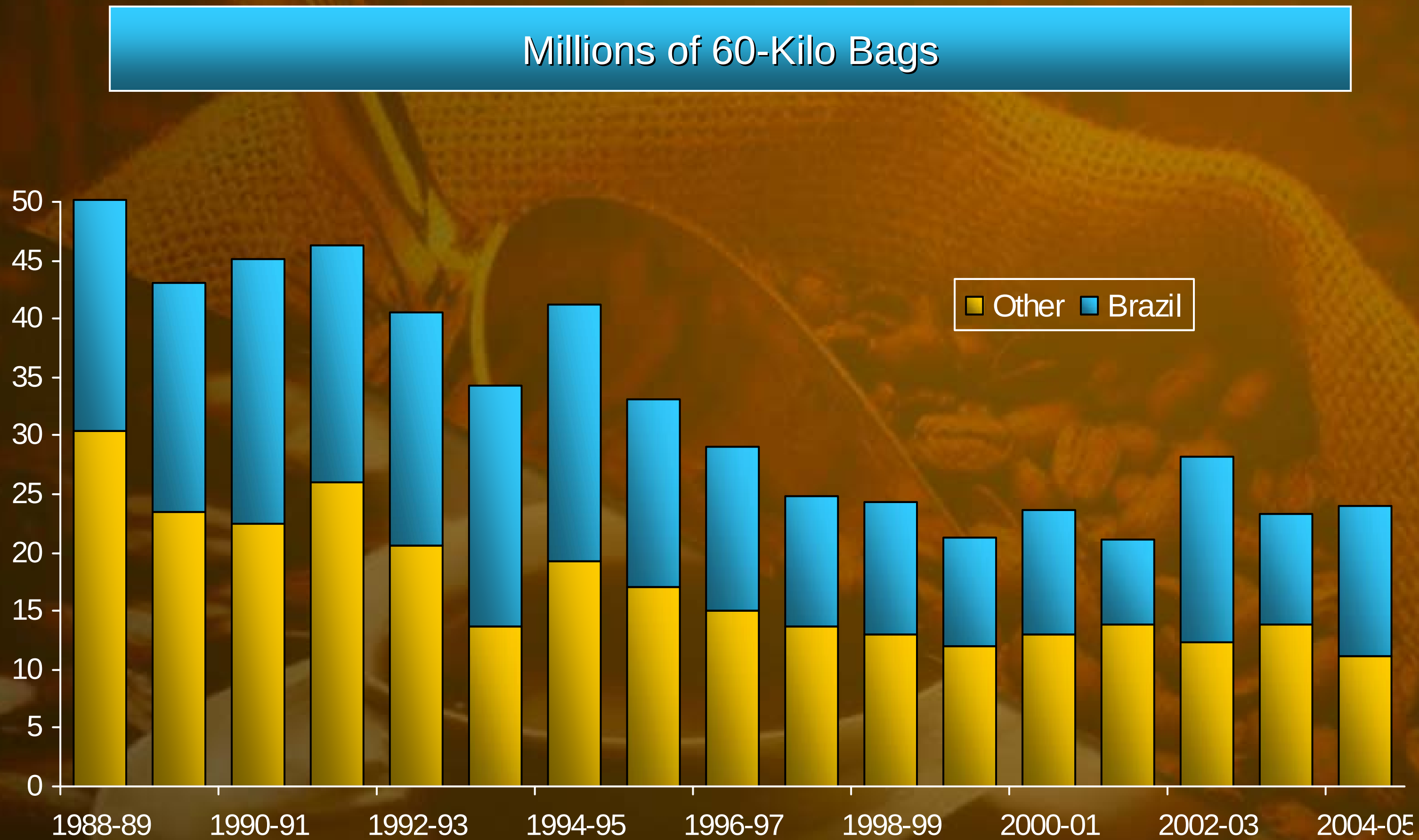
Producer Coffee Stocks at Minimal Levels



Source: USDA.

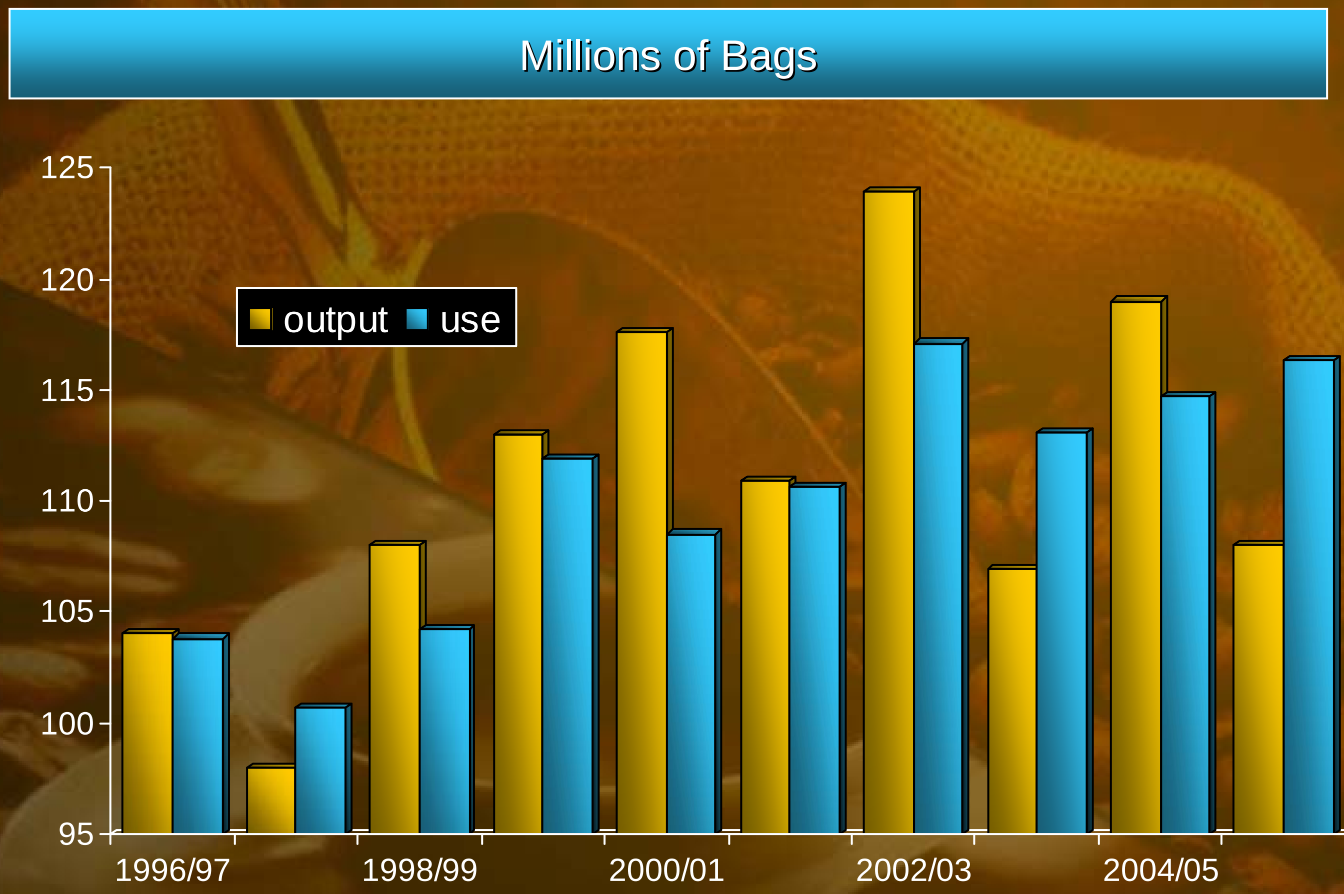
Only Minimal Origin Stocks of Washed Arabica Coffee

