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The Hard Facts on Soft Commodities <sup>SM</sup>



# Coffee Producers Getting Reprieve but Sustainable Practices Still Critical

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ICO Conference, March 2014



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## Control on Costs Still Critical for Survival

- ✓ While the market may be recovering now, at some time in the future prices will fall again.
- ✓ Producers need to prepare today for tomorrow.
- ✓ Small farmers will struggle against Giants.
- ✓ Quality, unfortunately, is not always rewarded; quality and cost control generally are.

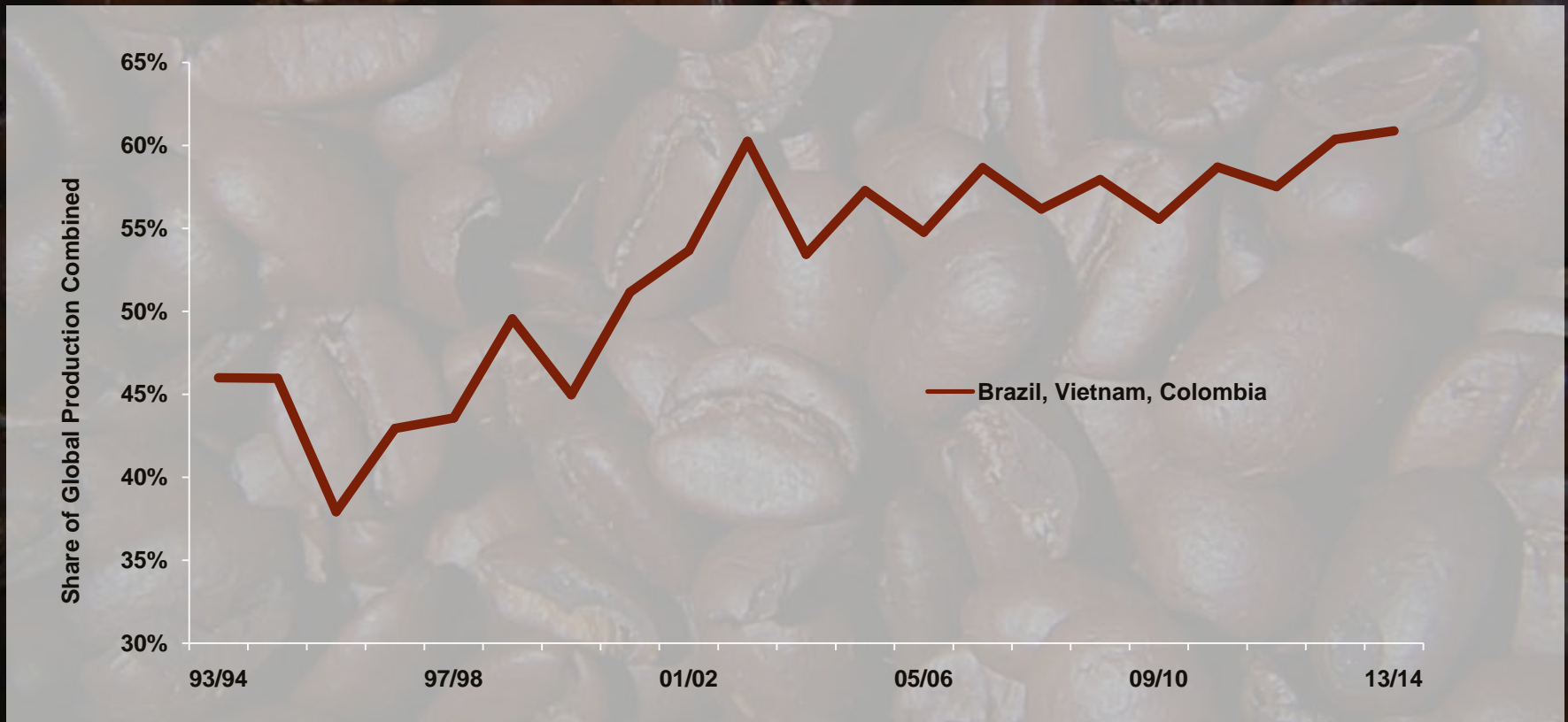




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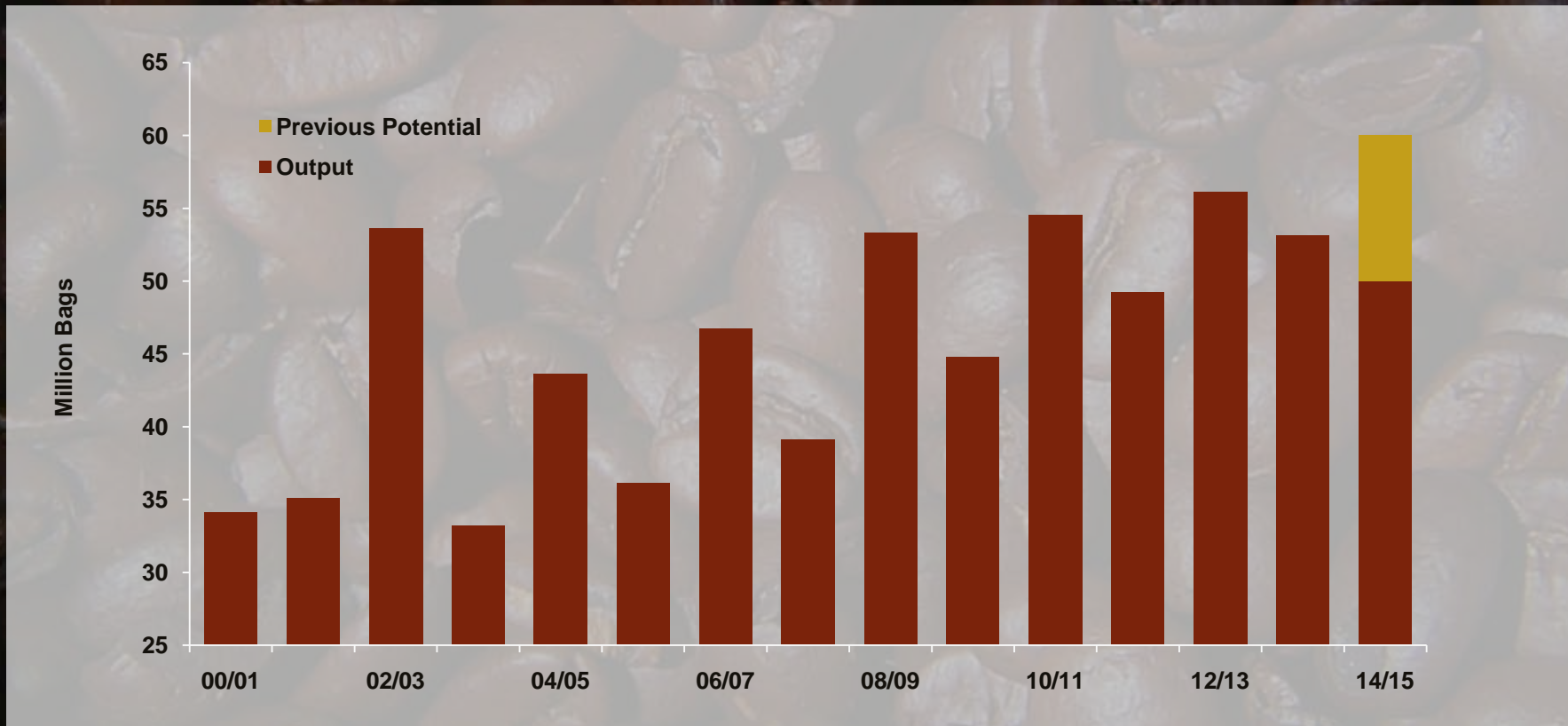
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# Major State Supported Producers Control an Ever Increasing Share of Global Coffee Market



