

# CONFIDENTIAL

ISSUES NOS. 1 TO 8 OF COFFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

## BRAZIL PAYS HOMAGE TO DR. ILLY

Dr. Ernesto Illy was remembered and honored at several coffee events in March, starting with Bahia's 9th Agrocafé that gathered about 1,000 people in Salvador. Carlos Brando spoke briefly about Dr. Illy as did Nelson Carvalhaes, his partner in Brazil, who received a plate from the event organizers honoring this brilliant entrepreneur and great promoter of coffee quality around the world. Dr. Ernesto Illy was also honored during the closing ceremony of Brazil's 17th Quality Award for Espresso Coffee, in São Paulo. The event, created by Dr. Illy and promoted by Illycafé in Brazil since 1991, will now become the Ernesto Illy Foundation's Quality Award for Espresso Coffee. Dr. Illy was also remembered during a recent meeting of the São Paulo Coffee Chamber, when the members advanced several proposals to honor him, ranging from a statue and street names to an honorific title that would be granted by the state of São Paulo.



Source: Agrocafé / Revista Cafeicultura / Câmara Setorial

## FEDERAL GOVERNMENT TO CONTROL QUALITY OF ROASTED COFFEE

Measures are being taken by the Federal Government to establish official quality standards for all roasted coffee beans and roast and ground coffee sold in Brazil. The technical parameters to be addressed cover quality and features such as packaging and presentation of the product. This initiative will help control the quality of all roasted coffee in Brazil.

Sources: Cafépoint / Coffeebreak

## MINAS GERAIS' GOVERNMENT TO DRINK HIGHER QUALITY COFFEE

Minas Gerais, Brazil's largest coffee producing state, has enacted legislation creating minimum quality standards for all roast and ground coffee to be supplied to government offices. Coffees to be purchased will be selected according to the criteria established by ABIC's Coffee Quality Program (PQC), which focus on total quality in the cup.

Source: Jornal do Café

## SUSTAINABLE COFFEES IN VOGUE

The Brazilian Coffee Roasters' Association (ABIC) has chosen sustainability as one of the main themes of its promotional activities in 2008. With the slogan "Sustainable Coffee, Conscious Consumer", the association plans to disseminate to consumers the concepts of economic, social and environmental sustainability in the coffee production chain.

Source: Tempo de Comunicação

## NEW EXCHANGE IS CREATED IN BRAZIL

Bovespa (Brazil's stock exchange) and BM&F (the Brazilian commodity and futures exchange) decided to integrate their activities. This merge consolidates São Paulo as the main financial center in Latin America and the "New Exchange" as one of the largest in the world, third in coffee, after New York and London.

Source: InfoMoney

## PRODUCERS RECEIVE HIGHER SHARE OF EXPORT PRICES

The Price Paid to Producers Index (IPEP in Portuguese), compiled by CeCafé since 2003, shows what percentage of the export price is effectively transferred at farm gate to growers. The IPEP measures the efficiency of a country's coffee marketing chain. While the average FOB price of Arabica coffee exported in February was US\$ 156.61 per bag, the average price paid to producers reached US\$ 147.57 for an IPEP of 94.2%. This was the highest IPEP in two years thus consolidating the Brazilian leadership as the exporting country that transfers the largest share of export prices to its growers.

Source: CeCafé



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## ☉ NESTLÉ APPROVES CONILON CLONES

Incaper (the institute in charge of research and rural extension in the state of Espírito Santo) and Nestlé have a technical cooperation agreement to identify clones and varieties of Conilon coffee, the Brazilian Robusta, that best fit industry's and consumers' needs. The first analyses, carried out by Nestlé in France, show that 22 Conilon clones – part of Incaper's genetic enhancement program – have desirable biochemical and sensorial features that are aligned with international market demands. The study results will be presented to the scientific community at the International Conference on Coffee Science (ASIC 2008) to be held in Campinas, Brazil, in September this year.

Source: Agnocafé

## ☉ MINIMUM PRICES FOR COFFEE

Technicians at CONAB, the Brazilian agency in charge of collecting data on agricultural production, have sent to the Ministry of Agriculture a proposal for minimum prices for several products, including coffee. The proposal, which may go into effect next July, is part of the Federal Government's Minimum Price Guarantee Program (PGPM).