Source: ICO

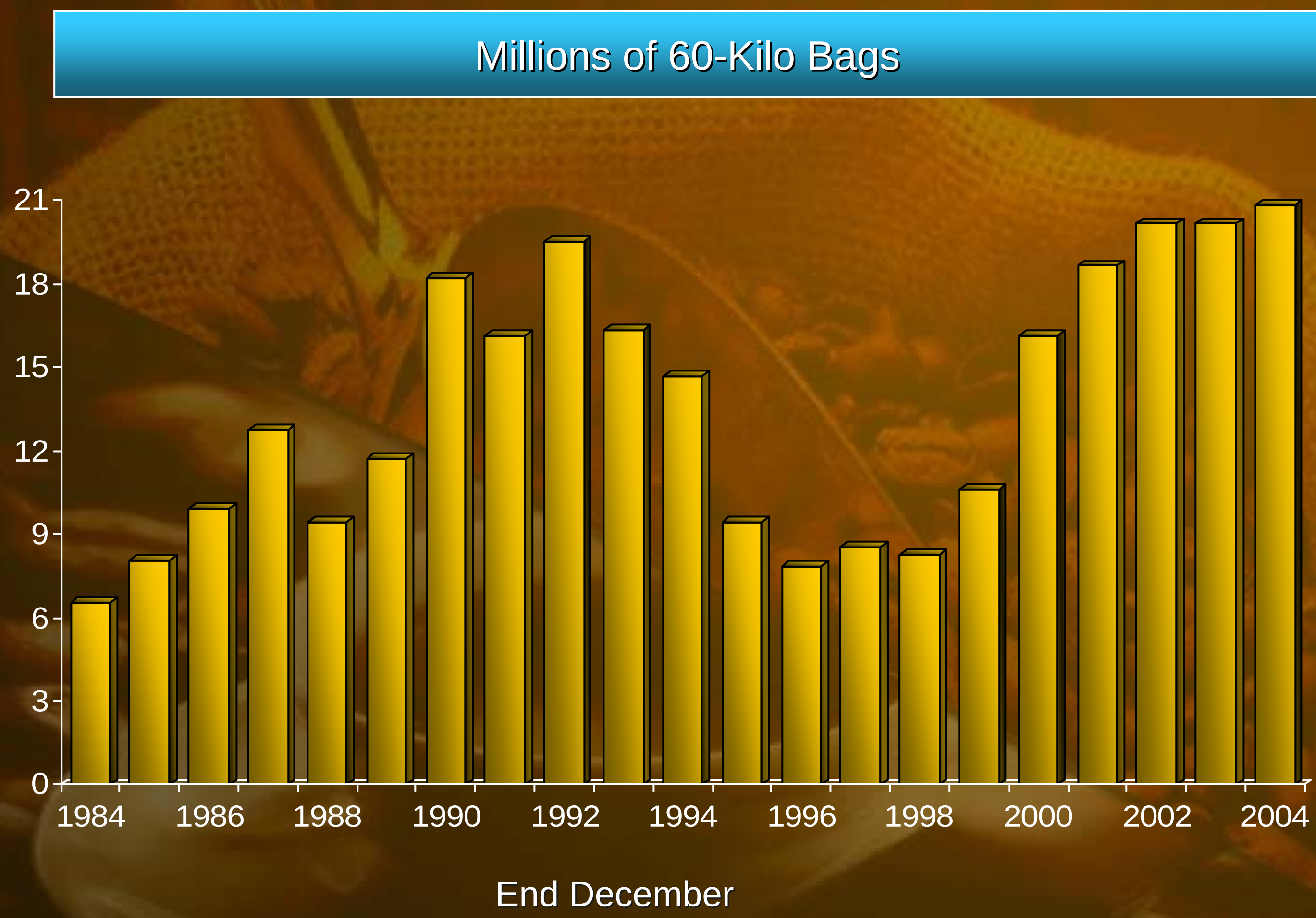
Producer Coffee Consumption Climbing

Source: USDA

2005-06 Supply Deficit Expected



Importer's Stocks at Record Highs



U.S Coffee Stocks Seeing Reduction Already

Source: Green Coffee Association

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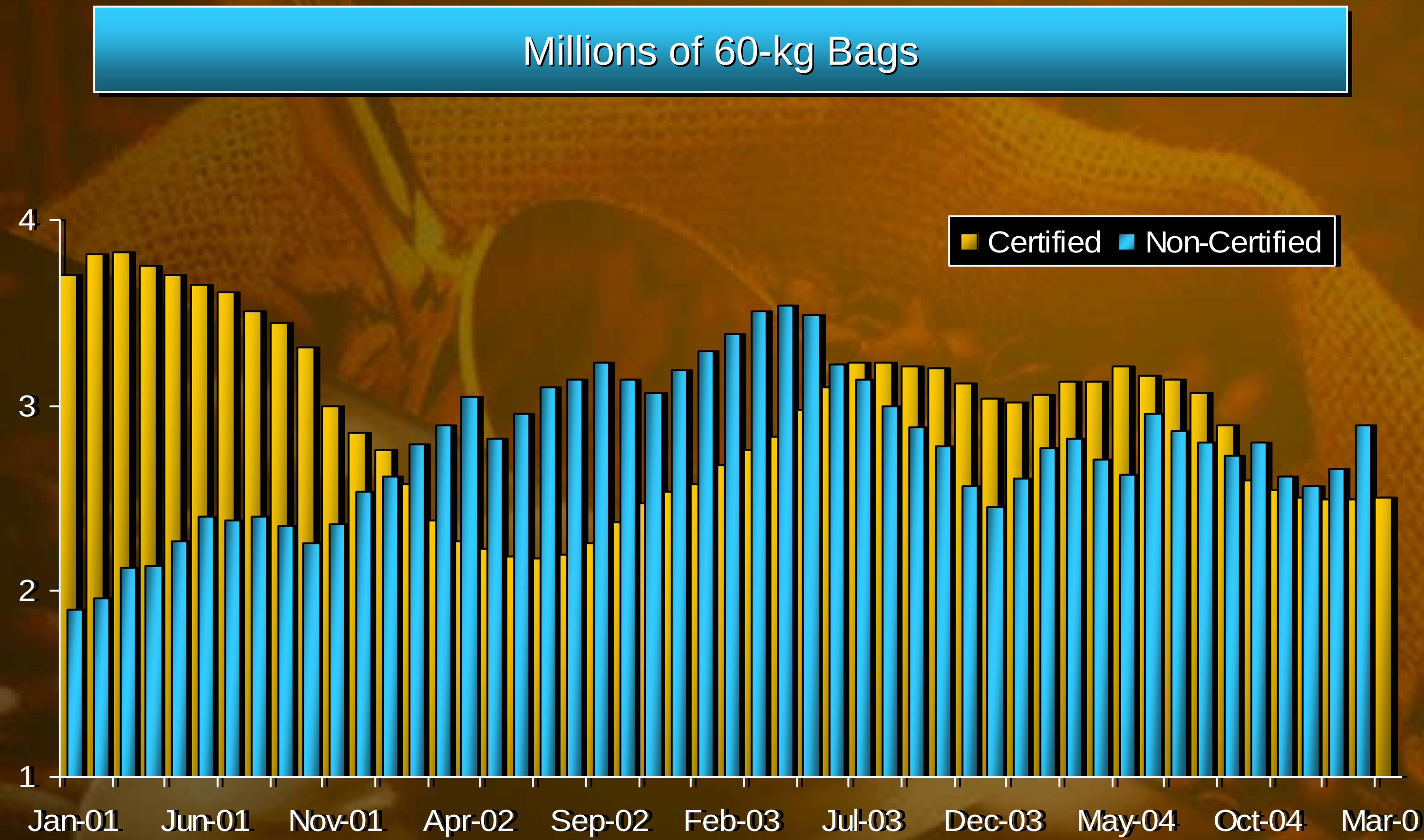
Certified & Non-Certified Coffee Stocks Could Fall Further

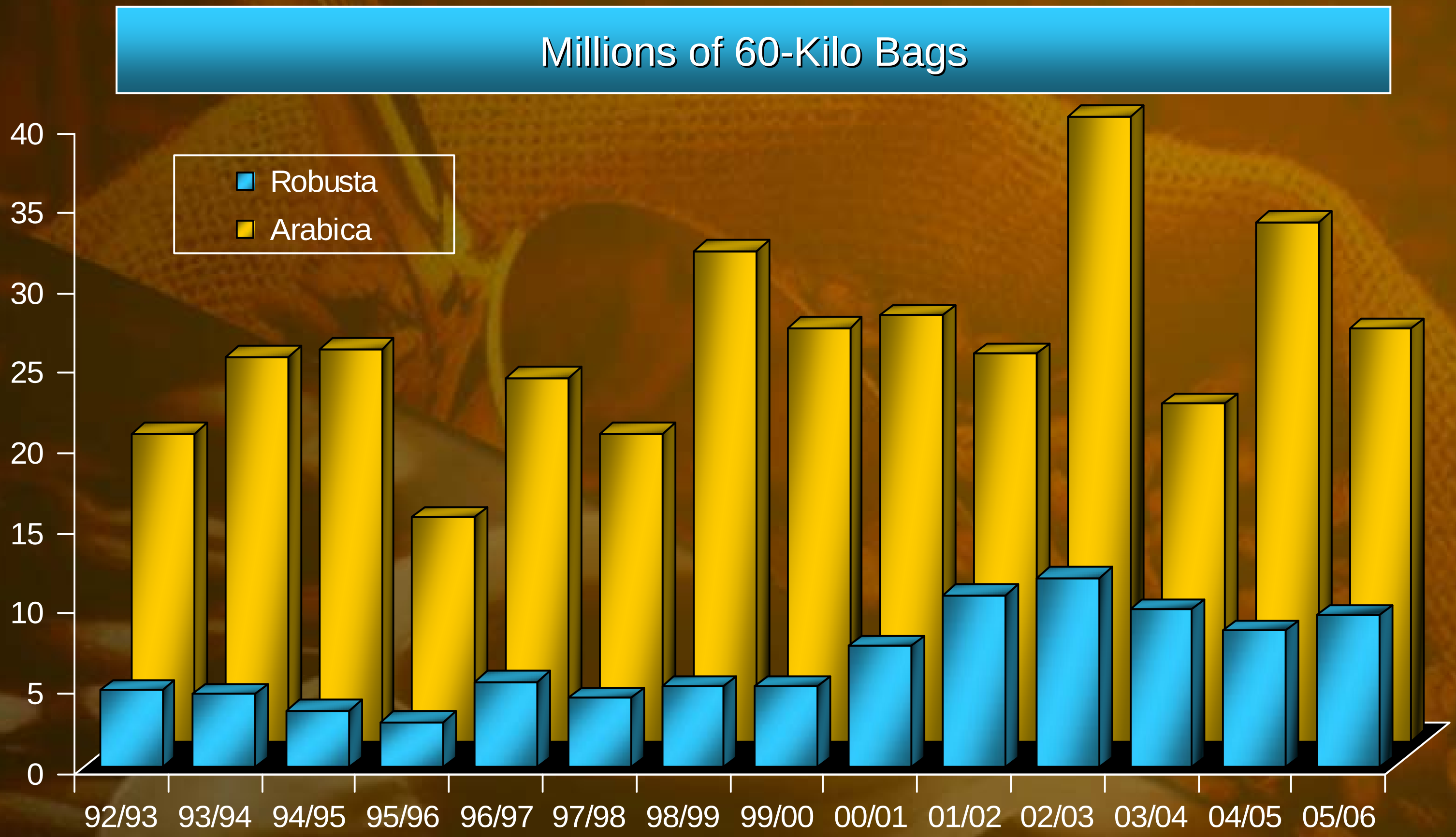


Source: NYBOT

Breakdown of US Certified Washed Arabica Stocks

Source: NYBOT Does not include coffee in Antwerp and Hamburg/Bremen

Brazil Arabica Down; Robusta Up in 2005-06



Source: USDA, SAFRAS 2005-06 MAX crop estimate.

Price Recovery Aiding Output Outside Brazil

Source: USDA

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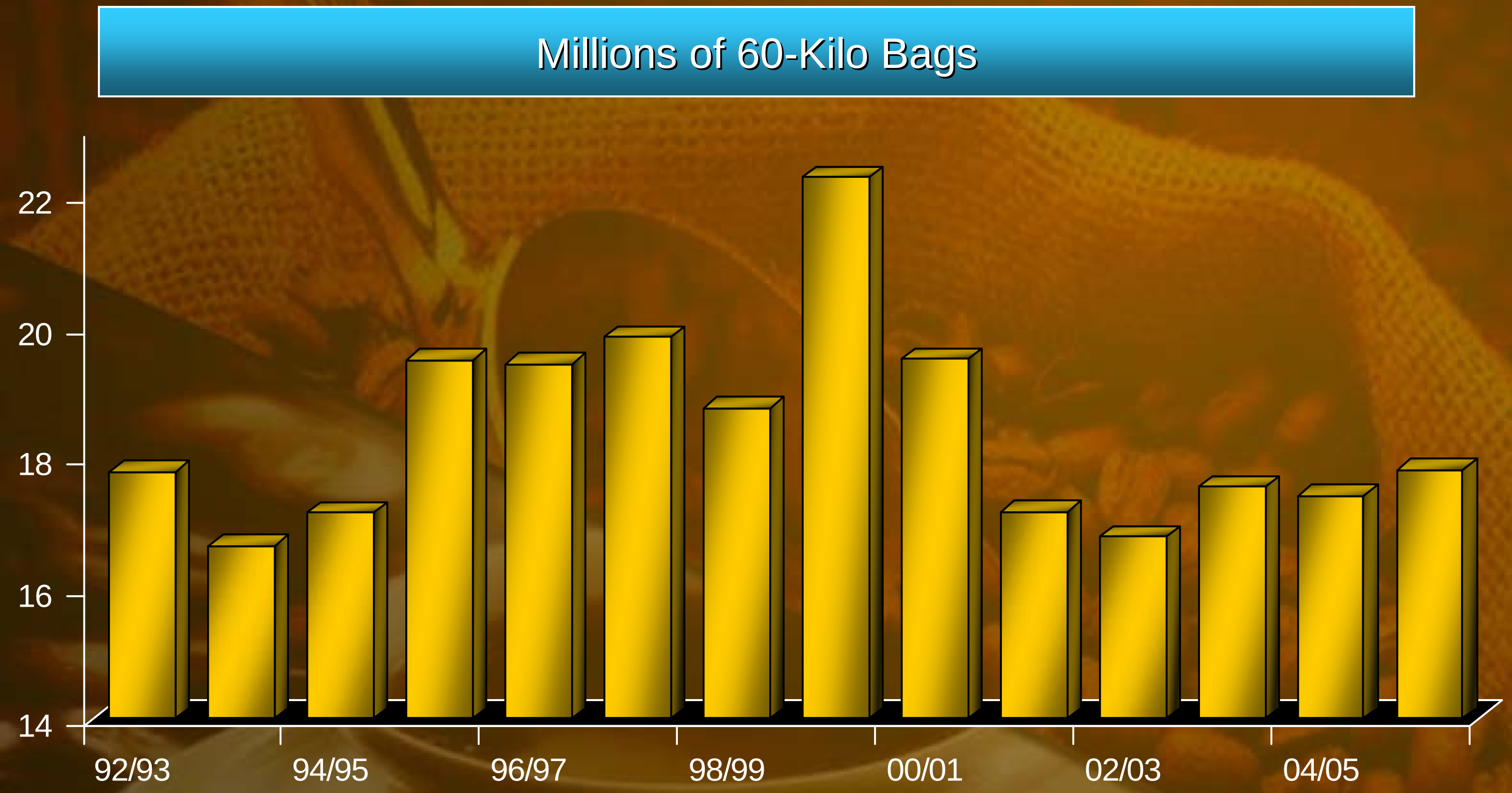
Vietnamese Output Impacted by Drought?

