

# CONFIDENTIAL

**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS. THIS ISSUE:**

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## RODÔNIA TO HAVE WORLD'S FIRST SUSTAINABLE GEOGRAPHICAL INDICATION



The Matas de Rondônia Geographic Indication is expected to be released soon. It has been applied for by the Association of Coffee Growers of Matas de Rondônia (Caferon) that brings together 400 growers in 15 municipalities in the Robusta producing state of Rondônia, located in the Amazon Basin. The Global Coffee Platform (GCP) is playing an important role in this sustainable GI application with its Coffee Sustainability Curriculum being a part of the GI requirements and enabling technicians and growers to restructure the way the crop is conducted in order to ensure sustainable coffee production. Small growers are predominant in the state, with an average of four to five hectares per grower. Their productivity has risen from 7.5 bags per hectare in 2001 to 31.5 bags in 2019.

Sources: Agrolink and P&A

## BRAZILIAN GREEN COFFEE EXPORTS TO PRODUCING COUNTRIES INCREASE

According to the Brazilian Coffee Exporters' Association (CeCafé), Brazilian green coffee exports to producing countries have increased substantially this year. Mexico and Colombia were the main and most significant destinations of Brazilian green coffees. Mexico imported 155 thousand bags from January to May 2019 compared to only 17 thousand bags in the same period of 2018, with an increase of 811%. Colombia in turn imported 138 thousand bags in the first five months of 2019 compared to 21 thousand bags in the same period of 2018, an increase of 559%.

Source: CeCafé

Producing Countries	jan-19 to may-19	jan-18 to may-18	Variation (%)
Mexico	154527	16970	810,6
Colombia	137735	20918	558,5
Indonesia	35195	30718	14,6
Ecuador	13332	*	*
Dominican Republic	6400	1300	392,3
Vietnam	3370	2110	59,7
Trinidad and Tobago	2275	1945	17
Phillipines	1280	320	300
India	560	1120	50
Thailand	420	100	320
Paraguay	150	4926	97
Cuba	*	20150	100
<b>Total</b>	<b>335.244</b>	<b>100.577</b>	<b>253,2</b>

## CLIMATE INDUCED QUALITY LOSSES MAY DECREASE PRICES TO GROWERS FURTHER

According to Cooxupé, the largest coffee cooperative in Brazil, the 2019/20 crop may have serious quality problems that will lower growers' income at a time of low coffee prices. The problems occurred largely due to the different periods of flowering that caused different maturation "peaks". It is estimated that the average quality-associated price loss per bag ranges from R\$ 20 to R\$ 50, i.e., 4 to 10 US cents/lb. This issue is being observed in all coffee producing regions and especially in the Cerrado and South Minas.

Source: Valor Econômico

## CONILON COFFEE AS A SYNONYM FOR QUALITY

The Santo Grão coffee chain has launched its first product made only with Conilon beans. The micro lot of the Diamond variety from Venturim farm in Espírito Santo, is called "0% Arabica"! Conilon coffee growers are focusing on quality in response to the recent interest in the nuances that Conilon brings to the cup as well as to the fact that a Conilon coffee was the winner of the 2018 Coffee of the Year Contest.

Fonte: Valor Econômico

**INCAPER LAUNCHES NEW SEED-PROPAGATED CONILON CULTIVAR**

The Agricultural Research and Extension Services Institute of Espírito Santo (Incapar) has launched the cultivar Conquista that is known for its wide genetic base. While a clonal variety normally consists of 9 to 14 clones, this cultivar gathers 56 different genotypes (clones and hybrids). Conquista presents a productivity of 74 bags per hectare under normal growing conditions, 47% more productive than Robusta Tropical, Incapar's first seed-propagated cultivar launched in 2000. The cultivar adapts to Espírito Santo warm environment, is vigorous, tolerant to drought and presents moderate resistance to rust, the main coffee disease. The bean size is medium to large and presents superior cup quality, scoring more than 80 points. Another great advantage is related to its seedling price. As it requires less labor, less management and nursery control, the cost of a seminal seedling is 50% lower than that of a clonal seedling.

Source: Jornal Montanhas Capixabas

**ANOTHER PLENTIFUL CONILON CROP**

According to Conab's second 2019 estimate released last June, Conilon's production may reach 13.9 million bags this crop, 1.7% lower than the 2018/19 record when the country harvested 14.2 million bags that represented 23% of the total of Brazilian coffee crop. According to the Agricultural Research and Extension Services Institute of Espírito Santo (Incapar), the state should harvest between 9 and 9.5 million bags. According to Coaabriel cooperative, growers began to migrate from mountainous areas to flat regions where harvesting can be mechanized. Coaabriel has 4.6 thousand members in Espírito Santo and Bahia. The prospect is also for a large crop in Rondônia.

