



Challenges Faced by African Coffee Exporters & Policy Implications

**53rd IACO AGM, LOME, TOGO
18th-22nd November, 2013**

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About the Speaker

- Has been in coffee business for over 30 years in Africa and consuming world
- One of the leading local exporters in Uganda
- Involved in other commodities
- Works with farmer groups
- Managing Director of Savannah Commodities
- Processing and exporting coffee and grain

Summary of Exporter Challenges

1. Capacity of business knowledge & human resource
2. Affordable trade finance
3. The global credit crunch
4. Tax policies
5. Cost of doing business
6. Non tariff barriers to trade
7. Triangular trade
8. Quality consistency & delivery reliability
9. Infrastructure & Logistics

1. Knowledge of Coffee Business

- Liberalization never considered capacity of indigenous people to compete
- International trade dynamics of hedging and futures are still alien to many
- Dealing with the buyers and logistics
- Local human resource is
 - inefficient,
 - lack skills,
 - integrity issues

Affordable Trade Finance

- Coffee trading requires a lot of capital
- Trade finance available is of high interest
- Collateral needed by banks is hard to get
- Foreign exchange fluctuations augment the financing challenges
- Lack of understanding by bankers/financiers of the coffee business dynamics

Global Credit Crunch

EXPORTERS' CHALLENGE

- Less Credit
- Lower Inventories
- Worse Terms of Trade
- Greater conditionality
- Higher transaction costs
- Risk aversion

CONSEQUENCIES

- Fewer buyers
- Price volatility
- Less financing
- Lower % returns
- Deteriorating infrastructure
- Less sustainable biz