Colombia Maintains Relatively Stable Output

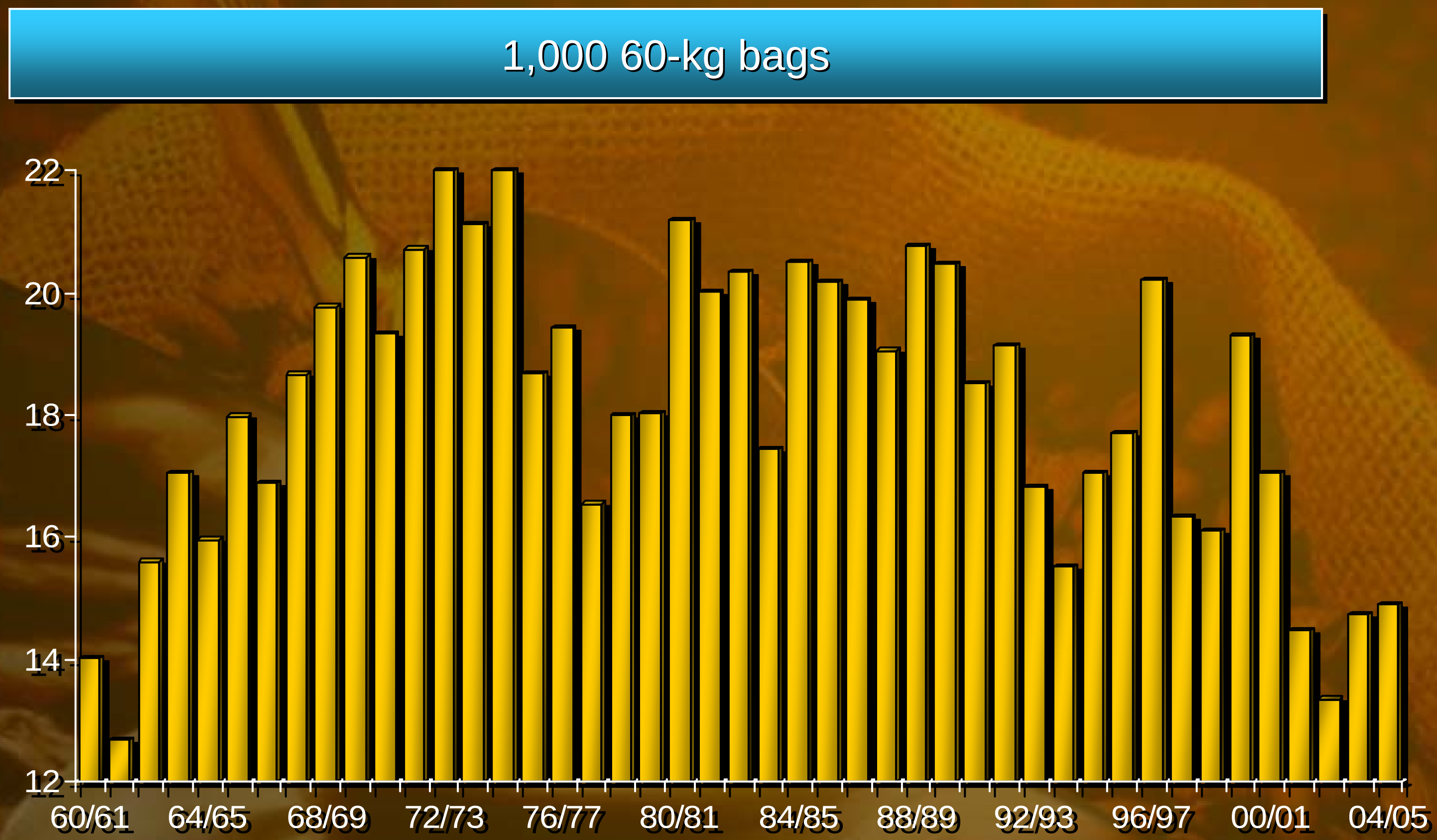
Source: USDA

North/Central American Output Rebounding Slightly



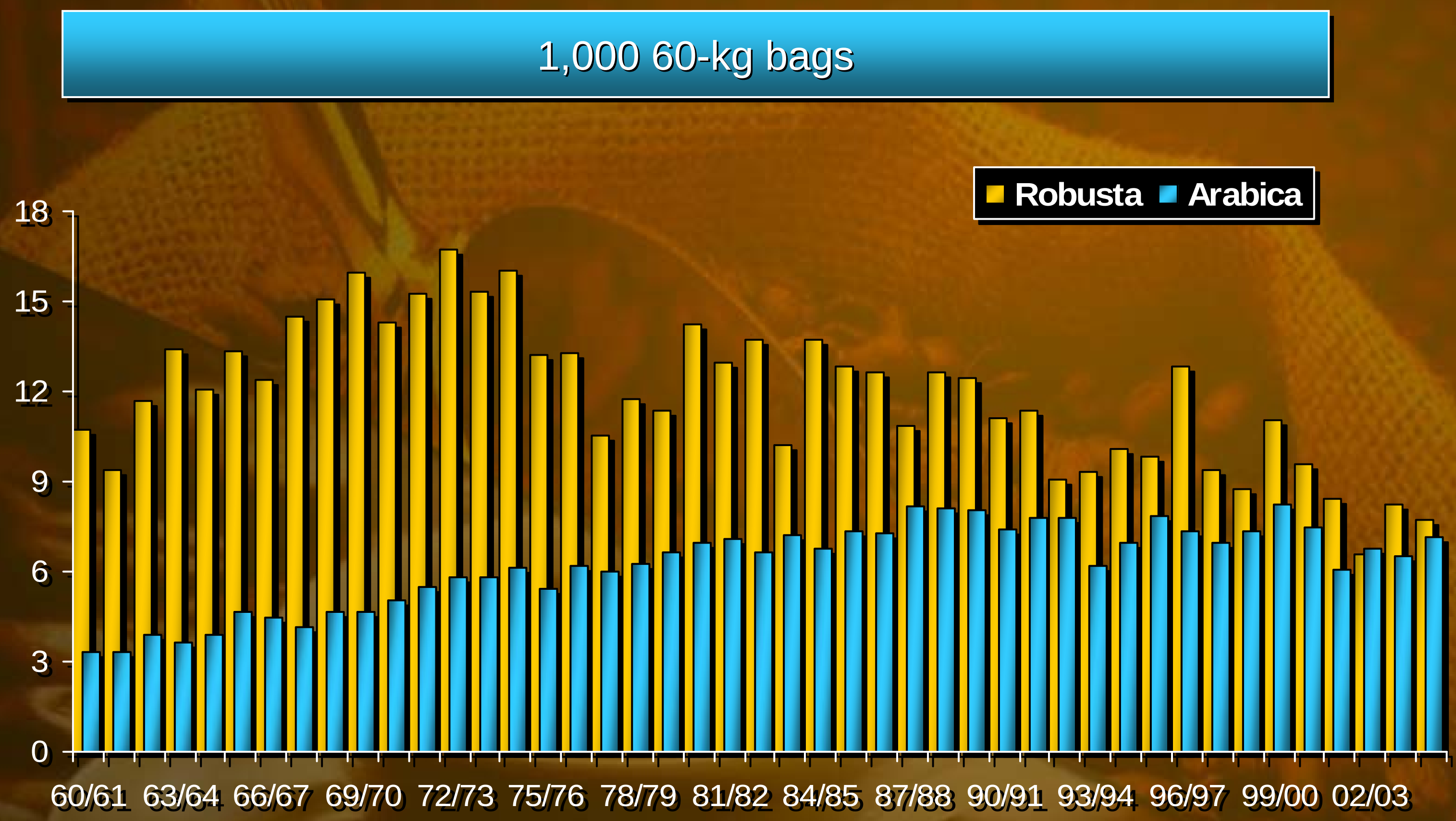
Source: USDA

African Coffee Production Also Improving Slightly



Source: USDA

African Arabica Output Increasing Relative to Robustas



Source: USDA

Washed Arabica Production to See Slow Recovery

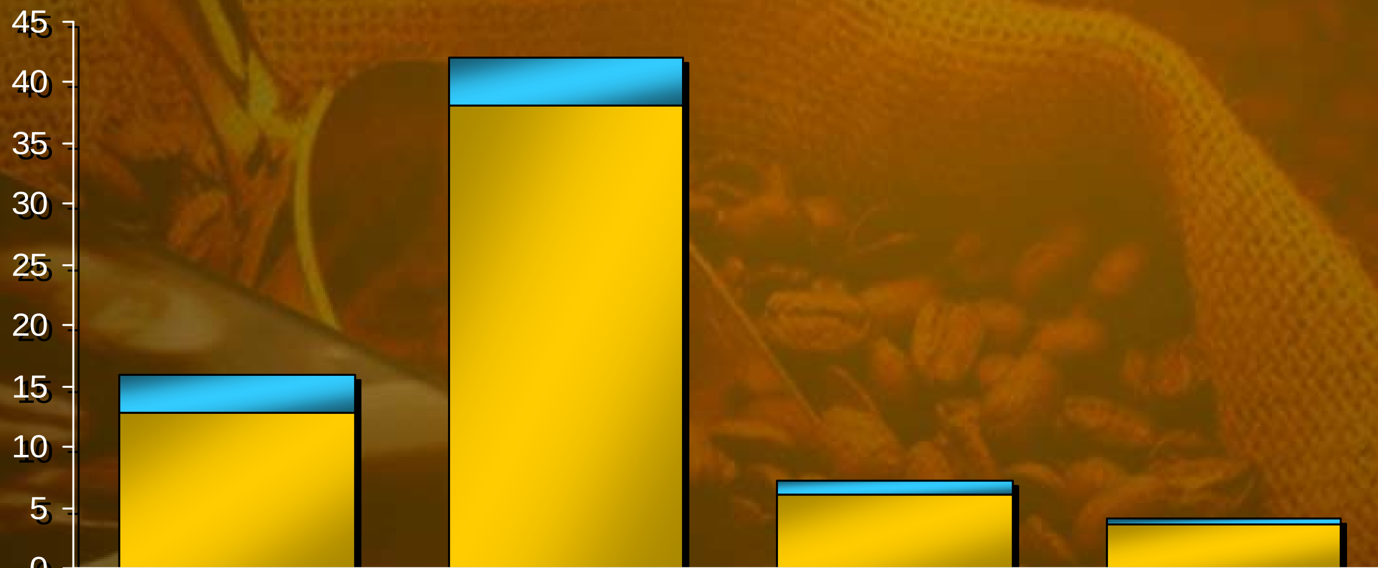
Source: USDA, J Ganes Consulting Forecasts

