

**Good morning Ladies and Gentlemen, and a very “warm” welcome to Costa Rica.**

**I am honored to be with you today celebrating the 25<sup>th</sup> Anniversary of Sintercafe.**

**25 years ago, when a few spirited Costa Rican coffee people founded Sintercafe, I never would have dreamed it could have become such an enduring success. But, here we are, and still going strong!**

**Sintercafe is a rather small but exclusive event. A place where friends can sit together, talk together and invent together a new Coffee world (if the macro traders permit it) where coffee is not just coffee, where fundamentals are still important and where fun is permitted.**

**I always say, if you have a job, where fun is a “foreign word”, better you quit or retire and come to Costa Rica, where Sintercafe life is Pura Vida.**

**Thank you so much for all your great support during the last 25 years: You made our success possible.**

**The year 2011, besides being the 25<sup>th</sup> anniversary date of Sintercafe, also has 4 remarkable dates : 1-1-11, 11-1-11, 1-11-11 and 11-11-11 (today).**

**In addition, the month of October has 5 Sundays, 5 Mondays and 5 Saturdays. This only happens every 823 years!**

**Here’s another interesting quirky fact. If you add the last 2 digits of your birth year to your current age, the result will be 111. That is for the same for everybody in the world, and therefore (according to Chinese wisdom) 2011 is the Year of Money!!**

**An old Chinese saying suggests you should send these dates to 8 good friends, and money should arrive with you in four days.**

**I tried this, but instead of cash, I asked for “inside information” of a nano-second advantage against the high speed traders. No response yet so I fear we have to go back to normal – no money and hoping the fundamentals will tell us the truth – one day !!**

**The year 2011 has delivered some other very interesting numbers:**

**Last week the United Nations declared that the human population has reached 7 billion people, on 31<sup>st</sup> October – well it was Halloween!!**

**Let’s hope that kids born on that day don’t all turn out to be witches!**

**This, of course, is good news for us in the coffee business, more consumers mean more demand, an expanding market and assuming 1% demand growth every year, by 2050 we will need production of about 205 million bags a year! This is not absolutely beyond belief (power point chart). Imagine, we would have to produce 200 million bags of coffee every year! Wow!!.**

**However, enough about the future, let’s get back on the road...and talk about the past!:**

**When Cristobal Colon “discovered” this country on the 25<sup>th</sup> of September 1502, he called the place Costa Rica or Rich Coast. It’s not well documented what he had in mind with the word “rich” ..... fabulous wealth ? Gold ?**

**Well, none of this was immediately available, and the “rich” vegetation on the coastline, he had to leave behind! Costa Rica was not his best “investment”!**

**When I arrived in Costa Rica on the 23th of November 1963 – which, by the way, was the same day that John F. Kennedy was murdered - I knew exactly what I was after .... The Grano de Oro, or Golden Bean.**

**I have to admit that after 48 years of hunting & searching for them, I have managed to find a few for my many friends around the world.**

**But in the beginning, life was not so encouraging. The Volcan Irazu was active, and the ash clouds were covering almost the whole of the Central Valley. Coffee production suffered enormously, and the farms were looking just terrible. Even in your daily Gallo Pinto, you could feel the ash.**

**I thought I had landed in the wrong place, in the wrong country, at the wrong time. Fortunately, after a short 15 months (!), the sun began to shine once more.**

**So, Costa Rica:**

**In 1965 it had a population of 1.5 million versus some 5.5 million today. In all of the country the car circulation was approximately 50 000 versus 1.2 million today. And the road infrastructure is pretty much the same!**

**Today, traffic is sometimes more stressful than one day of intensive NY C contract trading!**

**The 1965 crop was 975,000.60 kg bags, sold at an average price of 46.00. This represented approximately 41.7 % of the total export values of the country.**

**The 2011 crop of 1.625 million 60kg bags sold at approximately 220 FOB, representing approximately 2.2% of total export revenues.**

**In 1965, the coffee business was a relatively easy going operation; I imagine nearly every current Chief Financial officer would love to transfer the system into today's environment!**

**In fact, at that time there was no need for Financial Officers (too expensive), only one book keeper controlled the whole operation and that without any computer.**

**There were no major risks, all business was back to back at outright prices, there were almost no capital needs, no margin costs (thank God the C contract was not yet invented!) and best of all, at the end of the year some nice money was left as petty cash.**

**The important question here then, is what went wrong during the last 46 years?**

**In 1965 the 975000 bags were sold in a smooth way, with no complication and no stress.**

**In 2011 buying/selling coffee is suddenly an art and surrounded by all kinds of new trading instruments, which sometimes are quite difficult to understand.**

**A popular president was quoted to have said "It's not the coffee, stupid; it's the macro-trader and the algorithmic crowd"**

**For a better understanding of the differences between 1965 and 2011 here's a day to day routine of a working day ...**

**A typical day in 1965:**

- 08:00**            **Sharp – present in the office with or without hangover**
- 09-11:00**        **Reading of post. A great day if there is one bid for 250 bags by letter.  
This following by a personal visit of a few mills surrounding SJ.**
- 11:15**            **At the office for the first beer of the day!**
- 12:30-2:00**      **Lunch with Millers or competitors. (Trying to get the latest news/rumors)**
- 2:30-4:00**        **Several cables from Europe/USA asking for offers. (Nothing hot)  
Then the local phone system would collapse.  
Time for a quick trip to Heredia to collect some samples and look for offers.**
- 04:30**            **Back at the office for a rush of several coded cables.**
- 06:00**            **O'clock in the afternoon: HAPPY HOUR with the arrival of friendly competition and more rumours/gossip of the day (if any).**