Source: Valor Econômico

**EXPORTS MAY LOWER COFFEE STOCKS IN BRAZIL**

Brazilian carry-over stocks may be lower than the previous estimates, according to researchers at the Center for Advanced Studies in Applied Economics (Cepea). The fast pace of exports is being considered the determining factor for this situation. The United States Department of Agriculture (USDA) has reduced its forecast for Brazilian stocks to 3.8 million bags from a first estimate of 6.8 million bags for the end of the 2018/2019 coffee year.

Source: Globo Rural

**SOLUBLE EXPORTS TO GROW**

More than 90% of the Brazilian soluble coffee is exported today and an increase on its exports of 5% compared to 2018 is expected, according to the Brazilian Soluble Coffee Industry Association (ABICS). Soluble coffee exports registered 3.4 million bags with revenues of US\$ 595.6 million in 2018. The main destinations of Brazilian soluble coffees are the United States, European Union, Russia, Japan, Indonesia and Argentina.

Source: Valor Econômico

**NESTLÉ TO RESUME INVESTMENTS IN BRAZIL**

Nestlé's business in Brazil has been accelerating after some difficult years. The country is its fourth largest market only behind the United States, China and France. Nestlé invested R\$ 1.5 billion (US\$ 395 mi) in Brazil in 2018 and estimates to invest R\$ 1.6 billion (US\$ 421 mi) this year in factories, distribution, etc. Nestlé's coffee segment, one of the company's most important pillars in Brazil, will receive a great portion of the investment to expand the new Starbucks and the Nespresso and Nescafé Dolce Gusto businesses. The specialty and premium coffee markets in Brazil have grown 20% in the last two years. Such increase reflects the change of habits of Brazilian consumers.

Source: Valor Econômico

**Brazilian Prices**

Main Producing Regions / Farm Gate

June 28, 2019

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	485,00 ↑	Colatina-ES fair average price	298,00 ↑
Mogiana	480,00 ↑		
South Minas	480,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	Real R\$ / Dolar US\$
Cerrado MG	415,00 ↓	Jul 2019	129,95 ↑
South Minas	410,00 ↓	Sep 2019	133,00 ↑
		Dec 2019	137,87 ↑
		June 28, 2019	3,84 ↓

+ 15.7%

Source: [www.qualicafex.com.br](http://www.qualicafex.com.br)

## DRINK ONE MORE CUP OF COFFEE TO MAKE THE WORLD BETTER!\*

World coffee consumption is today growing faster than in the past but not fast enough to make up for recent increases in production. Therefore, to increase the rate of growth of coffee consumption is a solution to counter low coffee prices but not a short-term one. But where and how should the coffee business act?

The annual growth rate of consumption is strongest today in Asia and Africa, as shown in the table below. One often hears that the growth of consumption in China and secondarily in India is much larger than the 4.5% in the table but over a small basis. Truth is that if one considers the whole of Asia the basis is already large, with total consumption only below Europe's, and the large growth rates in China, India and Indonesia pull Asia's averages up.

REGION	TOTAL CONSUMPTION (million bags)	GROWTH RATE (%/year)	VOLUME ADDED (mi bags/year)
North America	33.9	+2.3%	+0.8
Latin America	29.6	+2.1%	+0.6
Europe	49.2	+1.1%	+0.5
Africa	11.2	+3.9%	+0.4
Asia and Oceania	39.6	+4.5%	+1.8
World	163.5	+2.5%	+4.1

It is also in Asia that the largest annual growth in volume is – 1.8 million 60kg bags – that is more than double the one in North America that runs second. Although growth rates are also large in Africa, almost as high as in Asia, the annual volume increase is the smallest of the five areas in the table. There is a large potential in Africa, with growing population and income, but there is much to do to realize it.

The Americas are at an intermediary state with growth rates somewhat below the 2.5% average for the world and Europe is where growth rates are the lowest but over the largest basis. North America, Europe and a few other consolidated consuming markets are experiencing a different phenomenon: the total value of the coffee consumed is growing faster than the actual volumes. This is not necessarily the best thing for producing countries.

If one focus on producing countries alone, Brazil is historically and by far the country where coffee consumption grew the most and the process continues today after a brief gap five years ago. Other producing countries, e.g.: Mexico, India and Colombia, whose consumption growth rates were small or even negative in the 1990s, started to increase consumption faster in the new century for several reasons. The main reasons for this change were a new vision about the benefits of coffee drinking on health and institutional programs triggered or inspired by the ICO Guide to Promote Coffee Consumption in Producing Countries. On the other hand, producing countries like Indonesia earlier, Vietnam later and China more recently, experienced much higher growth rates without pre-competitive institutional programs. What can we learn from all this?