Washed Arabica Supplies to Increase Gradually

- Availability of Washed Arabica coffee slipped with falling world prices
- Production is showing signs of recovering already now that prices are improving.
- Production will take time to recover due to decline in tree population
- Minimal origin stocks exist to meet demand in the event of an unexpected supply shortfall

Estimated 2004-05 Specialty Coffee Output Compared to Other Arabica Production in the Region

millions of 60-kg bags



	N & C America	S America	Africa	Asia
Specialty	3.235	3.913	1.235	0.513
Other Arabica	12.745	38.125	6.027	3.535

Source: SCAA, USDA, Derived data for Specialty based on % of output

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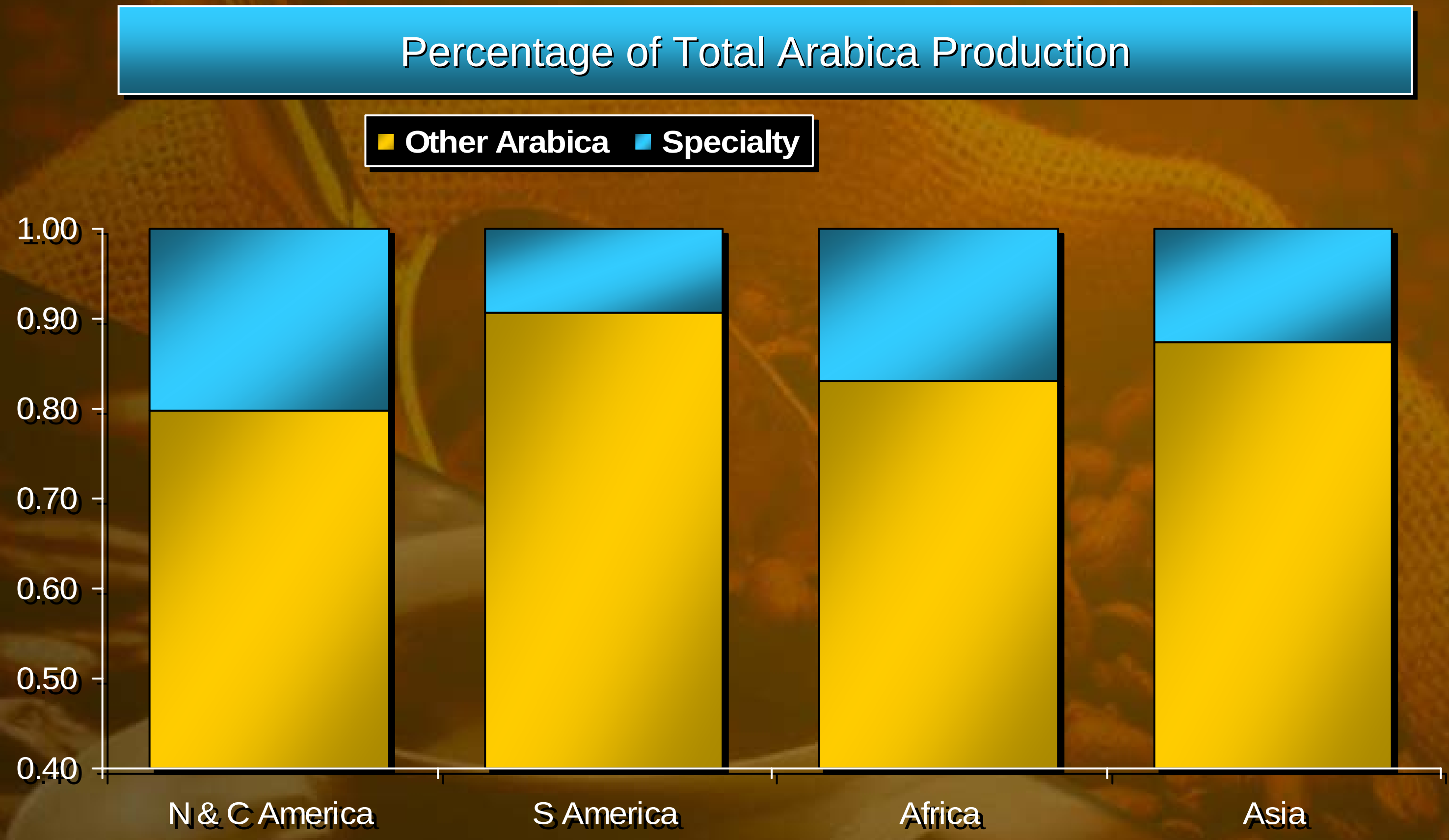
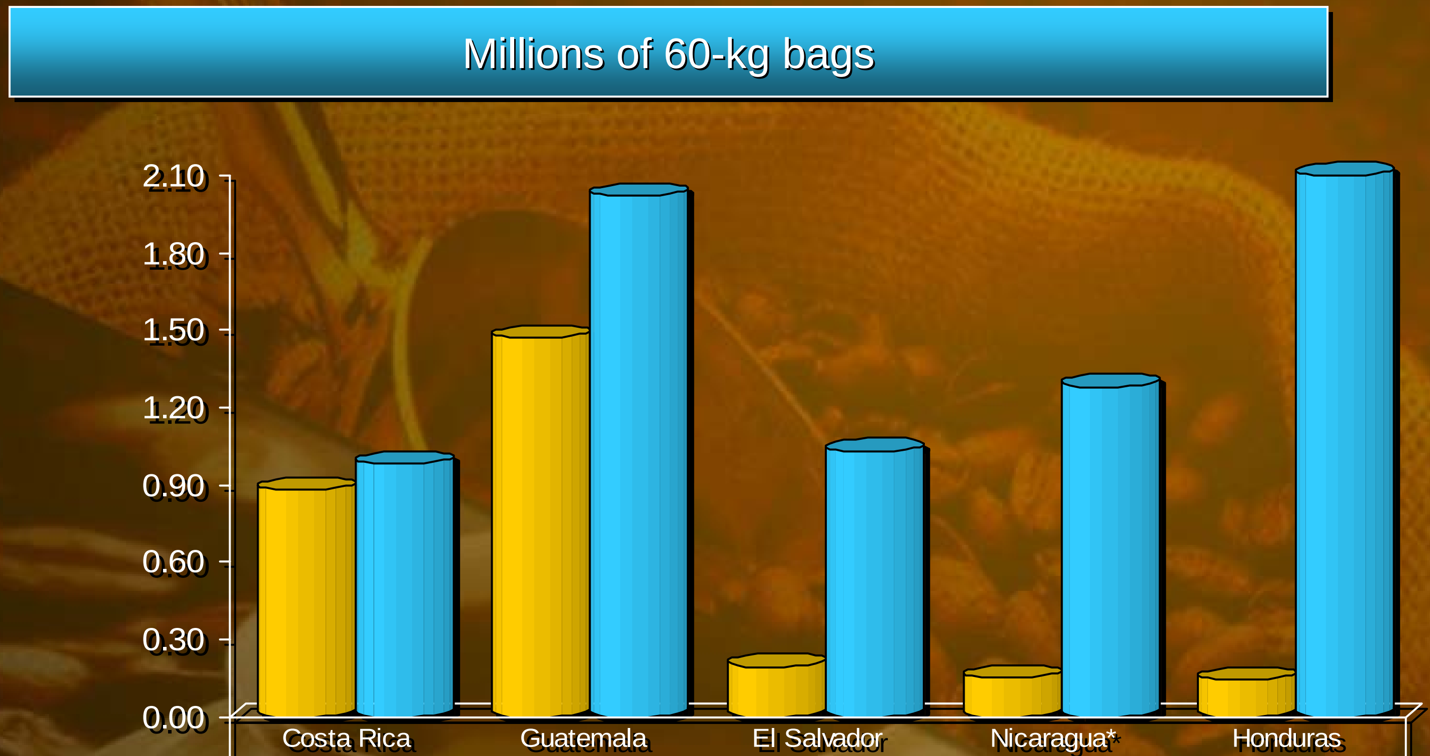
% of 2004-05 Specialty Coffee Output Compared to Other Arabica Production in the Region



Source: SCAA, USDA, Derived data for Specialty based on % of output

Central American Coffee Output by Type

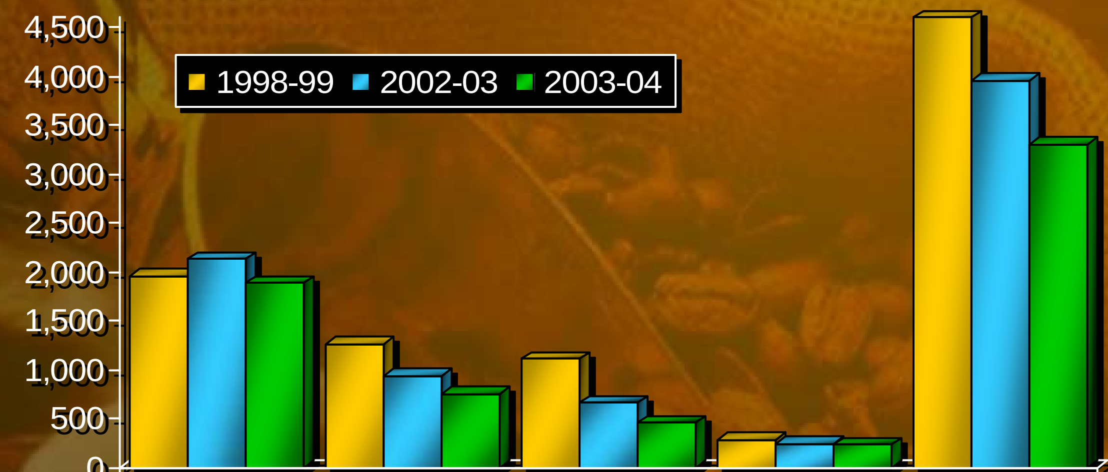


	Costa Rica	Guatemala	El Salvador	Nicaragua*	Honduras
Specialty	0.88	1.47	0.193	0.15	0.14
Other Arabica	0.98	2.02	1.03	1.28	2.48