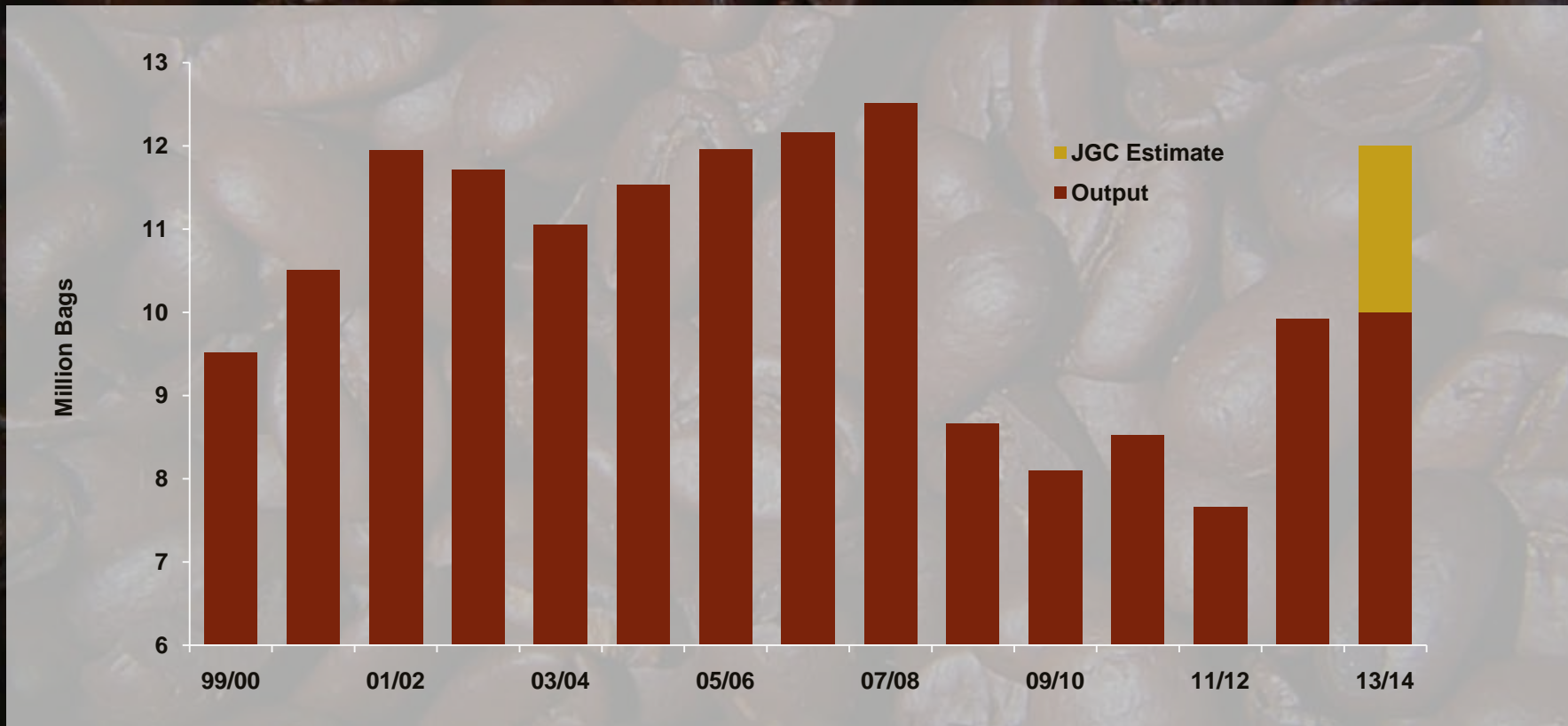


# Brazilian Potential Losses Equivalent to Colombia, Indonesia, or Ethiopia Not Producing Any Coffee





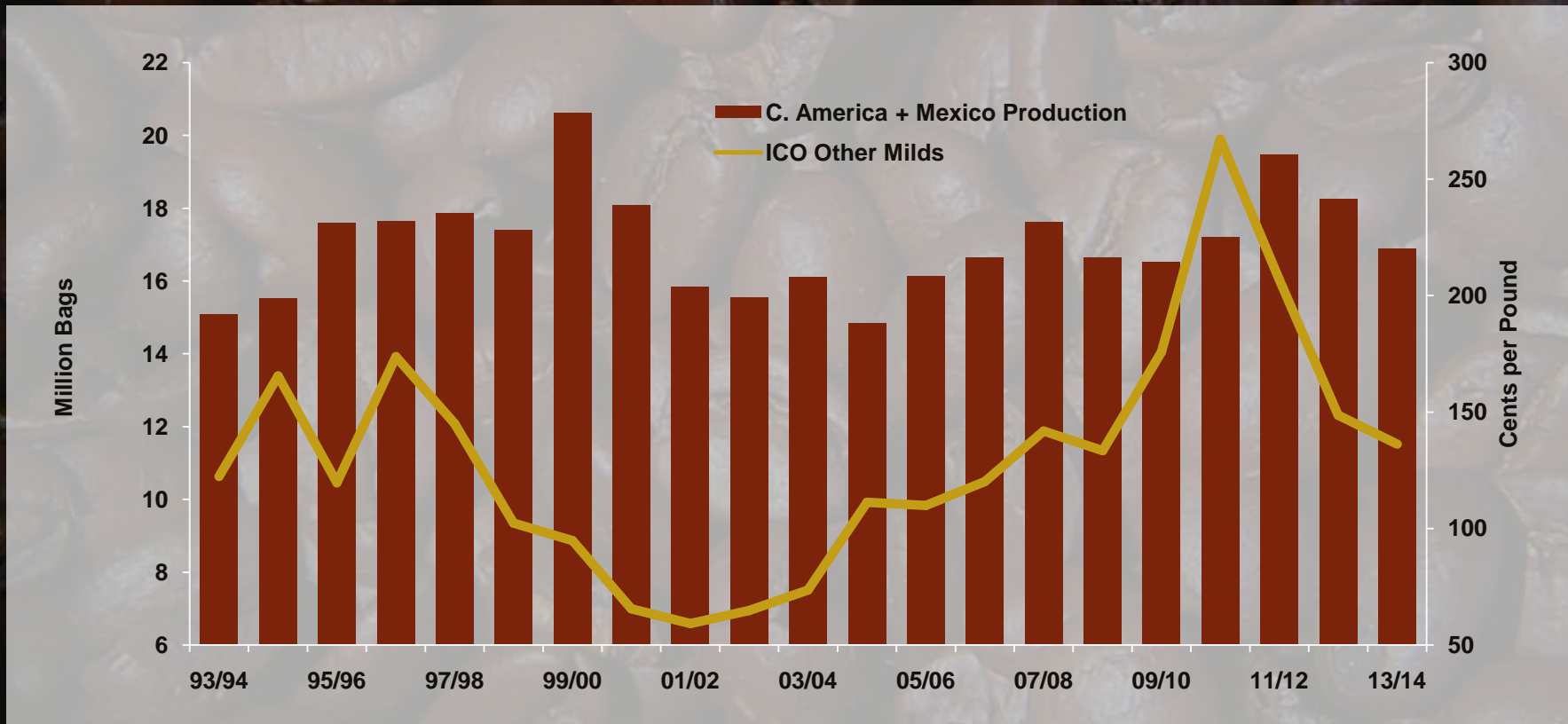
# Strong Monthly Data Should Result in Upward Revision of USDA Colombia Production Estimate