Inconsistent Taxation Policies

- On inputs to export trade like gunny bags
- Vat on internal trading activities

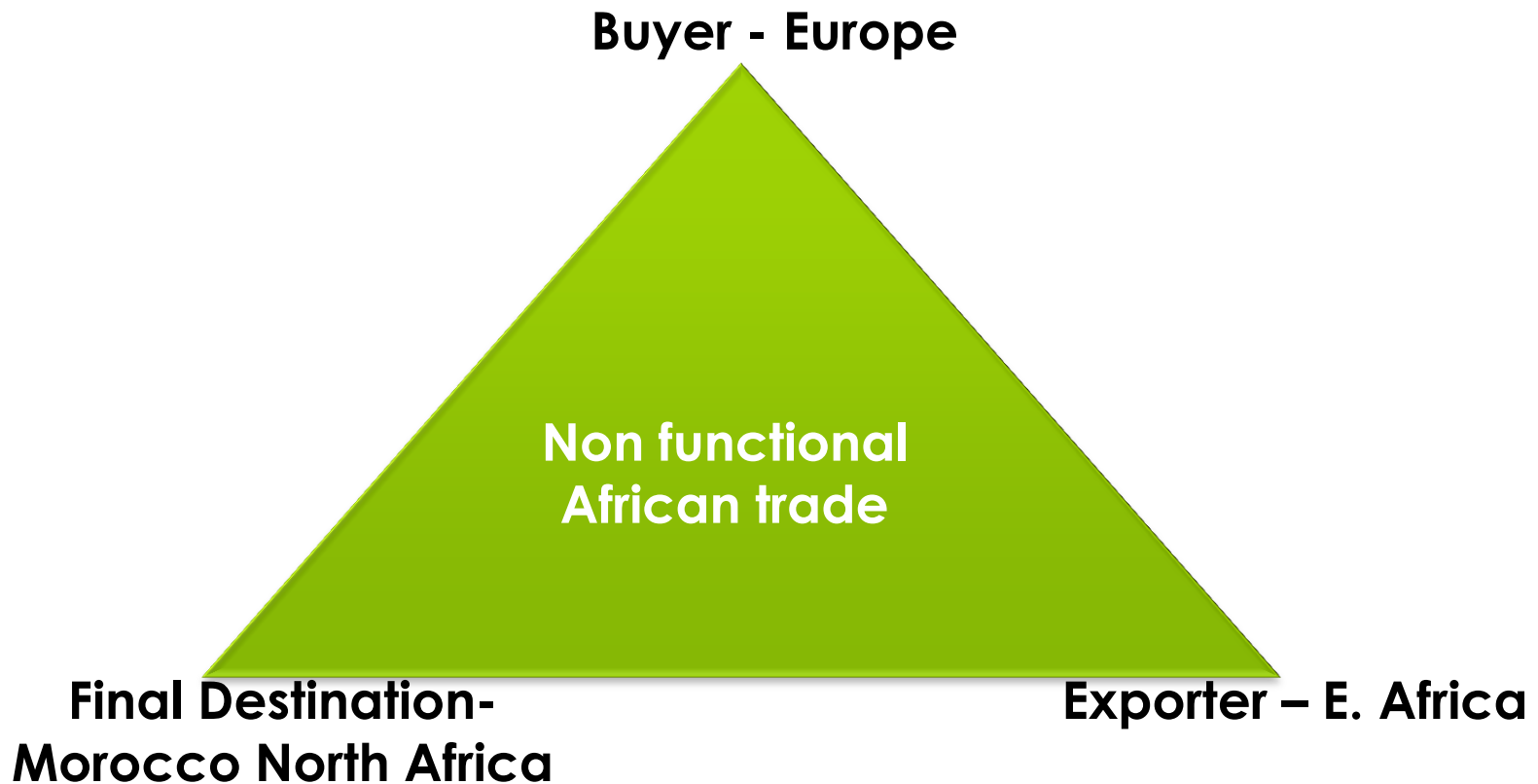
Cost of Doing Business

- Corrupt public officials
- Inefficient public officers from regulatory bodies causing delays
- Cost of power, water, etc..
- Irregular supply of utilities --- stoppages

Non Tariff Barriers to Trade

- Demand for certified coffees, who pays?
- Fumigation requirements; e.g. India
- Chaining requirements/levels in ochratoxin
- Gunny bags vs bulk loadings