Source: USDA, SCAA

Growth of Guatemalan Specialty Coffee

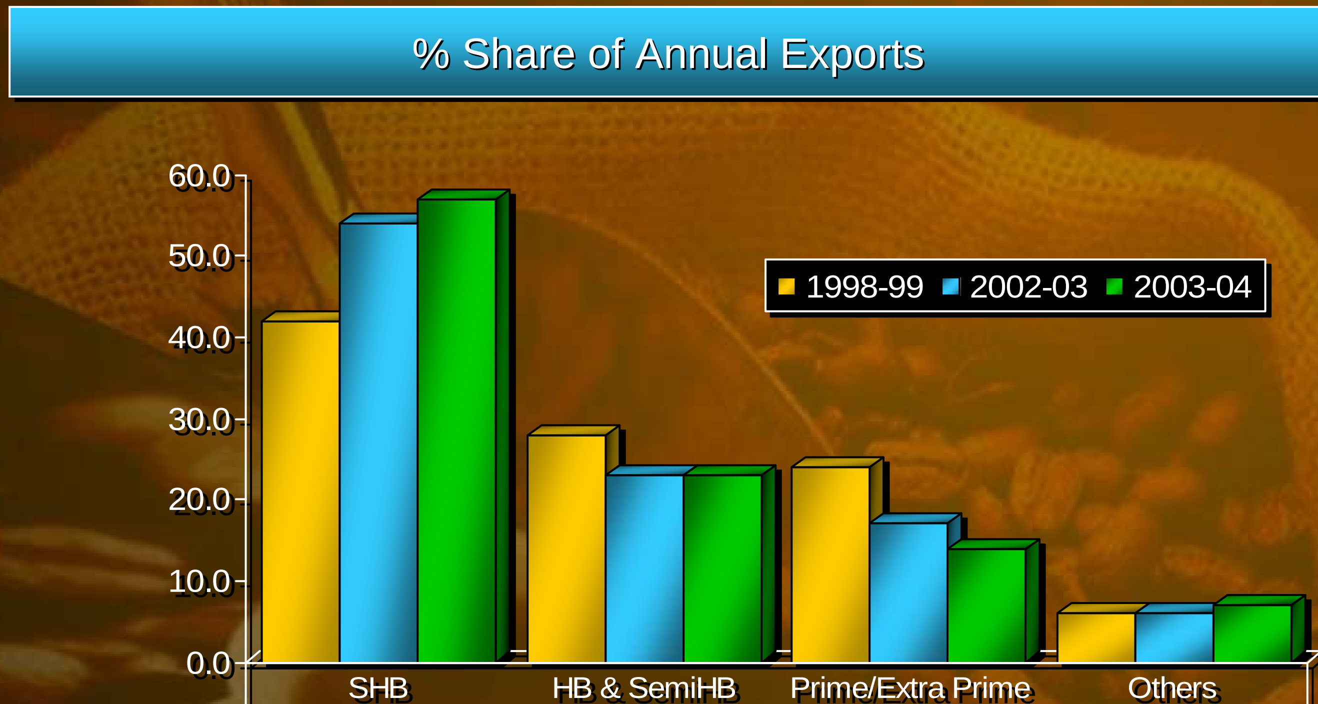
1,000 60-kg bags



	SHB	HB & SemiHB	Prime/Extra Prime	Others	Total
1998-99	1,945.63	1,262.83	1,104.22	278.54	4,595.60
2002-03	2,125.79	925.88	658.47	242.39	3,952.53
2003-04	1,883.35	744.68	450.39	227.29	3,305.66

Source: Anacafe

Guatemala % Share of Exports by Type



	SHB	HB & SemiHB	Prime/Extra Prime	Others
1998-99	42	28	24	6
2002-03	54	23	17	6
2003-04	57	23	14	7

Source: Anacafe

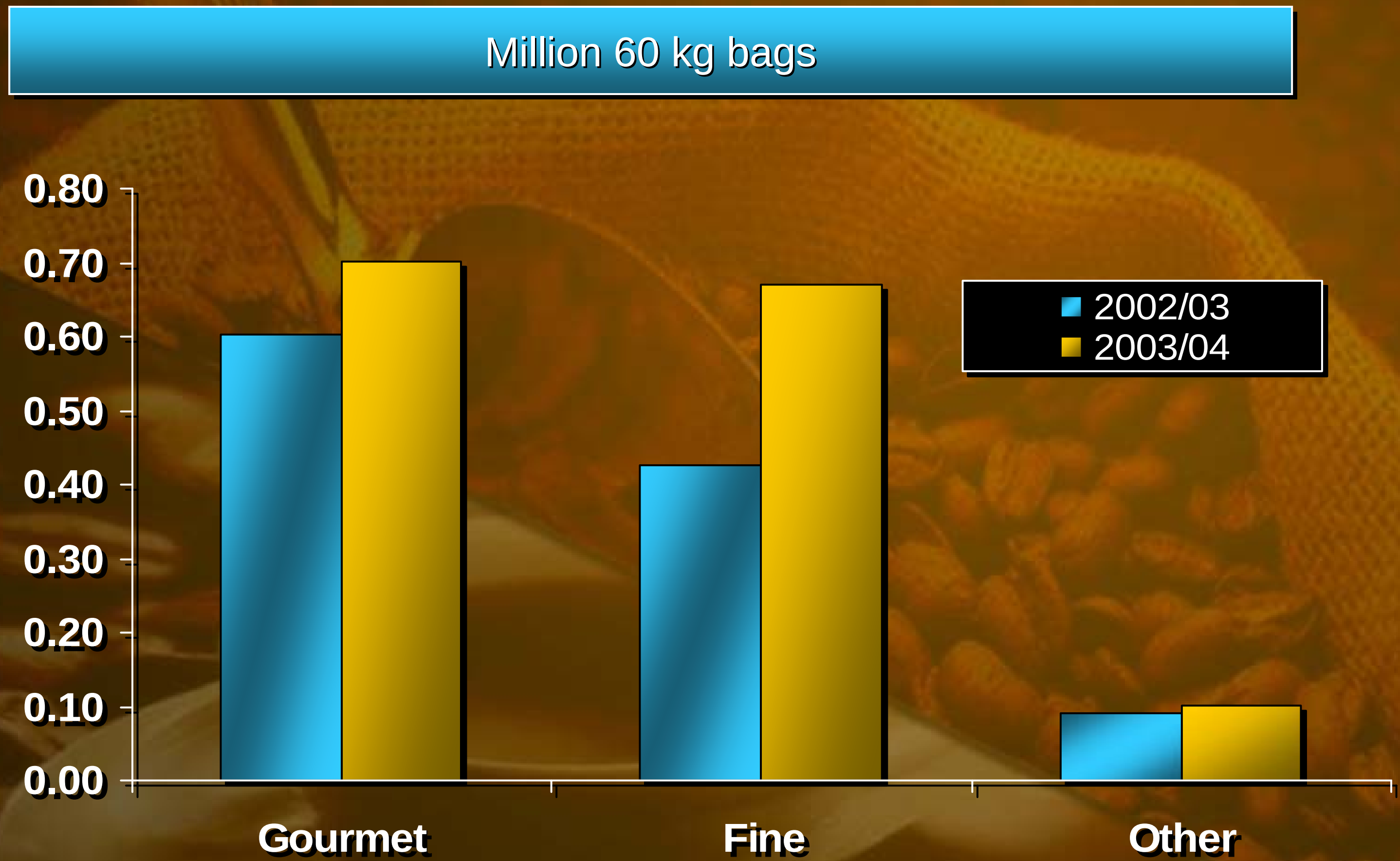
El Salvador Sees Growing Sales of Specialty Coffee