It seem that in producing countries where the habit of drinking coffee is disseminated but not necessarily strong there is a tendency to incorporate coffee drinking in the daily routine and pre-competitive institutional programs are necessary to shake-up consumers and to revamp consumption. In producing countries that favor other hot beverages, e.g.: tea, and coffee is a “new” drink, market forces – companies and brands – drive consumption up in response to their competitive actions. The latter is also what happened in importing, consuming countries where companies and brands caused consumption to grow after institutional coffee and health programs revived the market.

Whereas soluble coffee pushes consumption in producing countries that are not traditional coffee drinkers, single-serve/capsules, the third wave and ready-to-drink (RTD) beverages play this role in importing/consuming markets. Coffee shops play different roles in all countries, from introducing consumption in non-coffee drinking countries to calling new attention to coffee in coffee drinking countries.

Promotion of coffee consumption around the world must take into account four critical factors: current per capita consumption, that indicates potential, saturation or any intermediate stage; average income and its growth rate; population and its growth rate; and changes of hot beverage drinking habits, that may point to shifts from tea to coffee, for example, or quality shifts that may affect the relationship between coffee prices and volumes consumed.

In addition, efforts to increase coffee consumption, competitive and pre-competitive, including the review of the Guide already approved by the ICO, must now consider how the world has changed recently and is changing in both communication and sales techniques and coffee consumption itself. The internet, digital branding, e-marketing and e-commerce, changing consumption habits, and coffee quality improvements must all be considered. If the impacts of the digital revolution are rather similar for many products and other beverages and can benefit from what is being done in their markets, the role of coffee quality in the promotion of consumption must be specifically addressed.

In importing consuming countries, premiumisation – the move towards higher quality coffees – can cause coffee prices to increase faster than volumes consumed, as it seems to be happening in the US and Europe. In emerging markets – producing and consuming – with higher and fast growing incomes, premiumisation may induce consumption by attracting new trend-setting consumers. But in markets with lower income, even if growing fast, premiumisation alone may reach only a limited higher income public and miss the target of helping to increase mass consumption. Quality must be defined flexibly, according to the size of consumers’ pockets, to be used effectively in the promotion of consumption.

Having made a retrospective of consumption growth, I now venture to propose a new idea. May it be possible to use sustainability – sustainable coffee production – as a motivator of consumption perhaps as powerful as the positive benefits to health of coffee drinking were and still are? It annoys me that sustainability is often mentioned in a negative way, in connection with negative issues like child and slave work, inadequate use of agrochemicals, deforestation, etc. “Buy, pay more for and drink sustainable coffee because it causes none of the above!” Is this negative sounding message a way to compensate sustainable coffee growers for these efforts, to increase the consumption of sustainable coffees and all coffee at large? Is associating the drinking of a beverage with negative messages a good way to promote its consumption?

What I propose instead is to change the approach from negative to positive and to say “drink more coffee to help millions of growers and their families around the world to have a larger income, to live a better life, and to protect the environment”. Is this a very naïve message? You do not necessarily have to pay more for your coffee but “drink one more cup of coffee to make the world better”!

*\* This was the introduction to Panel 3 - Consumption in the first day of the World Coffee Producers’ Forum held in Campinas, Brazil.*





# MACHINE OF THE MONTH

## CARMOMAQ LAUNCHES NEW 1 KG ELECTRIC ROASTER



We are happy to announce that P&A has just partnered with Brazilian roaster manufacturer Carmomaq to manage their sales outside Brazil.

Carmomaq was established in Pinhal 28 years ago and specializes in coffee roasting equipment. It has expanded significantly in recent years inside and outside Brazil by offering quality products of cutting edge technology.

Carmomaq offers coffee roasting and grinding solutions with capacities ranging from 1kg per batch up to 480kg per batch in many models that can be manually or automatically operated. They also offer complete solutions for roasting lines, from intake to packaging.

The new addition to Carmomaq's portfolio is the STRATTO roaster. This compact 1kg/batch electric roaster was designed to bring convenience and enhanced control to the user by being 100% electric and adopting a tablet as a control panel. The built-in cyclone adds to the convenience of saving space with better looks for the installation.

The STRATTO roaster temperature and flow of air controls and the cooling tray may be run independently. The tablet that accompanies the product can monitor and save roasting profiles to be replicated in the future.

The hourly capacity of the new STRATTO roaster can be of up to 5 kg with a roasting time of 12 minutes. It has a low energy consumption of only 3 KW/h, in spite of being 100% electric.

The STRATTO is ideal for small coffee shops, roasting training, workshops and a no-brainer for coffee lovers doing home roasting.



Visit the Carmomaq website (<http://www.carmomaq.com.br/index-en.php>) or contact P&A ([peamarketing@peamarketing.com.br](mailto:peamarketing@peamarketing.com.br)) to learn more about this product and the rest of Carmomaq's line and to request quotations.