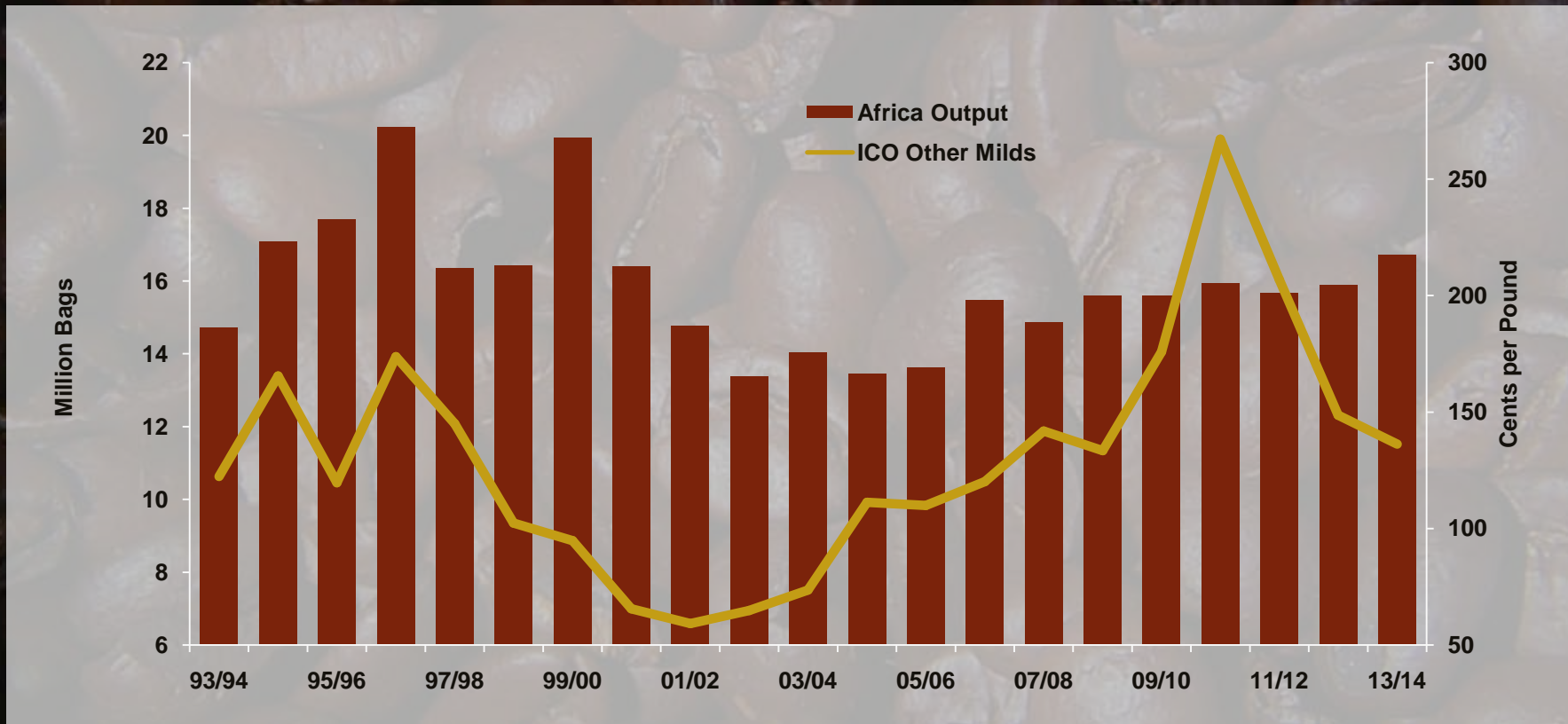


# Central American Producers haven't Been Able To Take Advantage of High Prices



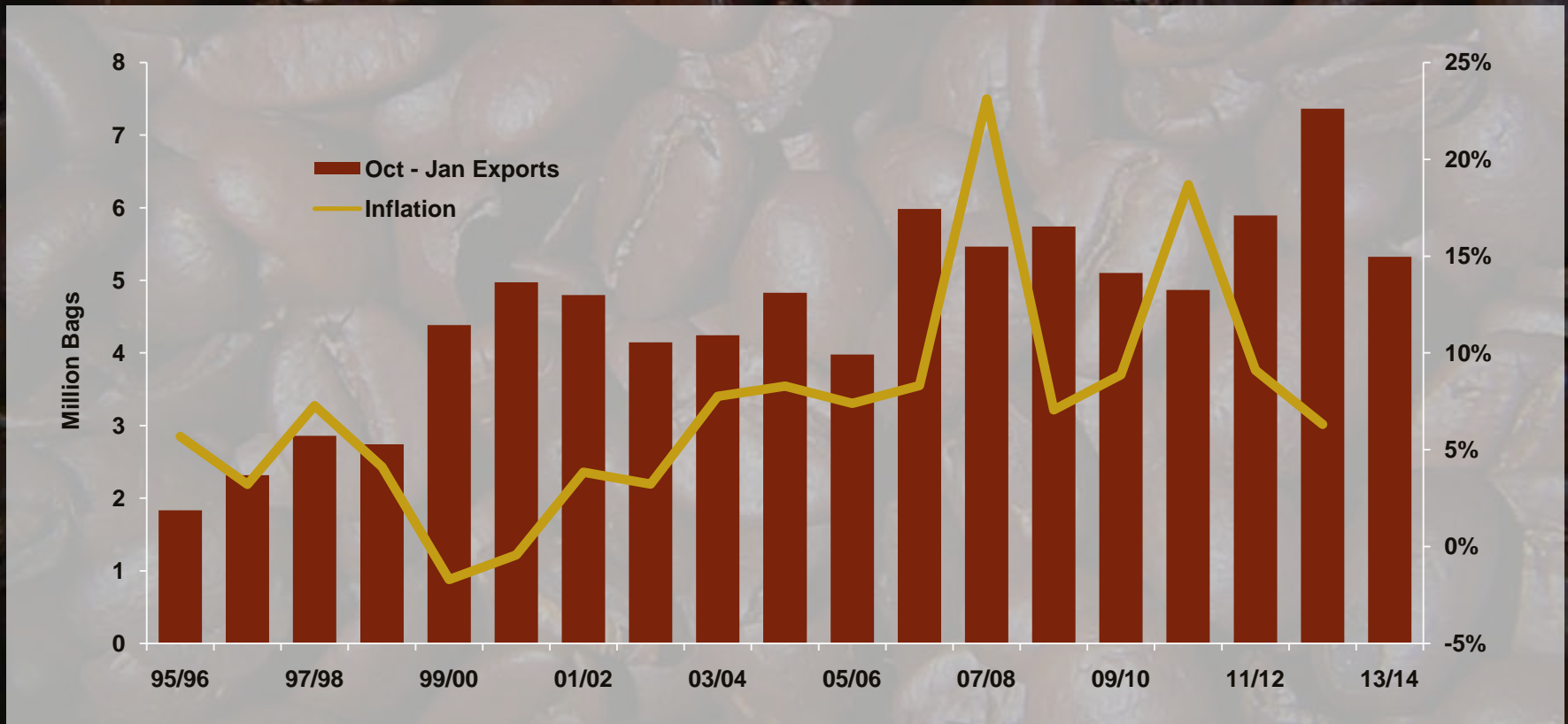