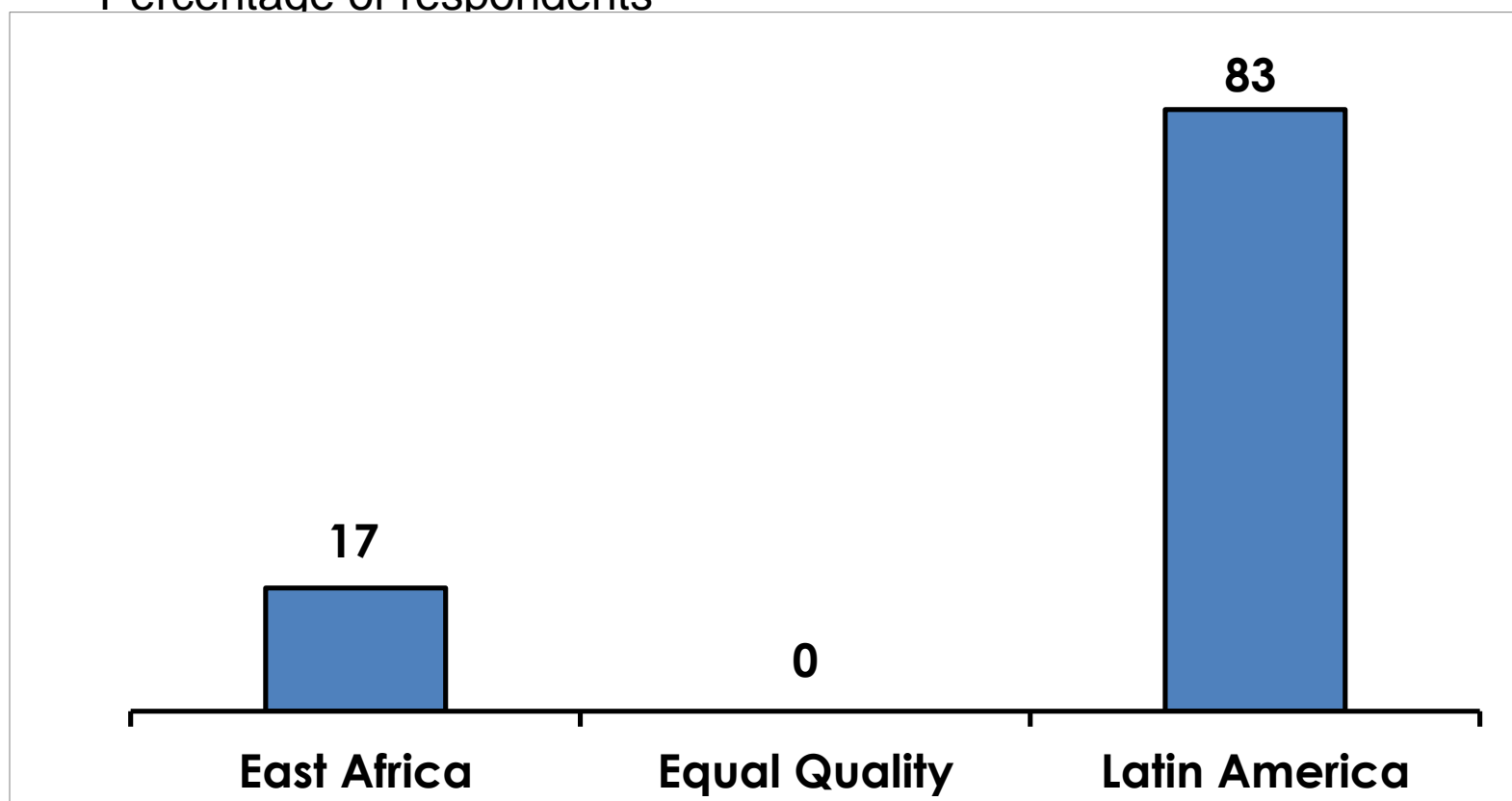
Triangular Coffee Trade



QUALITY CONSISTENCY IS A PROBLEM FOR AFRICAN COFFEE

Consistency of coffee quality - Africa versus Latin America

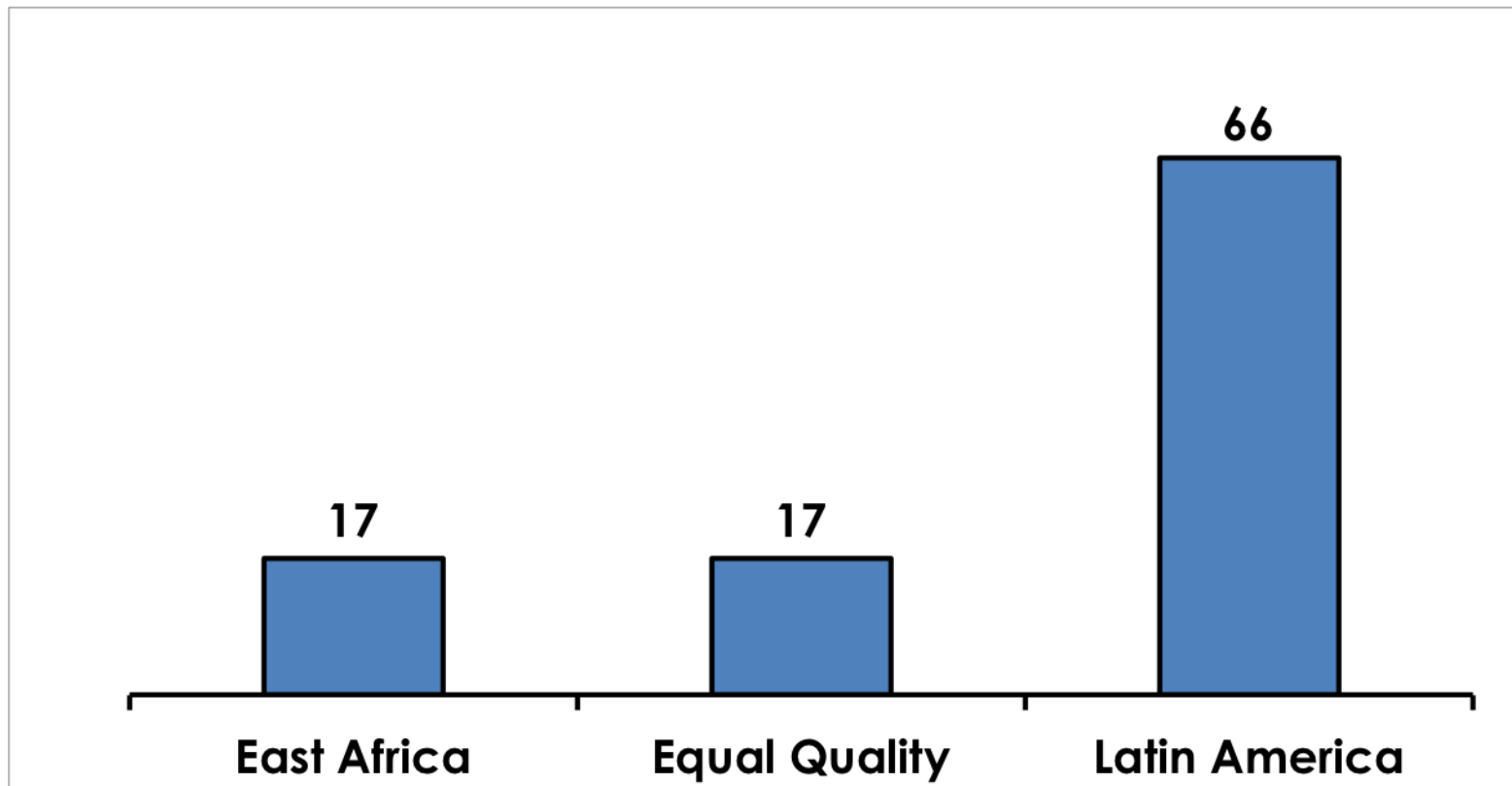
Percentage of respondents



AND RELIABILITY IS A PROBLEM

Reliability of coffee delivery - Africa versus Latin America

Percentage of respondents



Coffee in transit: Transport

- Mode of transport (road / rail): cost versus service
