

# CONFIDENTIAL

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## ☉ COFFEE CONSUMPTION IN BRAZIL TO GROW MORE THAN 5% IN 2007

Latest estimates show that coffee consumption in Brazil may grow more than 5% this year, surpassing 17 million bags. Increasing retail demand, especially in supermarkets, and out-of-home consumption account for part of the growth.

Source: O Tempo

## ☉ CHOCOLATE BEVERAGES: THE NEW THREAT TO COFFEE

A survey done with 2,256 people in the 13 main cities of Brazil concluded that chocolate beverages may develop into a major threat to coffee consumption in the country in the years to come. The percentage of consumers of chocolate beverages increased from 40% to 51% since 2003, while the percentage of coffee consumers remained high but steady at 91%.

Source: Gazeta Mercantil

## ☉ BRAZILIAN CONGRESSMEN TO DRINK HIGHER QUALITY COFFEE

The Lower Chamber of Brazil's National Congress will consume only high quality coffee from now on. A recent agreement signed between the Chamber and ABIC (the Brazilian Coffee Roasters' Association) states that samples of all coffee to be supplied to Congress will be sent to ABIC to be checked for minimum quality standards before it is purchased.

Source: Gazeta Mercantil



## ☉ COFFEE BLEND CREATED FOR WOMEN

Café Orfeu recently launched a coffee brand directed at the women's segment. In response to clients' feedback, the company created Eurídice, a milder coffee, with less body, higher acidity and fruity notes. The Eurídice blend is made only from washed coffees harvested by selective picking.

Source: CIC (Coffee Intelligence Center)

## ☉ BRAZILIAN SOLUBLE STILL SUBJECT TO IMPORT DUTY IN EUROPE

Brazilian soluble coffee has faced a 9% duty imposed by the European Union since 2006 when it was excluded from the General System of Preferences (GSP). Although the country faces major difficulties to compete as a result of this taxation, Brazilian government sources state that it will not interfere until the soluble sector brings up "something new" to the discussion.

Source: Diário do Comércio / MG

## ☉ IPANEMA REACHES 5,000 HA UNDER COFFEE

Ipanema Coffees, one of the largest specialty coffee suppliers in the world, located in Alfenas, in the Brazilian state of Minas Gerais, has recently established a new business unit in Poços de Caldas through a partnership with two traditional estates from the region, Lambari and Irarema. This "Fair Partners Program" contract causes Ipanema to increase its total area from 6,200 to 7,900 hectares (15,300 to 19,500 acres) and the coffee growing area from 3,600 to 5,000 hectares (8,900 to 12,300 acres).

Source: Tempo de Comunicação

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## CALLS FOR LARGER NATIONAL COFFEE STOCKS

Brazil's coffee sector has urged the government to enlarge national coffee stocks from today's 1.5 million bags to an ideal level of 6 million. Cooxupé, one of the largest coffee cooperatives in the world, declared that if nothing changes in the coming years, local consumers will be affected by supply and demand unbalances. Prices in the domestic market may increase due to the lack of buffer stocks.

Source: Diário do Comércio e Indústria / SP

## COMMITMENT TO MORE PRECISE CROP ESTIMATES

In order to enhance the quality of its studies and to increase the accuracy of its estimates of the Brazilian coffee crop, CONAB will now also rely on data from IBGE's Crop and Livestock Census. CONAB will not discontinue its estimates of private stocks, which have been opposed by some growers. CONAB will release its first estimate of the 2008/2009 Brazilian crop on December 14th, when it will also announce its fourth and last estimate of the 2007/2008 crop.

Sources: Agência Estado and Conselho Nacional do Café (Coffee Growers' Council)

## IRREGULAR FLOWERING MAY CAUSE LOSSES IN ARABICA CROP

Climate conditions in 2007 have been atypical in Brazil, especially from March to November, when temperatures well above averages and lack of rain caused extreme water deficiencies in coffee plants. This resulted in a high percentage of malformed flower buds in many Arabica producing areas. There are cases of underdevelopment of all flower structural parts which remain green and stunted, forming flowers known as "estrelinhas" - small stars. These abnormalities heat the discussion about production losses, which are still difficult to measure but may be better evaluated in mid-December when the process of fruit formation will be stabilized.