# African Output Not as Responsive As It Was in 94/95, 96/97





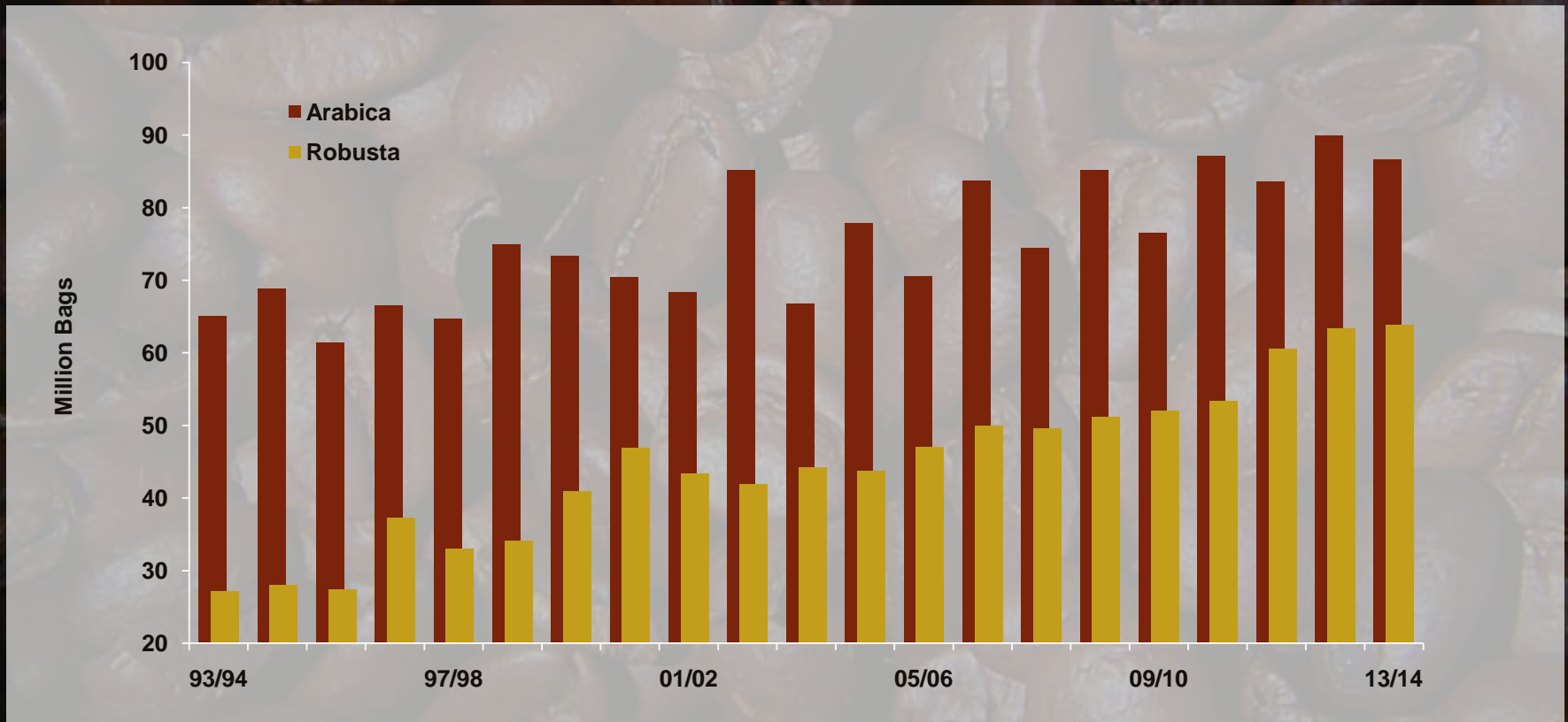
# Adequately Financed Vietnamese Farmers Aren't Pressed to Export