- Availability means of transport: import / export flow
- Liability / insurance: responsibility



Coffee in transit: Infrastructure and Security

- Poor road / rail network: implications on transport costs
- Corridor & border transit management
- Security: risks & costs affecting coffee logistics



Coffee in transit: Customs Regulations

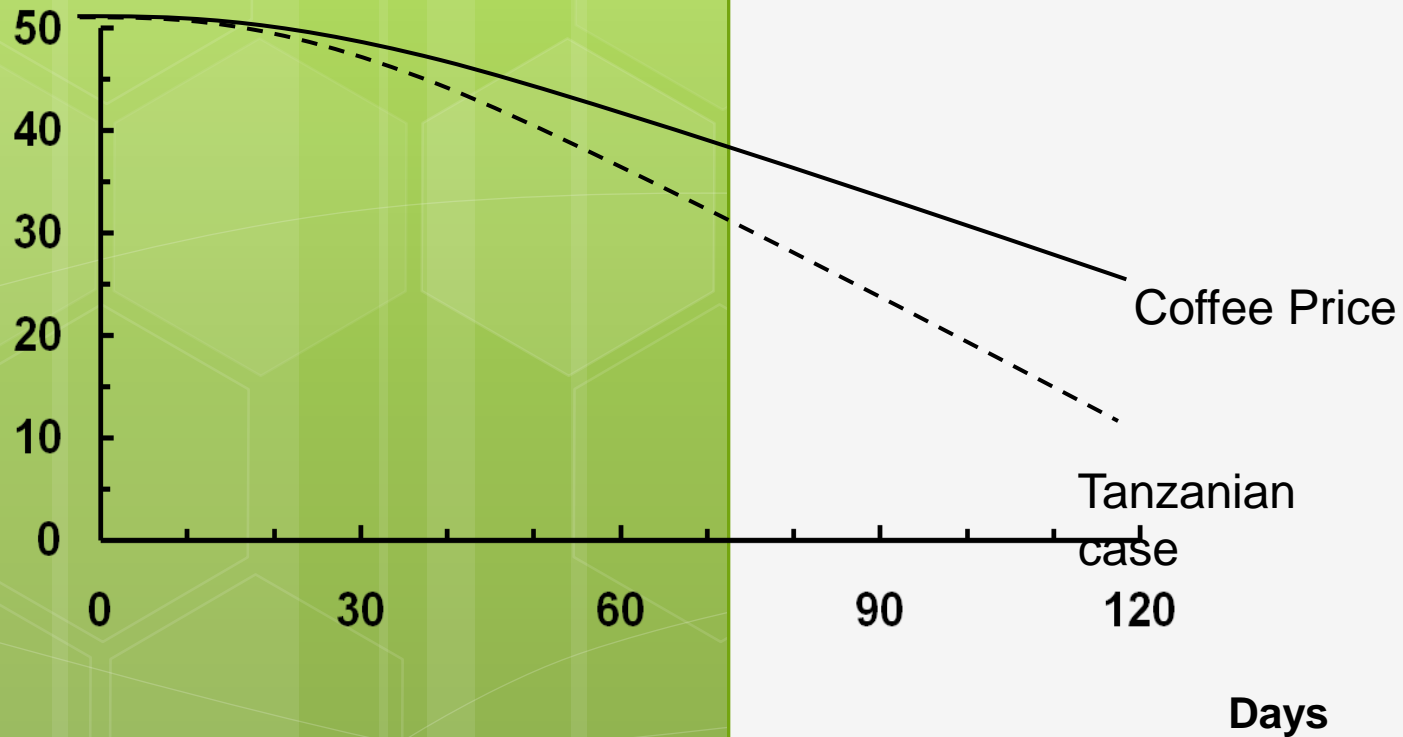
- New East African Community: benefits & challenges
- Axle weight restrictions
- limitations on transit warehousing for coffee