Different types of flowers on the same coffee tree. A: regular flowers, B: abnormal flowers called "estrelões" - big stars, and C: abnormal flowers called "estrelinhas" - small stars.

Matas de Minas: most coffee plantations in this area present severe leaf loss. Flower buds that did not bloom in the top part of the trees are dying in most new plantations whose trees are under 5 years old.

Sul de Minas: most damage is concentrated on plantations that are below 900 meters (3,000 feet) of altitude. A big quantity of flowers is either burned or has other problems.

Sources: EMBRAPA / Peabirus

## RESEARCH INSTITUTE TO CONTINUE IMPROVING CONILON VARIETIES

Incaper, the institute in charge of research and rural extension in the state of Espírito Santo, in Brazil, is now carrying out studies to improve the taste of Conilons and to develop other features demanded by consumers and the industry. Another front of technological improvement is the dissemination of the pulped natural post-harvesting processing system to enhance cup quality. Incaper researchers developed the technology behind the amazing advances in Conilon production in the state. From 1993 to 2007 the area planted with Conilon areas in the state grew only 11% from 270,000 to 300,000 ha (667,000 to 740,000 acres) while yields grew 188%, from 9 to 26 bags per hectare (540 to 1,560 bags/ha) and production increased 213%, from 2.4 to 7.5 million bags per year.

Source: A Gazeta / ES

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## Outlook Carlos H. J. Brando



### CHILDREN'S PREFERENCES AND COFFEE CONSUMPTION: A "BREAKFAST WAR"?

Consumers' surveys regarding coffee consumption in Brazil took place every two years from 1988 to 2000 and every year thereafter. The results of such surveys have been of utmost importance to orient the successful Brazilian campaigns to increase coffee consumption that occur every year.

The results of the latest 2007 survey were released and presented during the 15<sup>th</sup> Annual Coffee Roasters Conference (15<sup>o</sup> ENCAFÉ) promoted by the Brazilian Coffee Roasters' Association (ABIC) this past November. In spite of the high growth rate of coffee consumption in Brazil, this latest survey unveils some threats that are already under consideration by the designers of the Brazilian promotion programs. These threats may in themselves be a warning for other countries too, producing and consuming, as well as emerging markets.



Aside from the evolution of fruit juices and bottled water in the preference of consumers, which had already been detected in previous years, the 2007 survey indicated a striking surge in the preference for chocolate beverages and traced its origins to chocolate-based breakfast beverages available in the Brazilian market. This conclusion reinforces the importance of the programs under way in Brazil to include coffee in school meals and calls for the urgent expansion of the "Café na merenda, saúde na escola" campaign. This program, whose name translates as "Coffee in school meals, health in schools", has been designed by ABIC to be implemented under the sponsorship of roasters and coffee growers' cooperatives and associations active in the target markets.

The important role that the beverages available to children play in the formation of future habits has long been known. However some countries fail to benefit from this role because there is a strong resistance to offer coffee to children. The current worry is that chocolate beverages may be making in-roads even in countries that welcome coffee in children's breakfast, like Brazil. Whereas it is easier to counter this threat in "coffee-for-children friendly" countries - one possible reaction is along the lines of the Brazilian program - the task is much harder in countries where there are strong barriers to serve coffee to children. What to do?

An interesting path is proposed in a recent book written by a consumer preferences consultant. He claims that the introduction of coffee in Japan was preceded by the launching of children sweets that contained coffee by a large food company. The idea was to shape the preferences of young consumers for them to acquire a taste for coffee and to predispose them to drink it later. Though Japan at the time had no coffee culture at all, the recipe may also work in countries that do have a coffee culture but are not willing to allow children to drink the beverage.