Source: Coffeekbreak

## ☉ FERTILIZERS BECOME MORE EXPENSIVE

Direct costs of production in São Paulo, Minas Gerais and Paraná have increased 3.4% due to a 10.9% rise in fertilizer prices. Fertilizers now account for 27% of the total costs of producing coffee in these Brazilian regions.

Source: Cafépoint

## ☉ WHEN TO EXPECT CONAB CROP ESTIMATES

CONAB's estimates of the Brazilian crop are widely expected by many in the coffee business. The agency has made available on its website a calendar with the release dates of its coffee crop estimates. According to the calendar, the next crop estimate will be released on May 8th.

Source: ConabWeb

## ☉ RECENT RAINS IN BRAZIL SHOULD NOT INCREASE PRODUCTION

An increase in this year's crop should not be expected due to recent abundant rains in the country's coffee areas. According to Brazilian agronomists these late rainfalls will not increase yields because the coffee tree branches that will bear the coming crop were developed during last year's dry period. The recent rains will however avoid further losses, helping to "fill in" the cherries. The 2008 crop remains estimated by CONAB at between 41 and 44 million bags.

Source: Coffeekbreak

## ☉ COFFEE MUSEUM IN SANTOS CELEBRATES 10 YEARS OF ACTIVITIES



The Coffee Museum in Santos, Brazil, celebrated its 10th anniversary on March 12. With impressive architecture and art work, now included in the state of São Paulo's list of protected historical sites and monuments, the museum is housed in the building that was home to the Official Coffee Exchange until 1937. In 1996 the building was totally restored, including the paintings by Benedito Calixto – one of Brazil's most important painters –, the stained glass ceiling and the Italian marble floors. The museum was first opened to the public in 1998 itself.



Source: Portal Espresso

## COSTS OF PRODUCTION AND EFFICIENCY OF THE COFFEE SUPPLY CHAIN

Growers' decisions to plant more coffee, to uproot some of their trees or to remain with the same size plantation depend not only on international coffee prices but specially on the actual farmgate prices that they receive when they sell their coffee.

The growth of international coffee prices has not been transferred in a uniform way to producing countries because their currencies have been moving differently in relation to the US dollar. Whereas the currencies of Brazil, Colombia, India and Uganda have gained value against the US dollar and their growers are receiving only a partial share of the increase in international prices, Vietnamese growers are benefiting from the devaluation of their currency. In other words, the fluctuations of exchange rates can make a country's growers more or less competitive in relation to their peers in other countries.

In addition to the uneven way in which international prices are converted into local currencies, growers in different countries do not receive the same share of the export FOB price due to a series of factors intervening as coffee moves from the farm to the harbor. The list of factors affecting the formation of export prices is wide and diversified – transport, processing, trading, financing, security, profit margins, taxes, bureaucracy, handling at harbor, etc – and their composition and incidence change greatly from country to country.

In the case of Brazil, the Association of Green Coffee Exporters (CeCafé) compiles the IPEP index of prices paid to producers, that shows what percentage of the export price is effectively transferred to coffee growers. The table below presents IPEP values since they were first measured in 2003.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
<b>2003</b>	87,2	90,4	90,2	92,4	91,6	95,6	95,6	93,5	92,1	90,3	91,6	88,8	<b>91,6</b>
<b>2004</b>	91,7	94,0	93,8	93,7	91,9	92,0	90,9	90,6	89,5	91,4	94,6	96,3	<b>92,5</b>
<b>2005</b>	92,8	97,2	97,1	92,6	94,2	92,7	86,5	82,4	80,7	80,6	83,6	88,6	<b>89,1</b>
<b>2006</b>	91,1	89,2	89,9	89,5	86,5	86,1	84,1	81,7	82,2	84,0	86,7	88,7	<b>86,6</b>
<b>2007</b>	90,7	93,6	91,1	89,5	88,3	87,6	90,7	92,2	92,0	91,1	92,4	92,0	<b>90,9</b>
<b>2008</b>	91,4	94,2											<b>92,8</b>

The percentage of the FOB price received by Brazilian growers is the highest in the world, followed by Vietnam, whose growers earn between 80 and 85% of the export price. This explains why coffee growers in Brazil and Vietnam tend to react faster and to respond to price increases quicker than in other countries.