FOR SPECIALTY COFFEE, TIME MATTERS

Price degradation of specialty coffee over time

c/lb above NY "C"*



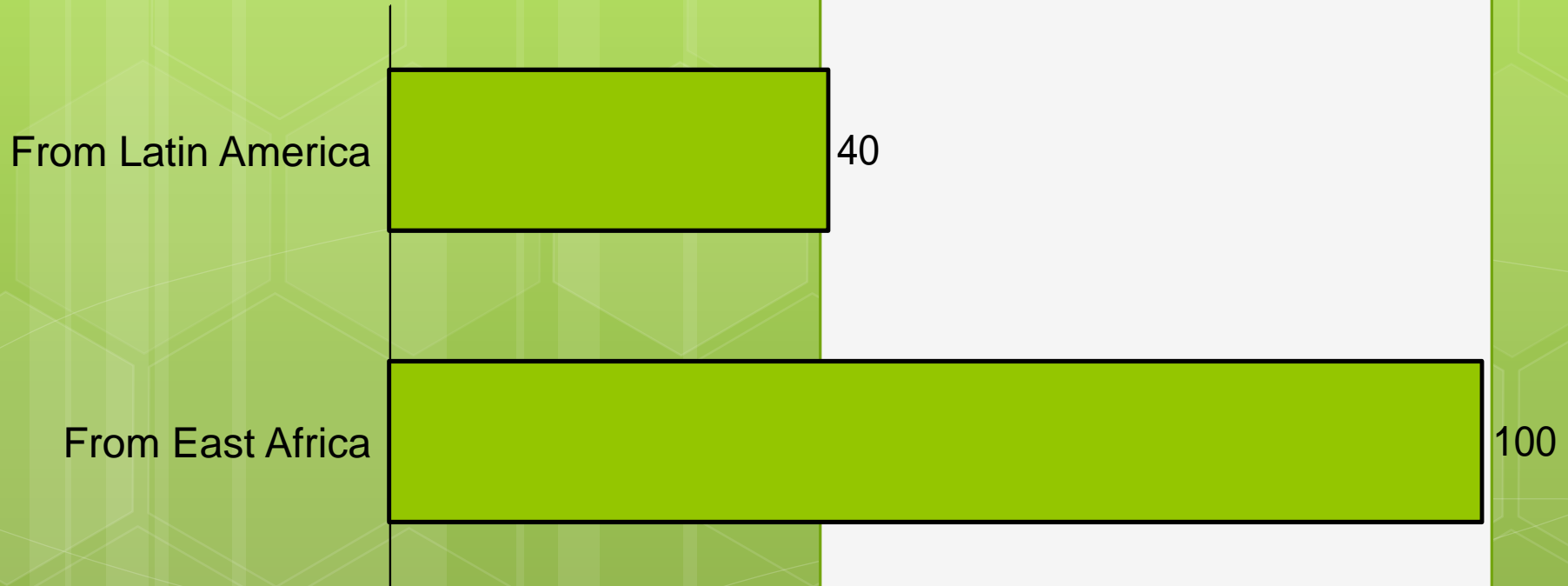
*Assumes a NY "C" of 120

Source: Industry Data, TNS Analysis

IT TAKES MUCH LONGER FOR EAST AFRICAN COFFEE TO REACH NORTH AMERICA

Transit time from origin to North American markets

Number of days in route from the mill to U.S.

