

# CONFIDENTIAL

ISSUES NOS. 1-6 OF COFFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

## CONAB-IBGE CROP ESTIMATE

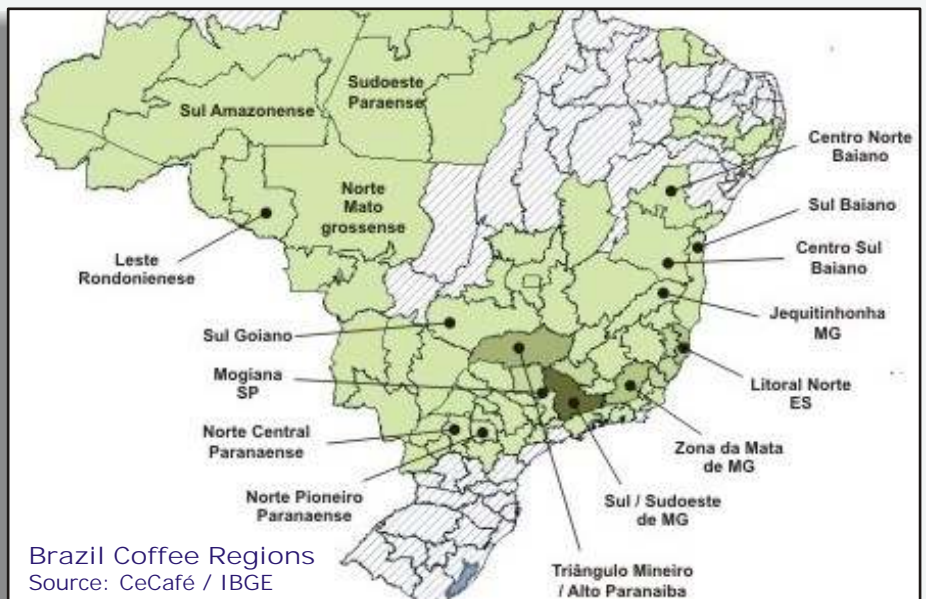
The joint CONAB-IBGE estimate of 41 to 44 million bags, roughly three-fourths Arabica and one-fourth Robusta, was no surprise to participants in the Peabirus Cafés do Brasil Network whose on-line poll had the range 38 to 42 million preferred by 38% of respondents and 42 to 46 million by 24%. CONAB, IBGE, Embrapa experts and network participants seem to agree that the long period of adverse dry climate caused leaf loss, irregular flowering and fertilization / cherry formation problems that will reduce the size of the coming crop in a way that cannot be offset by what happens from now on. (see about droughts in Outlook on page 3)

Sources: Peabirus and Embrapa's Coffee Research Consortium

## CECAFÉ RELEASES BOOKLET WITH IBGE COFFEE STATISTICS

The Brazilian Coffee Exporters' Association (CeCafé) released a booklet with areas under coffee and the respective production compiled according to towns and the "mesoregions" used by the Brazilian Institute for Geography and Statistics (IBGE). Mesoregions are subdivisions of Brazilian states that group together neighboring municipalities that share common features. The data in the booklet sheds interesting light on new producing regions, growth trends and yields. The booklet can be accessed on-line at [www.cecafe.com.br](http://www.cecafe.com.br).

Source: CeCafé



## PULPED NATURAL CAUSES QUALITY REVOLUTION IN MATAS DE MINAS

Formerly called Zona da Mata and known for the production of Rio type coffee, which has a strong phenolic cup, this area of southeast Minas Gerais has repositioned itself as a producer of high quality coffees due to the introduction of the pulped natural (semi-washed) system, called Cereja Descascado, or simply CD, in Portuguese. Whereas before the local climate exposed the beans to fermentation as the whole cherries dried, now the ripe cherries are pulped and dry with some or all of the mucilage attached to the parchment, as prescribed by the pulped natural system. The result is a mild cup with fruit overtones that resembles Ethiopian coffees. The region, which renamed itself Matas de Minas (Forest Highlands), has been a frequent winner and front-runner at both the Cup of Excellence and Illicafé coffee quality competitions in recent years. (See prices on page 3)

Source: Tea & Coffee Trade Journal

## BOOK ABOUT CONILON IN ESPÍRITO SANTO

INCAPER, the Agricultural Research and Extension Agency of the State of Espírito Santo, published a book entitled "Café Conilon". In 25 picture-rich chapters, the 702-page book presents the history of Conilon in the state and describes the technology and techniques currently used, from cloning to cultivation, management and marketing. "Café Conilon" has a comprehensive account of how a leading business was created in the state, with very impressive numbers: average crop of 7.5 million bags, yields above 25 bags/ha (0.7 tons/ acre), 40,000 growers located in 64 of Espírito Santo's 78 municipalities and 220,000 direct jobs in the coffee growing sector alone. The technical chapters demonstrate why it is not preposterous to say that there is a potential to reach commercial-scale yields of more than 200 bags/ha (5 tons/acre) of Conilon in Espírito Santo, as it has indeed already occurred on selected farms of this Brazilian state.