**(PHOTO ME DRINKING BEER.)**

**Meanwhile, in 2011**

- 06:00**            **In the morning – the first shock of the day before breakfast: the market is down \$4.00!  
Why? It isn't explained on the screen.  
Probably more sellers than buyers.**
- 08:00**            **Breakfast – the option market is now open and prices are now trading at plus \$3.00**

**Why? – Nobody can explain – there is no coffee news. Probably it's the dollar or Euro or both.**

**09:00 Conference call: Everybody's talk mixed up. Conclusion it has nothing to do with coffee fundamentals.**

**Now we are all a bit wiser!**

**10:00 First report to the audit people. Why are we Long -or short-or even square?**

**11:00 Call from the GROUP CFO asking for the expected profits or losses per end of month: One of the easy ones!**

**11:30 First valium to calm down nerves (optional a beer)**

**12:00 Second report to the auditors. They want to know last months sales/purchases and the forecast for next two months.**

**12:30 Light lunch, salad and Diet Coke**

**1:30 Daily Position report – again why long – why short – why square?**

**2:30 Third report to auditors... the differential outlook. Why etc.  
Early warning "The Basis Position is close to our limits**

**3:30 Report of expected use of cash for the next three months. Another warning: It's too high!**

- 4:00**                    **Reading of all broker reports. Conclusion:  
Last resource is chart-trading.**
- 5:00**                    **In the afternoon an idea hits us: Hello guys!  
What are we supposed to do here?  
Trading – Buying/selling coffee?**
- Right that is it: a quick call to large millers –  
no luck – all gone already!!**
- 6:00**                    **At home with a glass of wine. Interrogate the  
cook – should I buy or sell coffee answer:  
none of that, better let's go to Wal-Mart and  
accept their special offer on lobsters  
(valid only tonight !!)**

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**Most of you probably experienced similar situations as  
described in my case-study of a hypothetical modern coffee  
day.**

**I know it sounds slightly exaggerated, but sometimes it  
happens just like that.**

**Let's talk about the new coffee world: during the last 25 years  
my experience, my actions have not always been 100% perfect  
but overall quite successful... until last year.**

**Suddenly 1+1 were not 2 anymore and you feel like a new  
born kid. Normally experience is worth a lot of money but no  
longer.**

**However one experience has survived all the years and  
changes:**

**EVEN TODAY COFFEE IS STILL BREWED WITH  
WATER.**

**Coffee is one of the most actively traded commodities in the world, with a multi billion dollar global industry having grown around the Golden Beans.**

**Unfortunately we (producers, roasters, trading houses) have to admit that we lost control over our commodity as supply + demand + stocks are no longer the market driver.**

**Prices today are controlled by macro traders, high speed computer programs and others looking to invest money for a few hours.**

**We are all tired about the uncontrolled daily swings and wild volatility; it might be time to think about something new. To withdraw to the fullest extent possible from the use of the market is not enough.**

**Sintercafe might be the place to appoint a task force which works on a plan to take back control of the market, based on the underlying supply & demand fundamentals.**

**Or if that does not work....I guess we just have to sit it out. A wise man said “nothing can go on for ever; it will stop” the question is when it will stop ... so let’s be patient as one day it will happen.**

**So, we have noted that experience is good, but is no guarantee for success in the future.**

**Before I close, I would like to give you my vision of the year 2036, based on my imagination plus experience:**

- Sintercafe will celebrate its 50<sup>th</sup> anniversary!**
- Myself (with great luck) will be an old-timer of 98 years. 98 years with 75 years of coffee experience!**
- In the US, the Republicans and Democrats will still be fighting for the correct budget-cuts!**

- Howard Schulz will have sold his Starbucks shares and have made a generous donation to bring the budget a little bit more in line as he runs for office.
- The United States of Europe (new name same old problems) will be discussing whether Greece should stay or not in the USE.
- Besides some unexpected setbacks - the African Continent having flooded, & Venice suffering from a drought – our planet will be on it's best way to become a GREEN one, almost 80% of the world's energy needs are coming from renewable sources.
- The bad news, most people will struggle with the costs.
- Coffee consumption will reach 180 mio bags with supply lacking behind. Coffee prices will stand at \$ 1200.00 (or half ounce of gold).
- Here in Costa Rica, Arabica Production will be down to a minimum, all sold as micro lots.
- In Guanacaste we will be planting Robustas for a Local Consumption.
  
- The industry will be facing a new challenge: Green Mountain will have inaugurated in Houston a liquid extract coffee refinery with the slogan “single cup ready to drink 24 hours”.

**The system will work as follows:**

- 1- Liquid extract coffee will be pumped through pipelines from all important coffee countries from Central + South America to Houston.
- 2- There it will be blended and brewed for further distribution trough the local water system into every household (photos refinery tubes-water meter, credit card) Prices are calculated every 30 minutes for both producers and Consumer by a Super High Speed Trading system.

**GMCR will have a public offering to sell franchises of the new system but with NO interest from the coffee industry.**

**Fortunately, Budweiser will jump on the wagon and lucky consumers will have an option for coffee in the morning and Happy hour with beer during the afternoon!**

**I wish you all a very happy stay at Sintercafe and hope we will be able to solve the coffee world during the next three days.**

**Bye for now!**