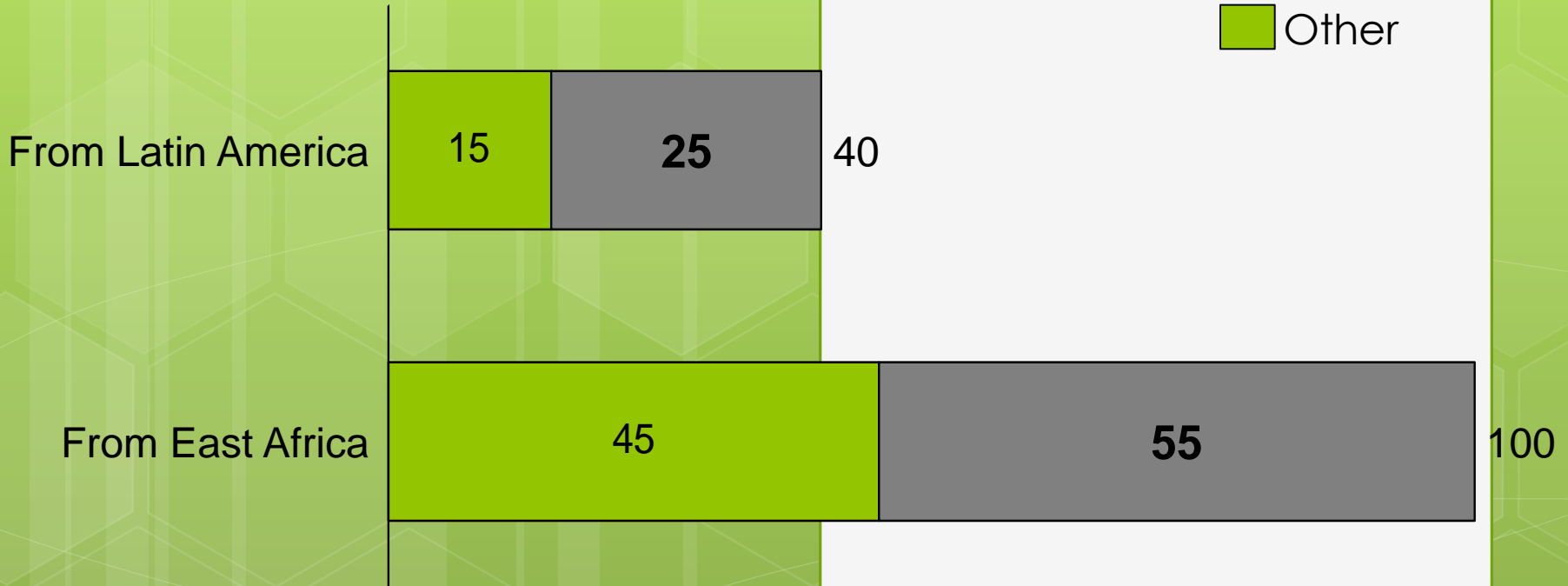


SEA TRAVEL ACCOUNTS FOR ONLY HALF THE DELAY

Transit time from origin to North American markets

Number of days in route from the mill to U.S.