Source: Salvadoran Coffee Council

El Salvador’s “Gourmet” Coffee Exports on the Rise

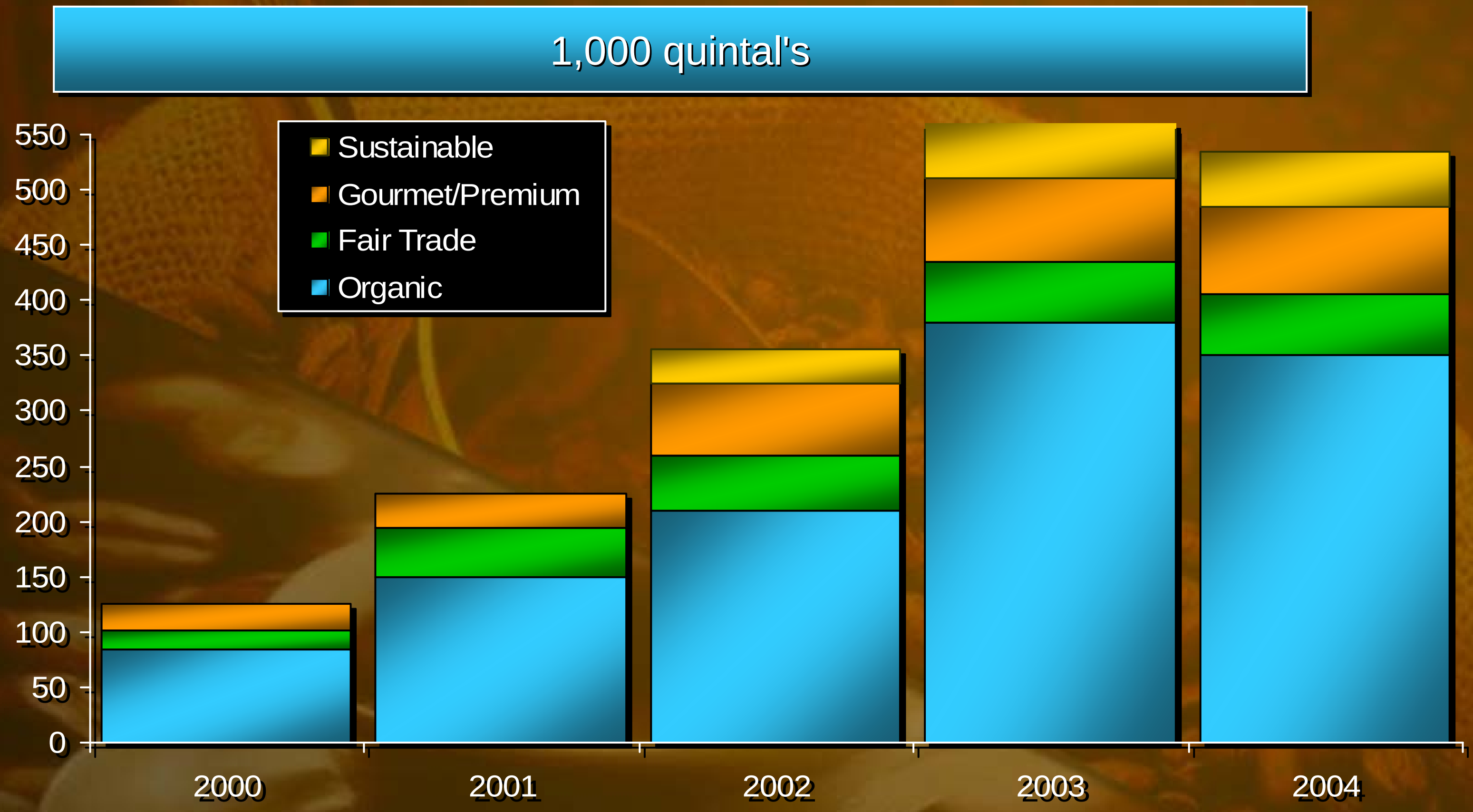
Source: Salvadoran Coffee Council

El Salvador Gourmet & Fine Coffee Sales Increase



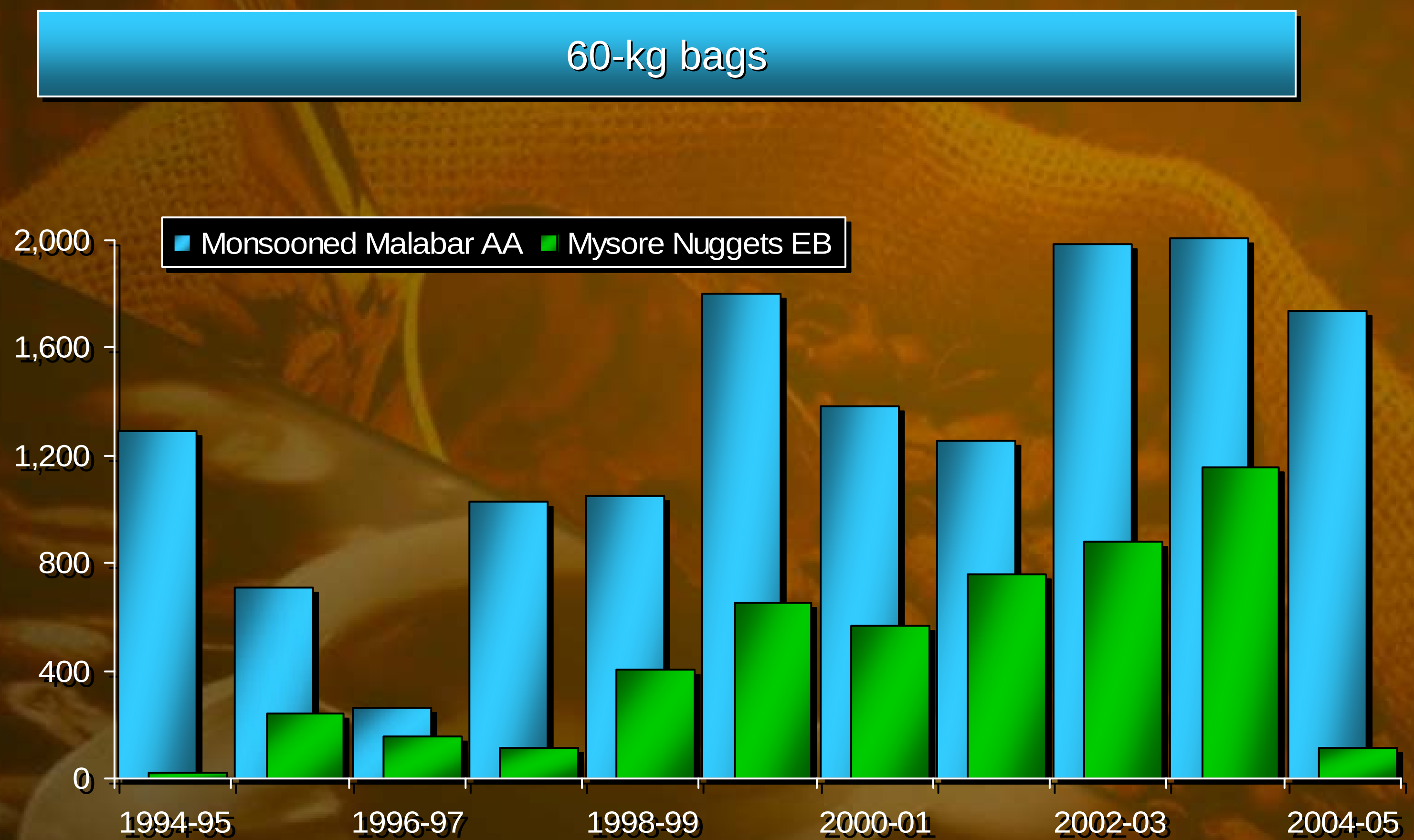
Source: Salvadoran Coffee Council; Fine sells at 15 cents or higher differential. Other includes Organic, Certified Rainforest/Eco-Friendly, Fair Trade, Fair Trade/Organic

Peru’s Growth of Gourmet/Premium Coffees



Source: Camara Peruana de Cafe

Indian Exports of Specialty & Value Added Coffee



Source: Coffeelab Private Limited

Key Variables Influencing Mild Coffee Output

- Producers continued drive to add value to production
- Consumers preference for perceived better quality coffee
- Higher Market Prices
- Inability to compete against lower cost producers
- Geographic considerations; soil conditions, climate

A Look at Shifts in Demand

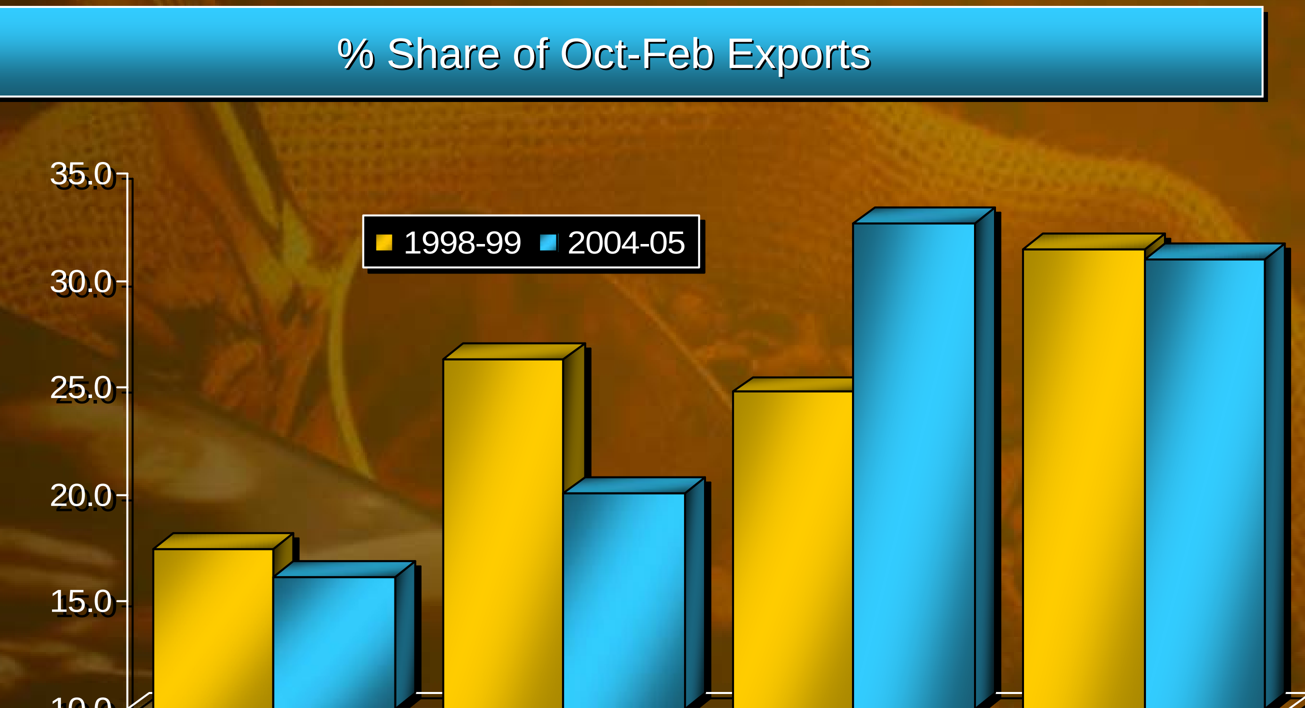
- Roasters became extremely price sensitive
- Some roasters switched blends due to price
- The use of Specialty/Gourmet products continues to expand not only regionally but internationally
- This has resulted in the market becoming polarized

Roasters Have Become Dependant on Brazilians and Robustas Replacing Other Milds Supplies

	Colombian Milds	Other Milds	Brazilians	Robustas
95/96	5.85	10.36	4.40	9.58
96/97	6.09	10.45	7.56	11.58
00/01	5.46	8.92	6.89	13.35
04/05	5.83	7.25	11.80	11.21

Source: ICO   Note: October-Feb cumulative exports

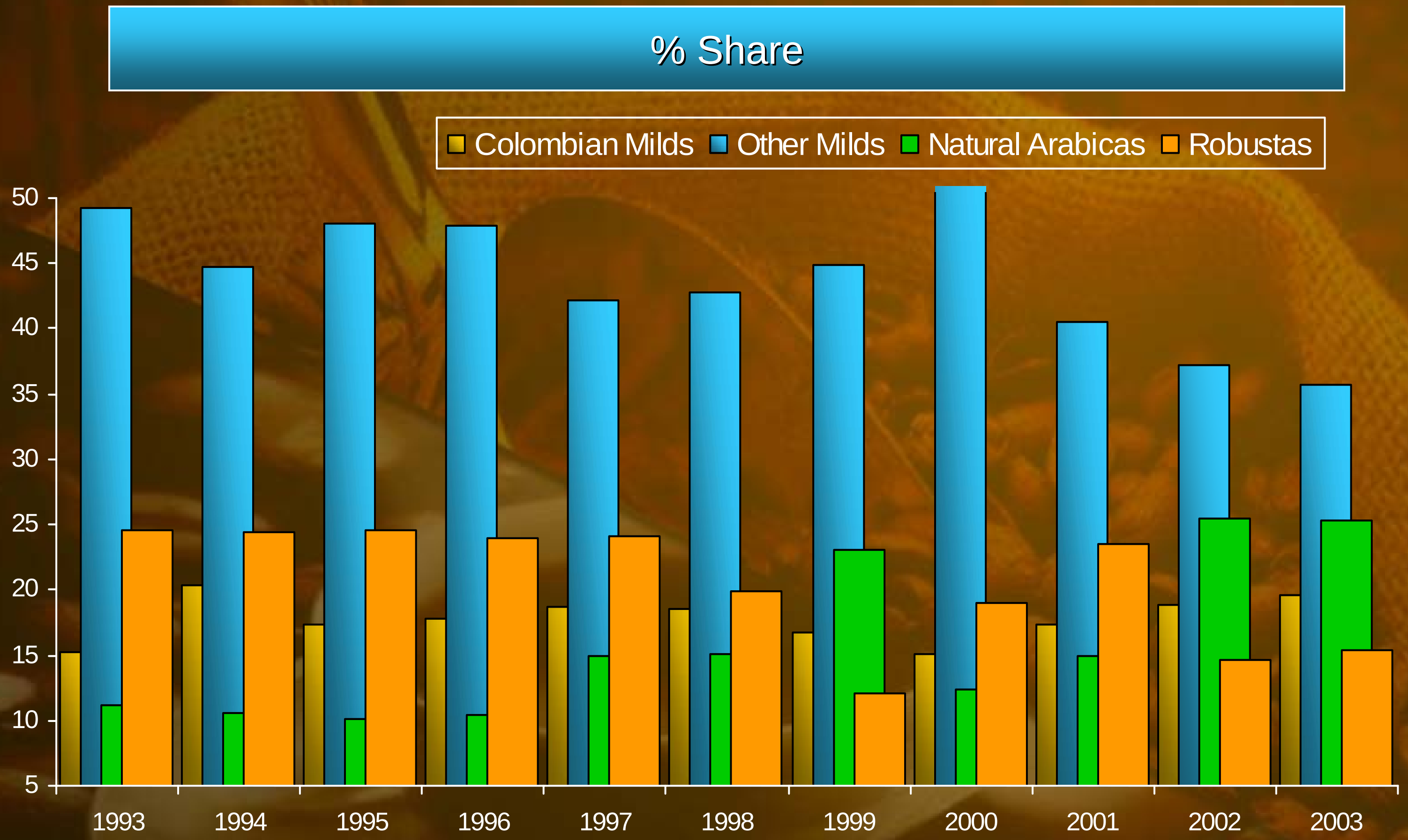
Percentage Share of Total Exports by Type



	Colombian Milds	Other Milds	Brazilians	Robustas
1998-99	17.43	26.31	24.79	31.46
2004-05	16.15	20.09	32.70	31.04