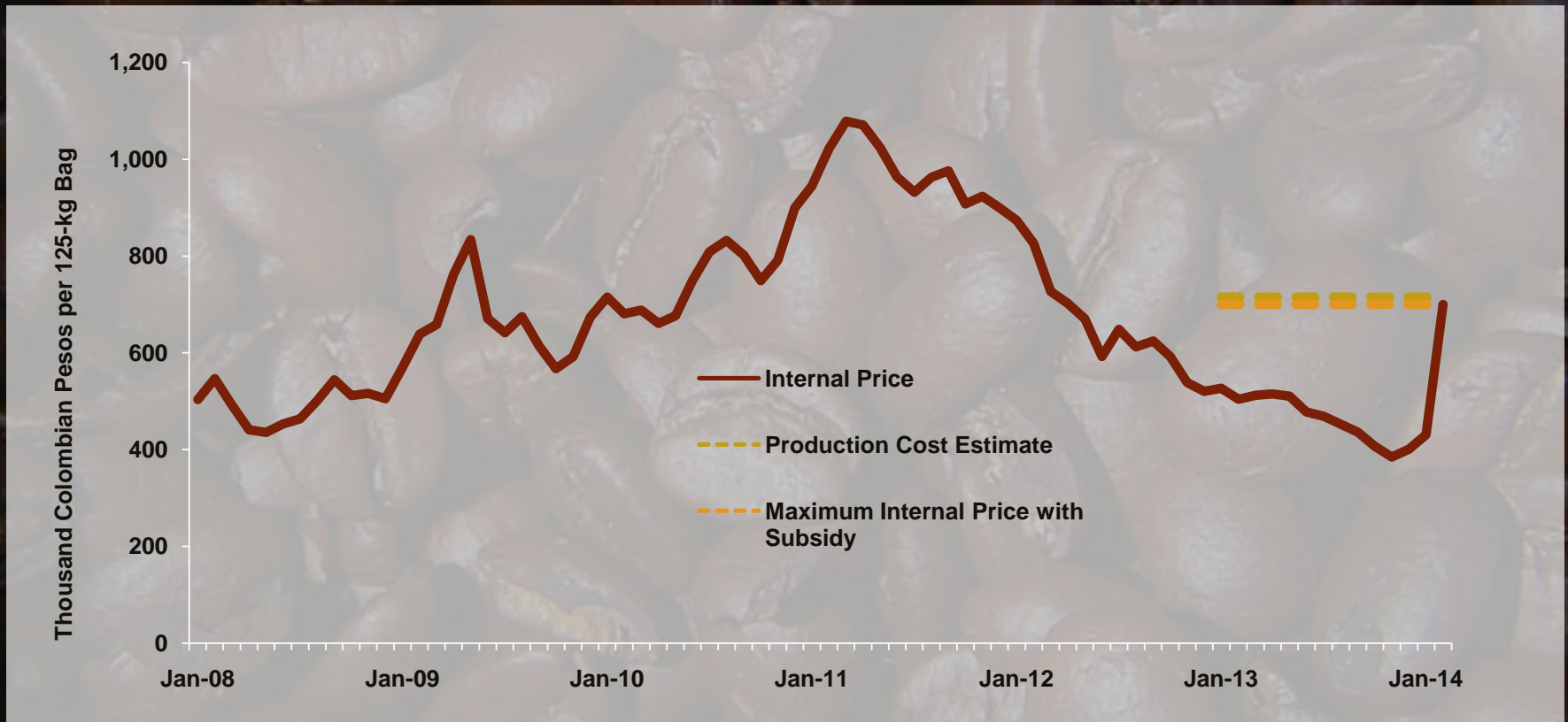


# Continued Strong Robusta Output Causing Global Share to Rise





# Internal Colombian Price Including Subsidies Likely Under Cost of Production Before Recent Rally





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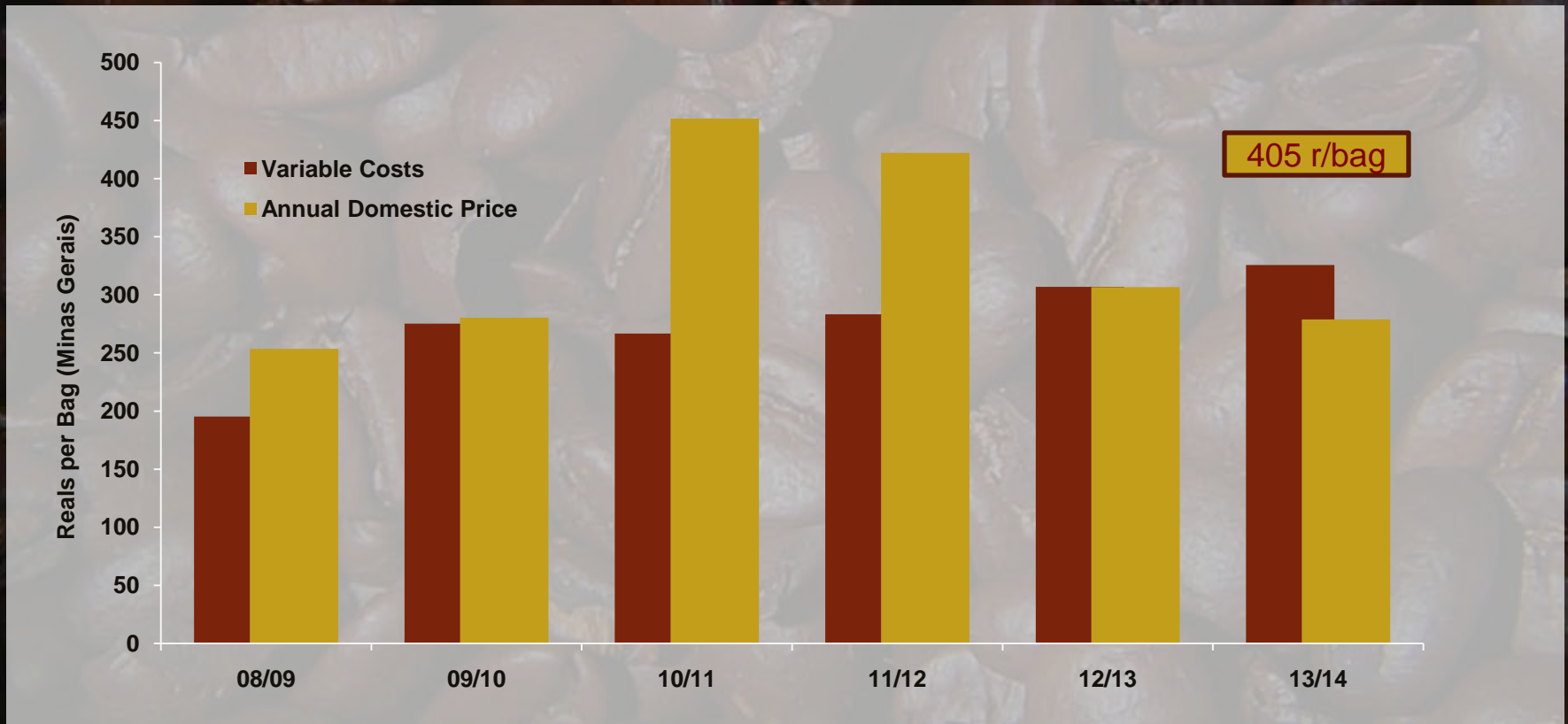
# Colombian, Brazilian Currencies Increasingly Unfavorable For Farming Input Imports