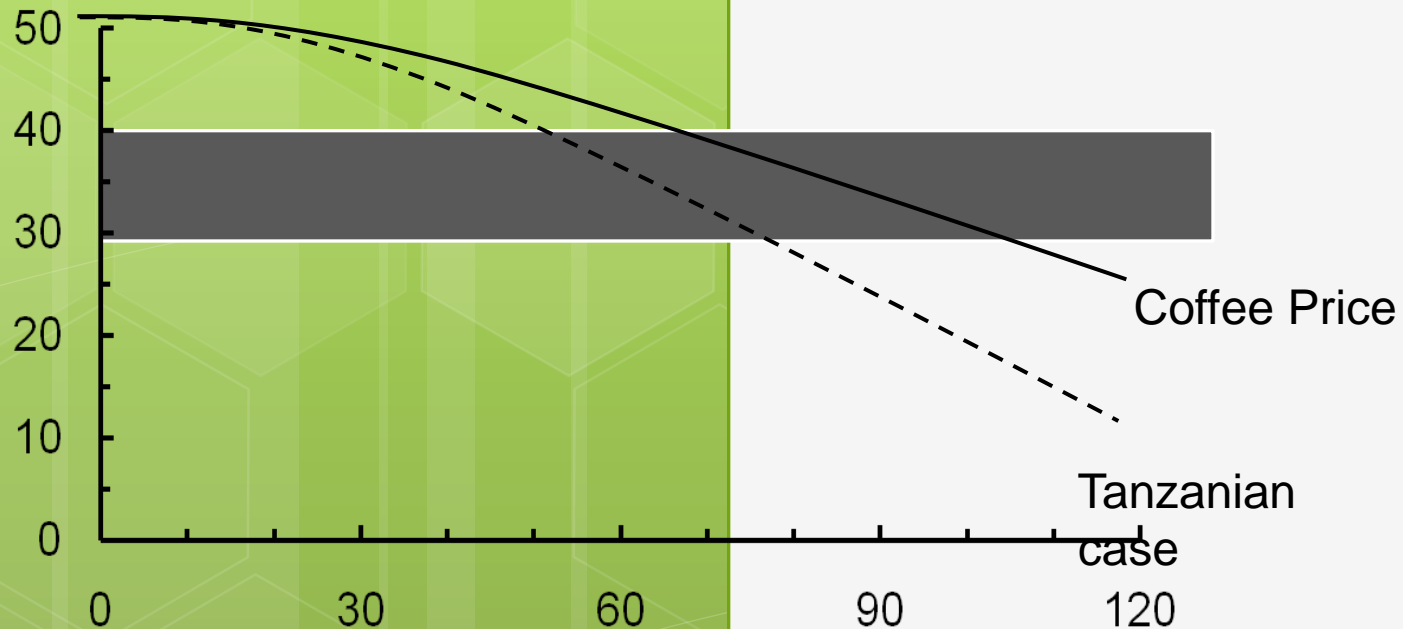
Sea transit
Other



PERHAPS 10 CENTS PER POUND FOR AFRICA'S BEST COFFEES IS BEING LOST DUE TO TRANSIT INEFFICIENCIES

Price degradation of specialty coffee over time

c/lb above NY "C"*



*Assumes a NY "C" of 120

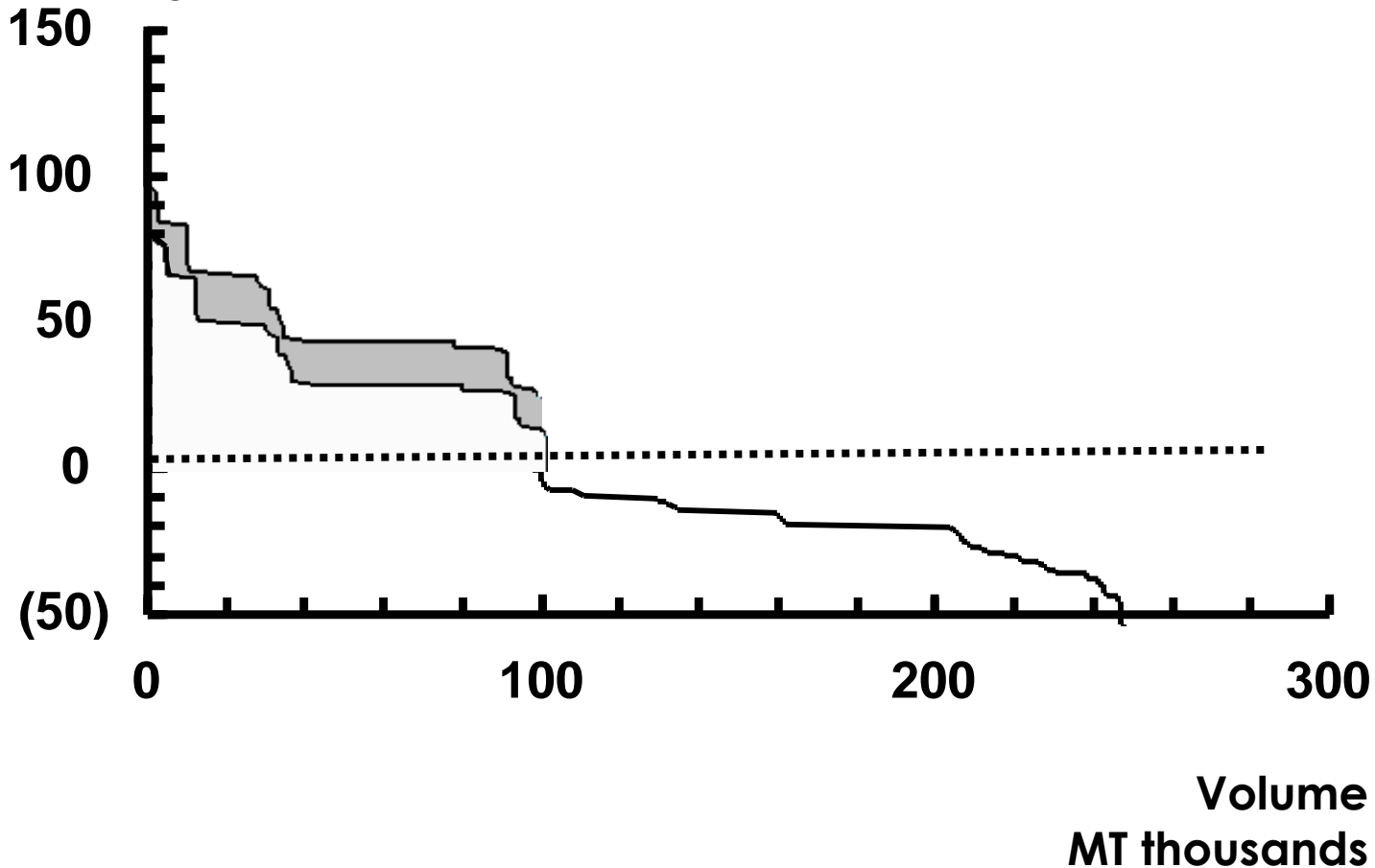
Source: Industry Data, TNS Analysis

EAST AFRICA IS LOSING ~10 MILLION USD EVERY YEAR DUE TO TRANSIT INEFFICIENCIES

East African* Arabica differential above NY "C"