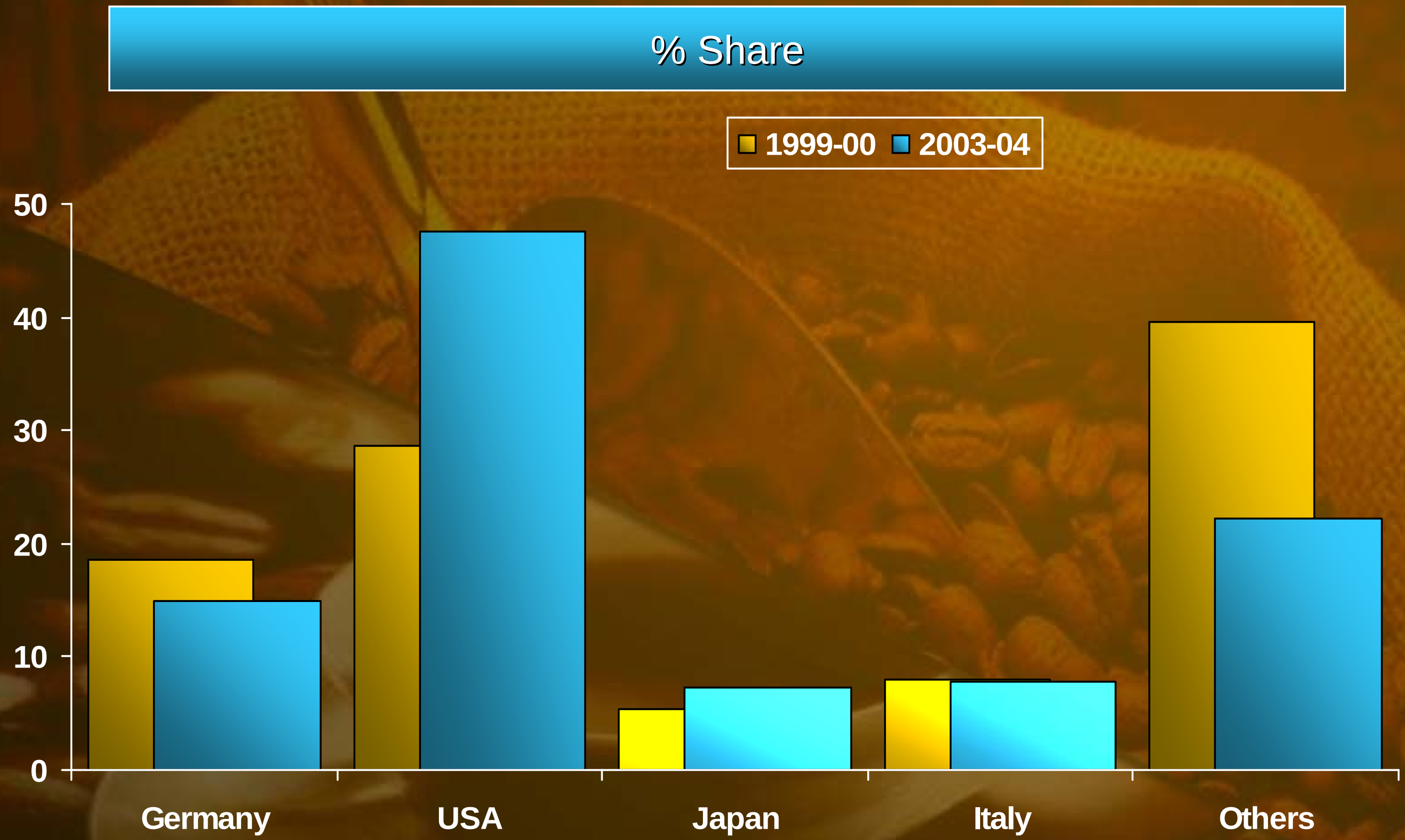
Source: ICO

US Usage of Other Milds Slips



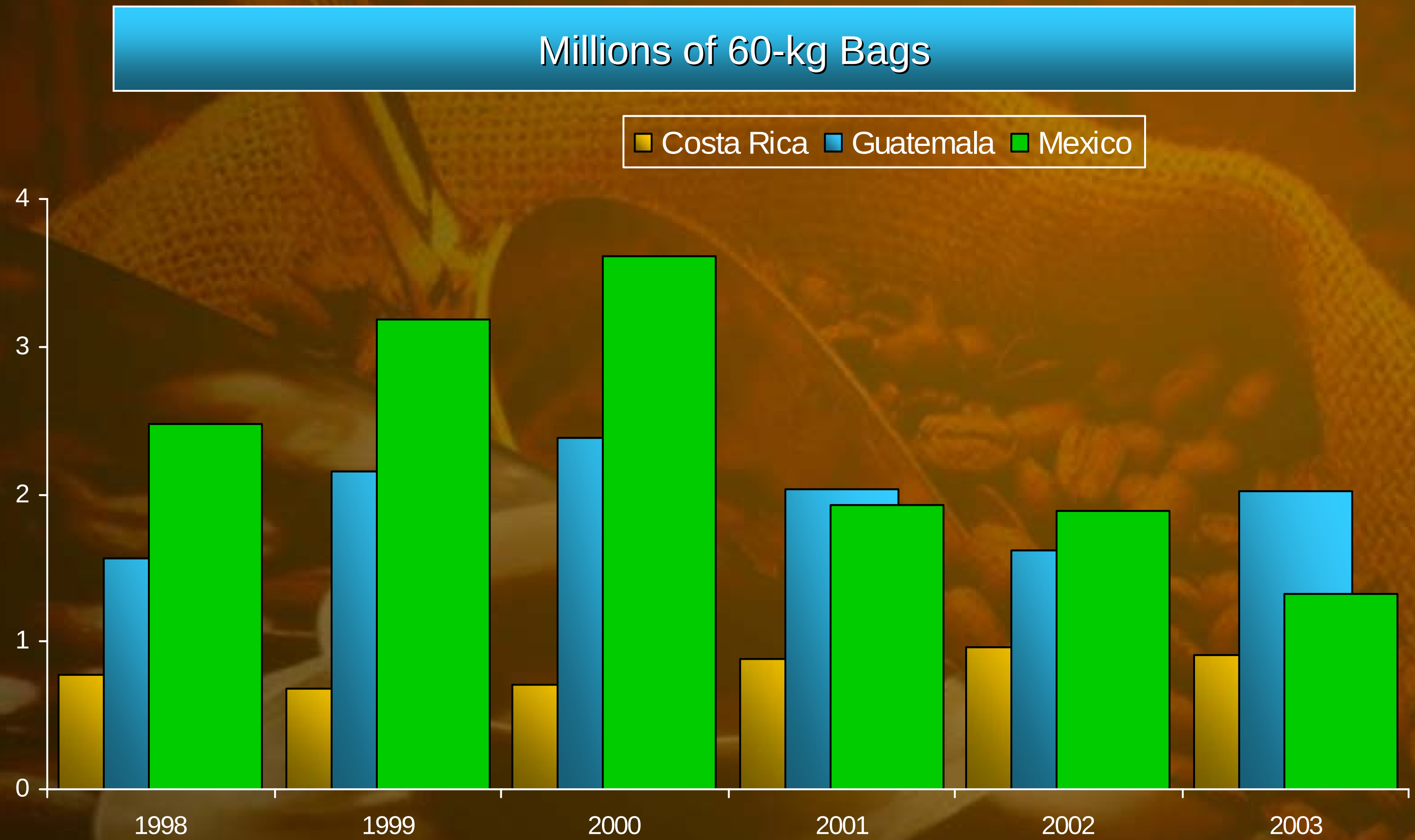
Source: ICO, F.O. Licht

Costa Rica Shipping More to US to Meet Growing Demand for Better Coffee



Source: ICAFE

US Importing Fewer Mexicans; More CR & Guatemalan Coffees



Source: ICO

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Java Joints in the USA—Shops per 10,000 Folks

1.	Anchorage, Ak	2.8
2.	Seattle, WA Vicinity	2.5
3.	San Francisco, CA	2.2
4.	Bellingham, WA	2.1
5.	Portland, OR	2.0
6.	Bremerton, WA	1.9
7.	Boulder, CO	1.8
8.	Olympia, WA	1.8
9.	San Luis Obispo, CA Vicinity	1.6
10.	Santa Rosa, CA	1.5

Source: NPD Group

One a Corner—US Cities with Most Coffee Shops

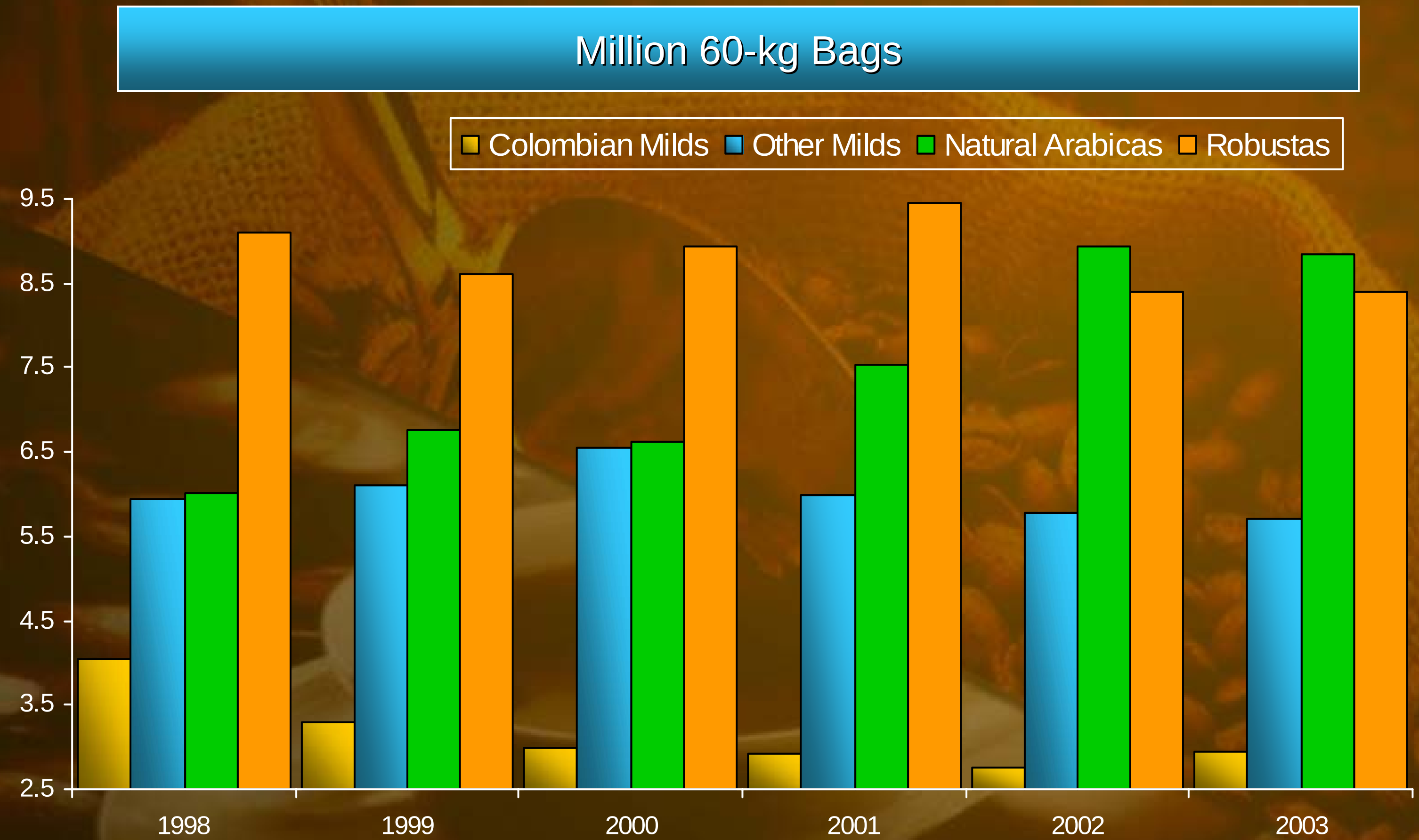
1.	Los Angeles-Long Beach	801
2.	Seattle, WA Vicinity	628
3.	Chicago, IL	568
4.	New York, NY	525
5.	Portland, OR	419
6.	Minneapolis-St Paul, MN	384
7.	Washington, DC Vicinity	379
8.	San Francisco, CA	373
9.	San Diego, CA Vicinity	344
10.	Orange County, CA	326