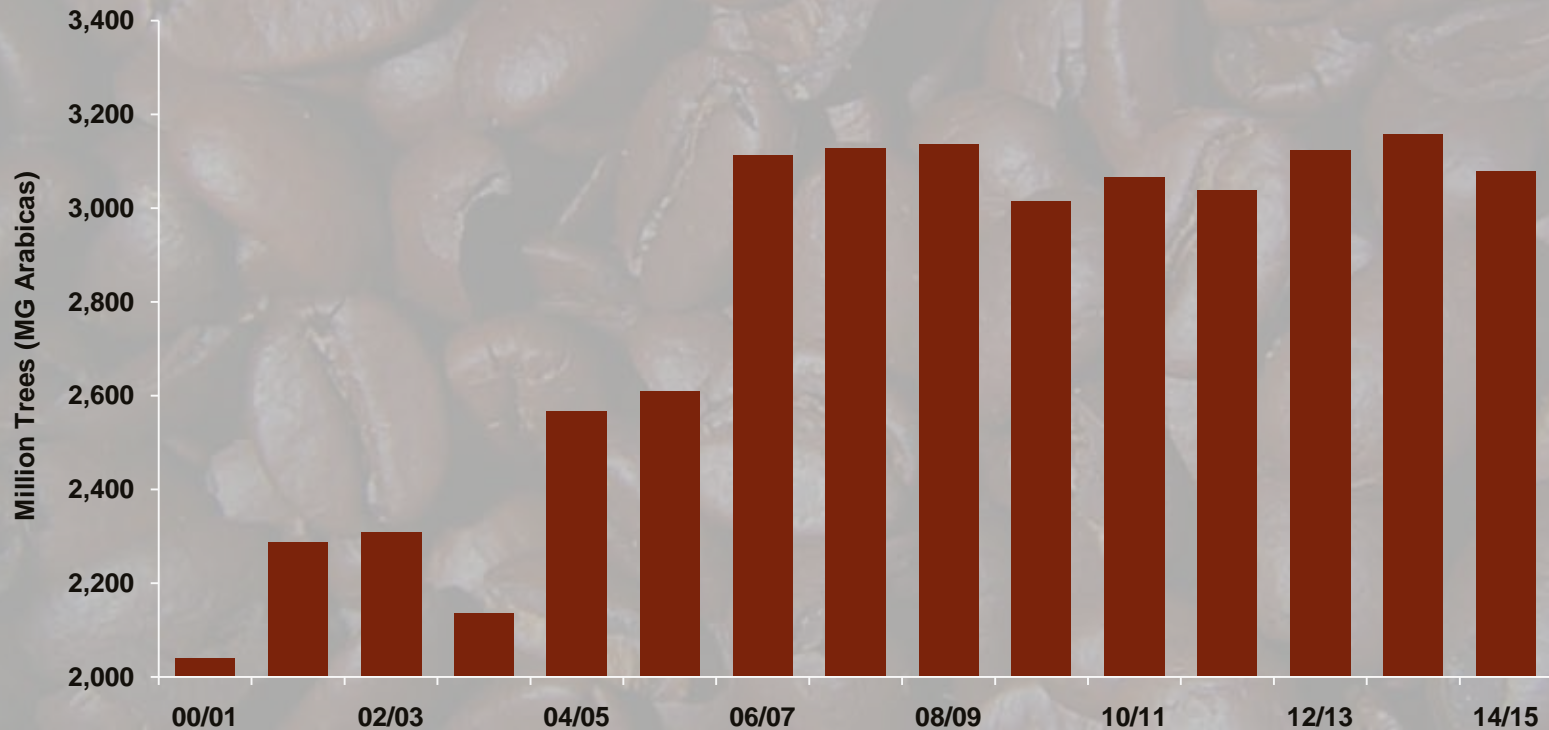


# End February Pricing of 405 Reals per Bag Providing Temporary Relief From Worsening Economics in Brazil



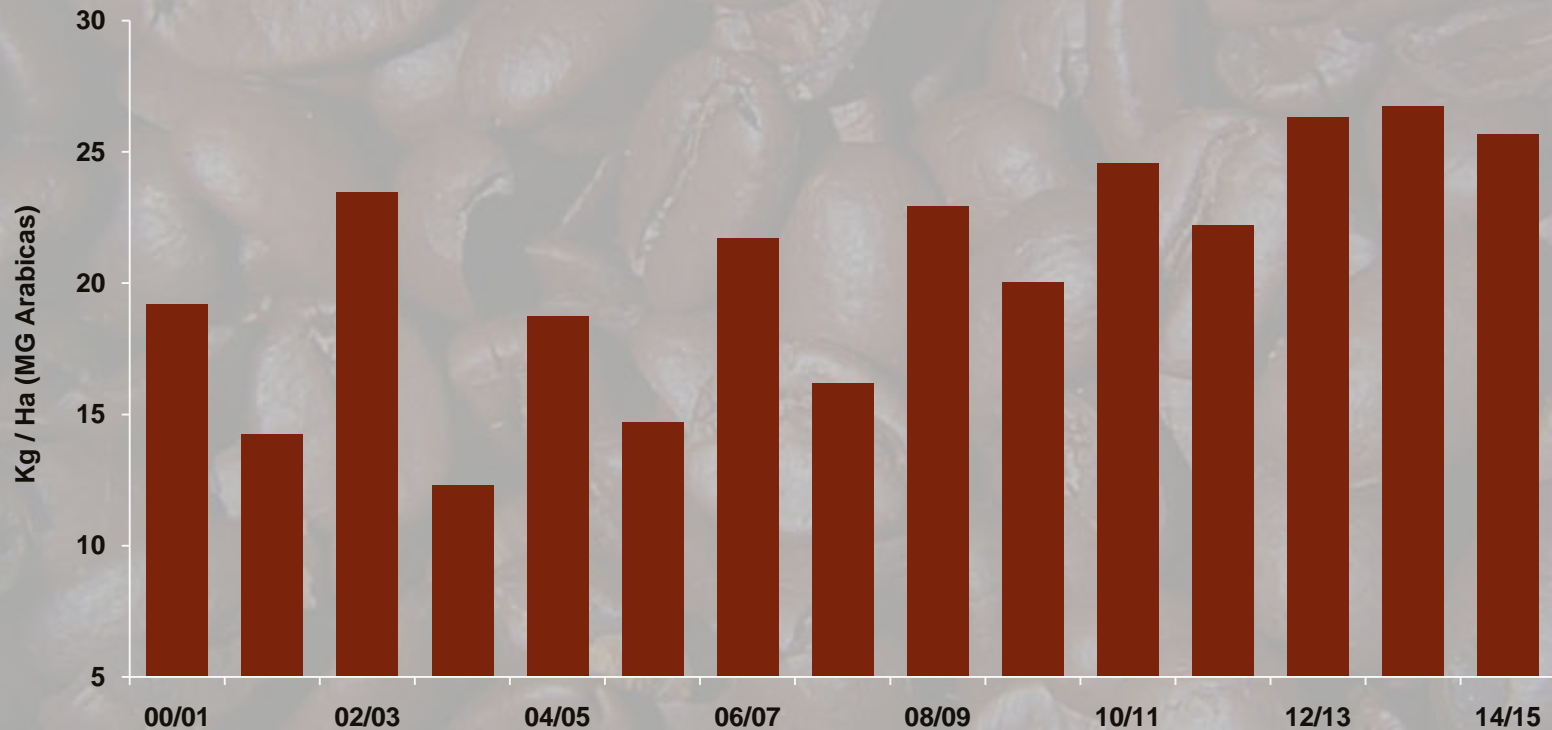


# Pruning Aggressively Provides Future Relief Should Prices Tumble





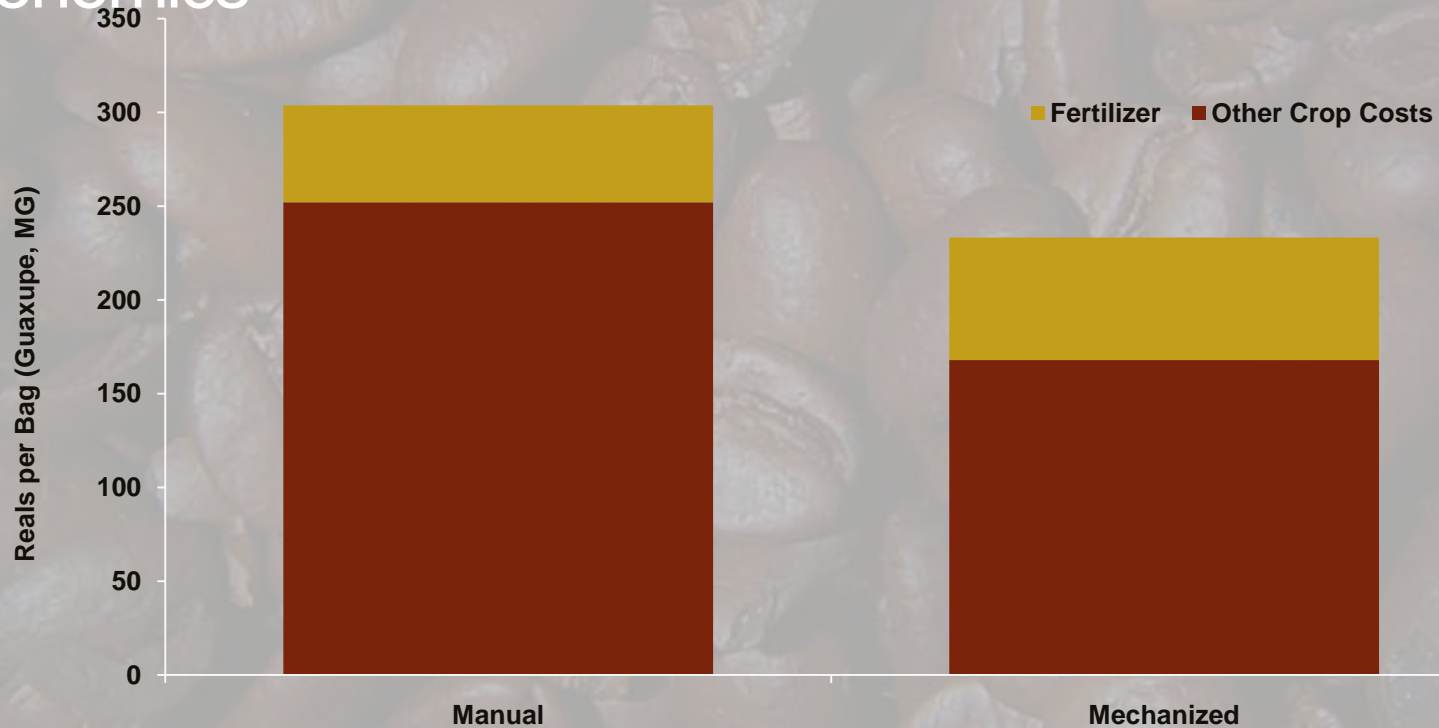
# Effective Pruning Should also Provide Sustainable Yield Benefits







# Brazilian Mechanized Production Provides Favorable Economics





## Prices may have Recovered but Sustainability Issues Persist

- Coffee is Profitable Again thanks to Brazil's Losses
  - Without drought, most producers would still be under water
    - Even low cost producers no longer low cost providers
    - Did the recovery come too soon for farmers to respond to low prices by implementing even better best care practices?
    - Survival of fittest not put to sufficient challenge, creating potential again for a steep price drop in 3-4 years.
    - Measures need to be taken now to keep production at an even keel against use; easier said than done.



# With Drought Persisting Brazil Farmers may need to Learn Lessons from Other Producers

- Brazilian farmers facing challenges and decisions
  - As below normal rainfall lingers, producers need to decide whether they attempt to let the current crop develop or reduce the stress on the trees by harvesting now.
    - The trees will expend energy on a crop that could still be of poor quality or removing the fruit now will channel energy to growth and recovery, sustaining production long term by sacrificing today.
    - It remains to be seen if Brazilian farmers will make this sacrifice. With prices as they are it becomes a tough decision.





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Questions?

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