US cents/lb green coffee (2007/8)

■ Potential value



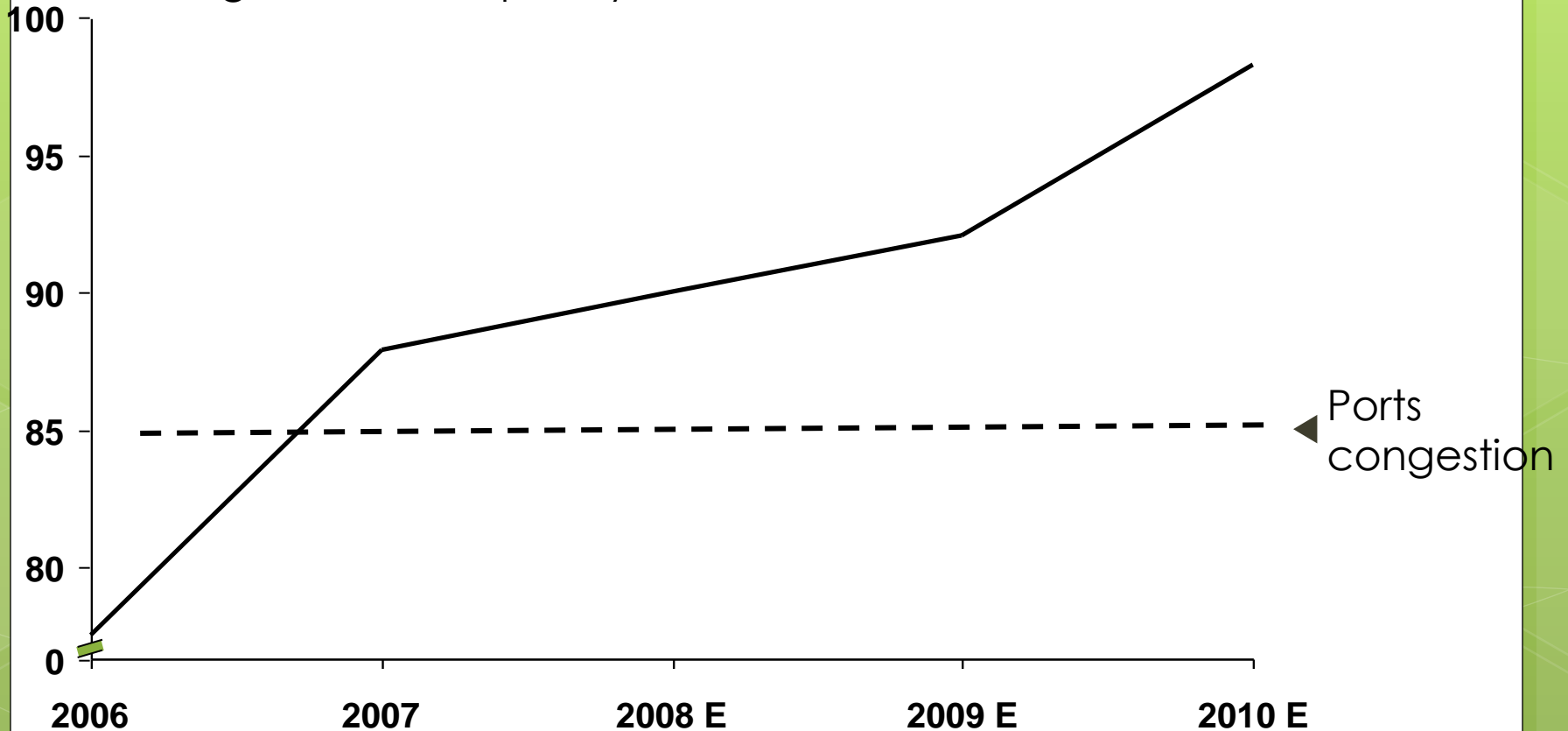
*Reflects Ethiopia, Tanzania, Kenya and Rwanda and a NY "C" = 140

Source: TNS analysis

INCREASED SEA CONTAINER TRAFFIC IS EXPECTED TO FURTHER WORSEN PORT CONGESTION IN THE FUTURE

African port utilization

Percentage of total capacity



Conclusion

- ❑ Africa quality is widely recognized
- ❑ African market share is shrinking
- ❑ Consistency, reliability, and viability is a challenge
- ❑ \$85 Million per year in sales