Source: Embrapa's Coffee Research Consortium



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## ☉ SÃO PAULO: COFFEE CAPITAL OF THE WORLD?

A recent study released by São Paulo State's Institute of Agricultural Economics estimates that as many as 25 million cups of coffee are consumed everyday by "paulistanos", the inhabitants of the state's capital city. This probably positions São Paulo as the largest coffee consuming city in the world. The vitality of the city's coffee sector is demonstrated by the expansion of traditional coffee shop chains like Fran's Café, Café do Ponto and Casa do Pão de Queijo and the arrival of foreign chains like Starbucks, Nespresso and Illicafé's Espressamente, which is due to come soon.

Source: Instituto de Economia Agrícola (IEA)



## ☉ BRAZILIAN CONSUMPTION GROWS SHARPLY

### 6% GROWTH IN TOTAL CONSUMPTION

The Brazilian Coffee Roasters' Association (ABIC) expects coffee consumption to exceed 18 million bags this year, up from 17.1 in 2007 and 16.3 in 2006. The growth rate is expected to remain at around 6% per year, which is at least 3 times the average growth of world consumption, in order to reach the target of 21 million bags of coffee consumed by 2010.

### 3.5% GROWTH IN PER CAPITA CONSUMPTION

Per capita consumption grew 3.5% last year and reached 5.5kg of green bean per person per year or 4.4kg of roasted coffee which is equivalent to an average of 75 liters of coffee for each Brazilian. This places Brazil's per capita coffee consumption at the same level as Germany's, Italy's and France's.

### REASONS BEHIND CONSUMPTION GROWTH

A host of promotion programs and activities are helping to shape consumers' preferences and habits and to increase coffee consumption in Brazil faster than in most areas of the world. ABIC attributes this sharp growth to permanent quality improvements, the growth of out-of-home consumption specially in coffee shops but in offices too, the incorporation of world trends such as sustainability and traceability, and a better understanding of the positive aspects of coffee on health. Income growth is also contributing, with the migration of consumers from the D and E to the C segment of the market.

### OBSTACLES TO WATCH FOR

The 2007 annual consumer survey detected the growth of chocolate-based breakfast beverages and juices as alternatives to coffee. On the coffee and health front, it indicated that though the medical community continues to improve its perception of coffee, health related consumer resistance to coffee drinking is still increasing.

### CONCENTRATION CONTINUES IN ROASTING SECTOR

The top 5 roasters in Brazil had a combined market share of 37.84% in 2007 as opposed to 37.02% in 2006. The top 100 companies now control 62.72% of the market up from 61.74% in 2006. ABIC's study covered 1,222 roasting concerns.

Sources: Agencia Estado and Tempo



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## Outlook Carlos H. J. Brando



### DROUGHT DAMAGE TO BRAZILIAN CROPS

With so much discussion going on about droughts in Brazil and their impacts on coffee crops, it is helpful to look at what happened in past years. The table below presents the final crop estimates made by EMBRAPA/CONAB and USDA for the years 1999 to 2002. These estimates are compared to a theoretical crop potential for each year in order to arrive at the respective crop "losses".

The potential crop is obtained by multiplying the area under production in a given year by an average yield per hectare judged to be compatible with the "technology" (spacing / density, cultivation, etc) then used, assuming that the weather was normal, i.e., no frost and no drought. In other words, this potential yield corresponds to the one that occurred in the closest satisfactory climate "on-year" of the Brazilian production cycle.

Pesticide and fertilizer usage was obtained from the respective industries associations. Though these usages should ideally be measured in tons or another weight or volume unit, we have checked that their US dollar values were good indicators of actual usage.