Source: NPD Group

Germany Increasing Reliance on Brazil

Source: ICO, F.O. Licht

EU (Less Germany) Imports Stagnant; But Greater Imports of Brazilian Naturals



Source: ICO

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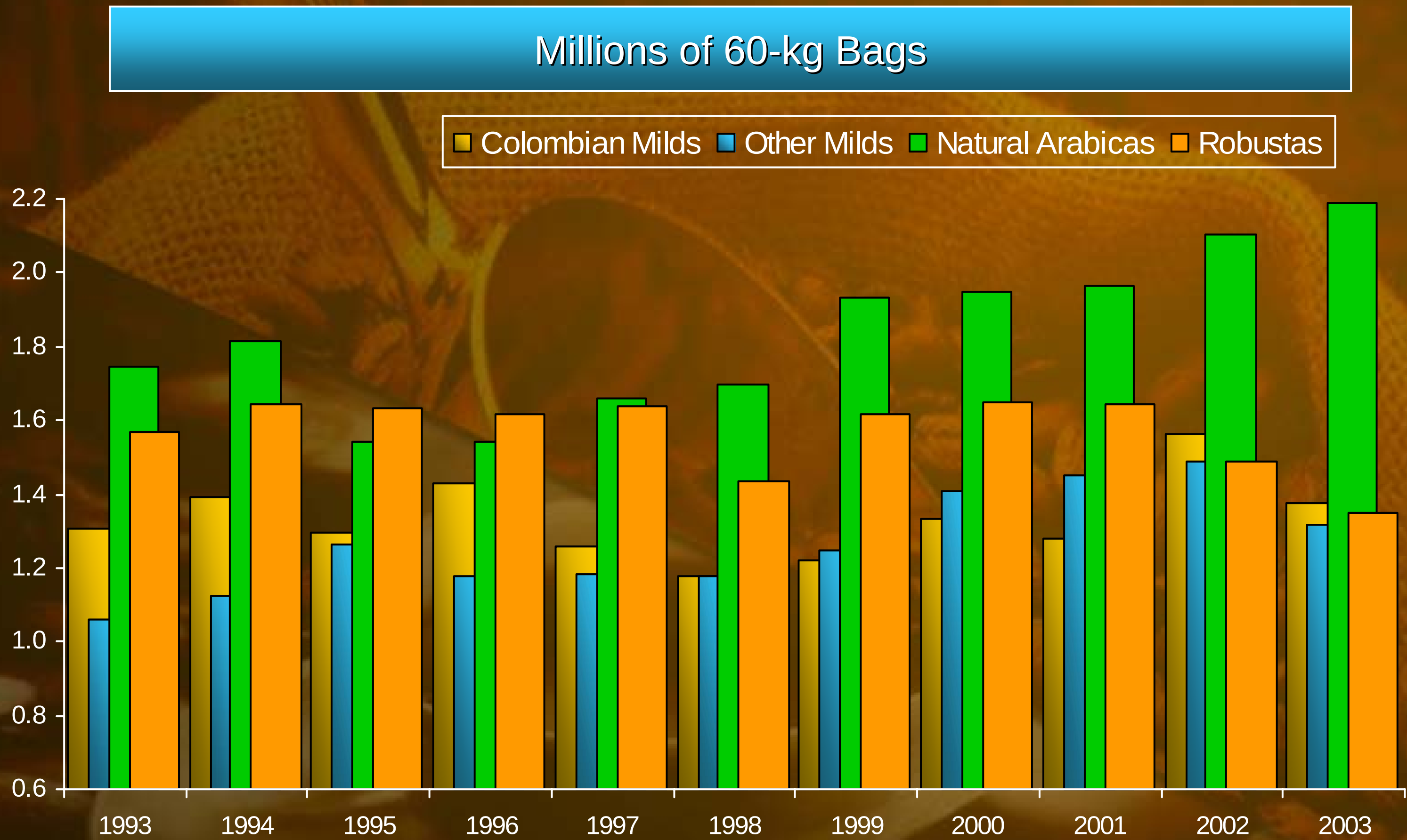
Recurring Theme: Japan Imports More Brazilians



Source: ICO

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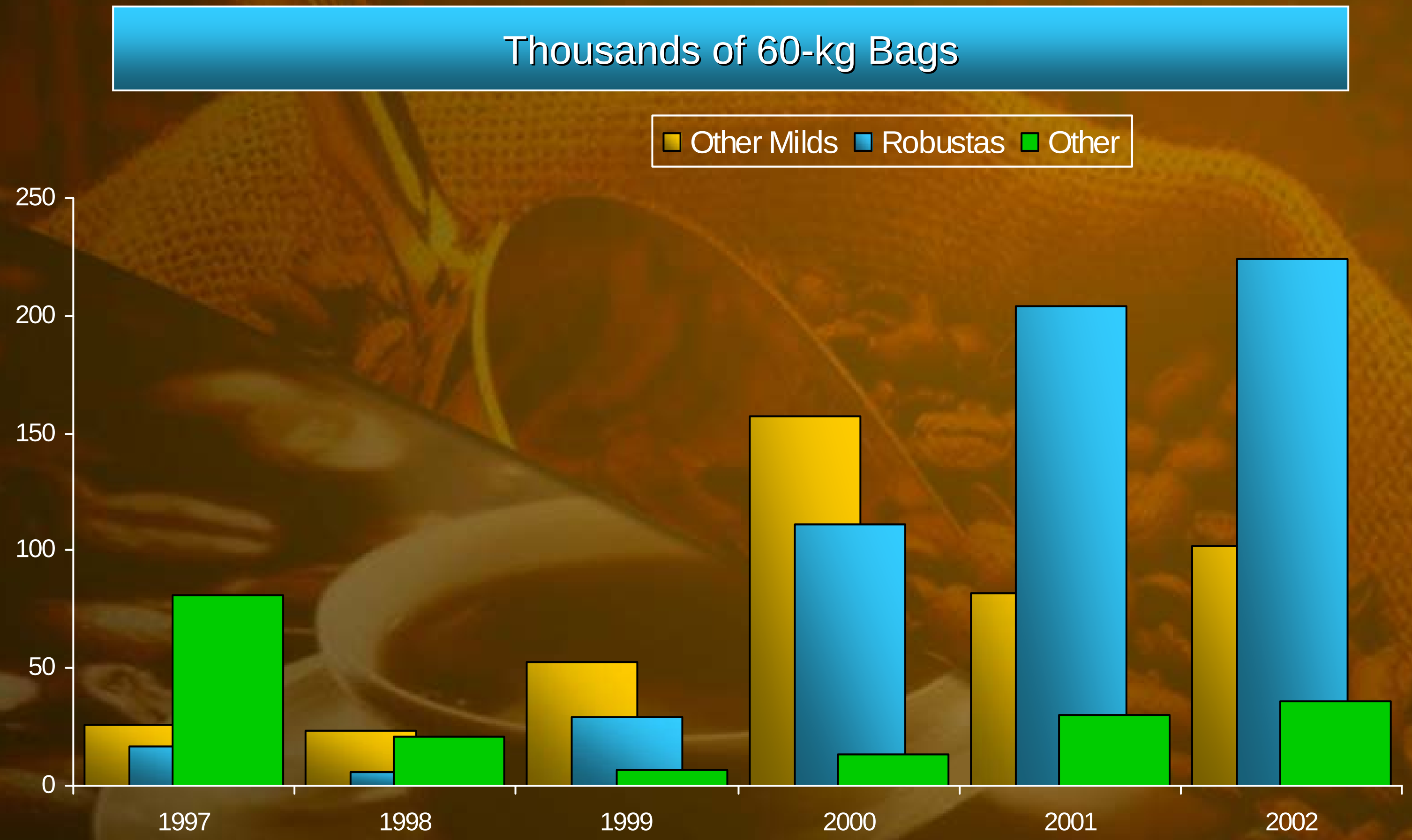
Japan Imports of Specialty Coffee by Origin

Thousands of 60-kg Bags

Ethiopia	534.4	30.0
Tanzania	143.0	30.0
Jamaica	22.3	22.3
Cuba	21.1	21.1
Colombia	1,222.1	15.0
Guatemala	453.6	11.0
Yemen	8.3	8.3
Kenya	13.2	8.0
Brazil	1,655.3	7.0
Indonesia	967.3	6.5
Total	6,294.1	190.4

Source: SCAJ Based on 2003 imports that were purchased over $1.00 pound

Russian Imports Rising



Source: ICO

Singapore Coffee Imports Decline?

Source: ICO

Chinese Coffee Imports Rising; Mostly Robusta

Source: ICO

Starbuck Sees Continued Growth Opportunities

Source: Starbucks

Note: 1996 is when Starbucks went international.

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Most Likely Production Scenario for Mild Coffees

- Fundamental Variables Impacting this outlook
  - Production of non-Washed Arabica and Robusta coffee
  - Substitution, availability of Brazilian naturals
- Two-tier pricing becomes even more pronounced
  - Second level Milds replaced by Naturals

Summary: Large Expansion of Washed Arabica Supplies Not Expected Any Time Soon

- Availability of Washed Arabica coffee slipped with falling world prices
- Production appears to recovering
- Minimal origin stocks exist to meet demand in the event of an unexpected supply shortfall
- There remains no margin for error

Key Influences on Consumption of Better Quality Washed Mild Coffees

- US consumption patterns catching on elsewhere
- Has the market reached saturation?
  - Differentiated coffees going mainstream
  - Ease of use increasingly more important
- Can growth be sustained?
  - Number of new coffee houses globally on the rise; US still growing strong; Available in more non-traditional outlets—McCafes, gas stations, banks

Roasters Need to Be Creative to Fill Expected Gap

- Roasters will need to remain creative in finding unique blends, flavorings to satisfy growing demand for specialty, gourmet, and premium coffees.
- Roasters will need to continue to work hand in hand with producers to assure sufficient supplies of quality coffee in the future.
- Roasters will need to be visionaries and look outside the box to satisfy demand and to keep demand growing find alternate locations to keep coffee in front of consumers
- Demand rising by late comers to the party jumping on the bandwagon


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