Coming back to Brazil, the results of the 2007 survey show that it is high time for the Brazilian food companies, specially those that have coffee among their products, to launch coffee-based breakfast beverages for children in order to counter the very adverse long-term negative impacts on coffee consumption caused by chocolate breakfast beverages for children. The same suggestion applies to several other coffee producing countries that may be facing a similar or worse problem than Brazil. On the other hand, the strategy above, that worked in Japan, may work in other consuming and producing countries too, alone or as a complement to coffee-based breakfast beverages.

That the tools proposed above may help coffee win the "breakfast war" is indicated by the manner how Starbucks is attracting teenagers to coffee: with the introduction of coffee-based milk beverages. These sweet and cold drinks are today an important entry door into the coffee world not only for teenagers but also for other consumers. After they try and like them, consumers move to other beverages with higher coffee content, like capuccinos, and may even venture into pure coffees in the form of espressos, going up what I call the "coffee ladder".

## COMPANY OF THE YEAR?

Instead of writing about a machine or product line, this month we chose to write about Pinhalense itself to commemorate a big achievement: it has been selected the second best Brazilian company in the field of agricultural machinery and equipment. Pinhalense is not yet No.1, i.e., the company of the year, but is working hard to get there. The selection and ranking took into account a series of financial and performance indicators for the year as well as their growth in relation to the previous year. Some of the ten indicators considered were income / sales, profits, assets, liabilities, ROI and net worthiness.

It is important for Pinhalense's clients and friends located thousands of kilometers away, who are familiar with the quality and reliability of the company's equipment, to also learn that Pinhalense is considered a model of efficiency, financial performance and solidity. It is sound financial indicators that allow the company to make the research and development investments that generate new technologies and products. It is sound performance indicators that allow the company to produce and deliver faster than any competitor high quality machinery that requires little servicing. It is a combination of these indicators that stand behind the Pinhalense brand, that over the years has meant performance and reliability for thousands of coffee growers and traders around the world.

When clients buy Pinhalense machines on the other side of the world, they want to make sure that the equipment arrives on time and performs to their needs. The solidity of Pinhalense and the need to retain and increase the value of its brand are the best guarantees that clients may have.

Pinhalense's sound financial standing has made possible the investments that led to the creation of a host of new machines and product lines, like the very successful ecoflex concept for the wet milling of coffee and the unique size graders and gravity separators that have become state-of-the-art machines for dry milling. The addition of the new DMP mucilage remover to the ecoflex line last year crowned 25 years of research into the mechanical removal of mucilage, an effort that gave birth to another two earlier machines that were market leaders at their respective times. A new break-through in wet milling is expected next year with the launching of a new machine that will make a decisive contribution to water savings and quality improvement in wet milling. On the dry milling front, upward-flow size graders are being progressively developed and introduced with a view to replacing the best selling Porto graders in coming years.

Last but not least, the excellent performance of Pinhalense over the years has allowed the company to develop and expand a unique project team that has designed over 15,000 wet and dry coffee mills of all sizes for 76 coffee producing and consuming countries. Equipped today with the latest AutoCad software, partly developed in house to suit the specific needs of coffee mill design, Pinhalense's project team has been responsible for great solutions in the way individual machines are combined to ensure an efficient product flow. As Pinhalense coffee projects have proven, the ideal coffee mill is a blend of top quality machinery and a flow designed to suit the client's needs.

Pinhalense was chosen the second best company by "Globo Rural", the most prestigious agriculture magazine in Brazil. Pinhalense moved from third to second place this year in a selected group that includes multinational tractor manufacturer Massey Ferguson (4<sup>th</sup> place) and large makers of machinery for crops other than coffee. No other Brazilian coffee machinery maker has been included in the rank.

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## Brazilian prices

November 30, 2007

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	255,00
Mogiana-SP fair average quality T.6	253,00
South Minas fair average quality T.6	253,00
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	270,00
South Minas	260,00

Conilon/ Robusta (R\$/ 60 kg bag)	
Vitória-ES fair average quality	205,00

BM&F (US\$/ 60 kg)	
Dec 2007	156,00
Mar 2008	161,70
May 2008	164,20

Dolar US\$/ Real R\$	
October 31	1,79