YEAR	million bags			PESTICIDE CONSUMPTION (US\$/bag)	FERTILIZER CONSUMPTION (US\$/ha)
	POTENTIAL	EMBRAPA/ CONAB	USDA		
1999	37	27	31	5,66	49
2000	39	28	34	3,95	46
2001	42	28	34	3,09	40
<b>Total</b>	<b>118</b>	<b>83</b>	<b>99</b>	-	-

<b>Millions of bags</b> →	<b>-35</b>	<b>-19</b>	<b>2002</b>	<b>52</b>	<b>47</b>	<b>52</b>	<b>1.61</b>	<b>22</b>
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■ LACK OF RAIN  
■ NORMAL RAIN

What the table shows is that the potential crop was not obtained in any year from 1999 to 2002 even though the use of fertilizers and pesticides was well above the one for the bumper crop of 2002, that did reach the estimated potential in spite of the reduced use of these inputs. At least a part of the apparent mystery can be explained, subject to further confirmation by agrometeorologists, by insufficient rainfall in the years from 1999 to 2001 and normal rainfall in 2002.

One may therefore speculate that the biggest constraint to meet the potential crop figure was lack of rainfall, i.e., droughts. The potential crop was reached when pesticide and fertilizer usage was at its smallest level but rainfall was satisfactory. The potential failed to be achieved when these inputs were used much more intensely but rainfall was not satisfactory. This conclusion is a provocation that deserves to be verified by experts in the respective areas because it may become another valuable tool in crop modeling.

Irrespectively of speculations, it is frightening that, depending on the crop estimates used, Brazil may have lost from 19 to 35 million bags of production due to droughts in the years 1999 to 2001. This is even more worrisome because these droughts failed to cause large impacts on market prices because they were not strong and/or widespread but either localized or mild, with a strong cumulative effect rather than a strong single year loss.

Oversimplified as the arguments above may be, they are good food-for-thought...

## Brazilian prices

January 31, 2008

### Main Producing Regions / Farm Gate

#### Arabica Naturals (R\$/ 60 kg bag)

Cerrado-MG fair average quality T.6	265,00
Mogiana-SP fair average quality T.6	266,00
South Minas fair average quality T.6	265,00
Matas de Minas T.8 Rio	215,00

#### Arabica Pulped Naturals (R\$/ 60 kg bag)

Cerrado-MG	275,00
South Minas	270,00
Matas de Minas	260,00

#### Conilon/ Robusta (R\$/ 60 kg bag)

Vitória-ES fair average quality	206,00
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#### BM&F (US\$/ 60 kg)

Mar 2008	166,00
May 2008	169,00
Sep 2008	172,35

#### Dolar US\$/ Real R\$

January 31	1,76
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## SRE ROTARY DRIERS

It has long been known that to dry coffee properly, under the sun or in machines, the procedures below must be followed:

- keep coffee temperature below 40°C (parchment) or 45°C (cherry),
- supply heat uniformly to each and every bean (inject and distribute air uniformly / move the beans),
- balance air flow and volume of water (moisture) to remove, and
- allow time for water to move from center to periphery of bean.

Pinhalense's leading coffee drying technology, based on rotary drum driers, has become a standard for the industry because it duly follows each and every requirement above. The SRE line of driers is today used around the world, with a total of over 20,000 machines of all sizes operating in more than 50 countries on the five continents.

Compatible with most types of fuel, from coffee husk itself to timber, charcoal, diesel and gas, the SRE driers can handle parchment, cherry or green coffee, which is dried uniformly and gently. The best selling model is the SRE-150X whose capacity is up to 10 tons of wet parchment coffee per batch.

Some of the best Arabica coffees in the world, ranging from Jamaican Blue Mountain to Kenyan AA, are dried in SRE rotary driers. Guatemala and other Central American countries are major users of this technology that has also entered Colombia now after many years of successful operation in areas as diverse as Hawaii, Ethiopia, India, Indonesia and Peru, to mention only a few.

On the Robusta front, Pinhalense's SRE driers are playing an extended role outside Brazil. From their original use abroad, to correct the final moisture prior to processing or shipment, SRE driers are now being deployed for the full drying of Robusta cherry or parchment, as it has been traditionally done in Brazil.

The gains in cup quality and appearance made possible by Pinhalense driers are too obvious to be ignored, in Arabica or Robusta. All types of coffee beans benefit greatly from the SRE's gentle handling and homogenous drying that are ever improving due to constant research and development.



The SRE rotary driers available today range from a laboratory-size model to the SRE-16X and 33X sizes for small growers, the mid-size SRE-50X and 75X used by both small and mid-size farms, and the large SRE-100X and 150X. Drying facilities ranging from 8 to 20 SRE-150X driers are very common today; mills with 50 to 60 such driers, for Arabica or Robusta, are no longer exceptions.

Pinhalense SRE rotary driers are your better guarantee of a high quality product irrespectively of weather conditions. Even in areas where the weather favors sun drying, the investment to build drying grounds and the labor costs to run them often render mechanical drying in SRE machines an excellent alternative.

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