Although the IPEP is not calculated and readily available for other producing countries, existing data allows us to estimate that a good average for the leading producing countries is from 60 to 70%. However, there are countries where, regrettably, the IPEP is 25 to 30% meaning that only one-fourth to one-third of the export price is actually paid to growers.

From a policy point of view there are many things that a country can do to increase the IPEP, for example, to improve the infra-structure (roads, harbors, etc), to lower taxes, and to simplify trading and export regulations and procedures. On the other hand, the private sector can contribute to lower the IPEP by improving logistics and milling facilities.

These are specially good times to improve the efficiency of the coffee supply chain and the IPEP in order to raise the prices paid to growers who are being squeezed from the cost side by higher wages caused by labor scarcity and development pressures, higher fertilizer costs due to oil prices and the demand from agri-commodities, and market requirements to be socially and environmentally responsible.

### Brazilian prices

March 31, 2008

#### Main Producing Regions / Farm Gate

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

Cerrado-MG fair average quality T.6	250,00
Mogiana-SP fair average quality T.6	247,00
South Minas fair average quality T.6	255,00

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

Cerrado-MG	260,00
South Minas	260,00

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

Vitória-ES fair average quality	227,75
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##### BM&F (US\$/ 60 kg)

May 2008	152,20
Jul 2008	155,10
Sep 2008	157,35

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

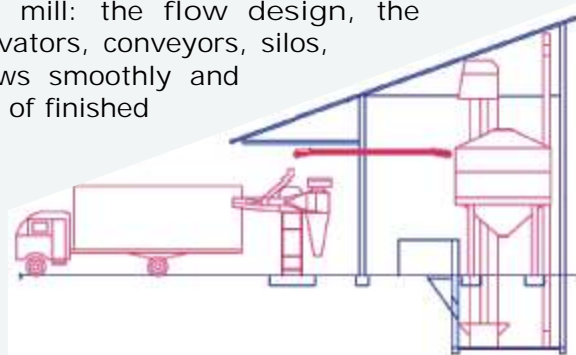
March 31	1,75
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## THE LOGISTICS AND EFFICIENCY OF FLOW AND PROJECT DESIGN

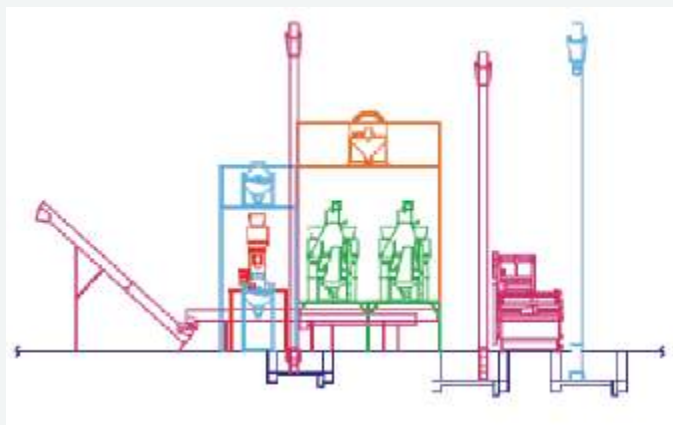
The machine of the month section has in the past presented several pieces of equipment that contribute to make the coffee production and supply chain more efficient, from farm to harbor. However we have not yet addressed the "hidden heroes" behind a successful coffee mill: the flow design, the engineering project itself and the handling equipment (elevators, conveyors, silos, scales, loading equipment, etc). They ensure that coffee flows smoothly and efficiently from the reception of raw materials to the dispatching of finished products.

It is a saying at Pinhalense that 50% of the success of a coffee mill depends on the machines themselves and the other 50% depends on the product flow, i.e., on how the machines are interconnected. It is true that if excellent machines are not properly interconnected they cannot deliver what they are designed to do and this results in a poor mill. Likewise, low performance machines cannot make a well designed flow perform satisfactorily. A balance must exist between the quality of the machines and the efficiency of the flow to ensure the success of the project.



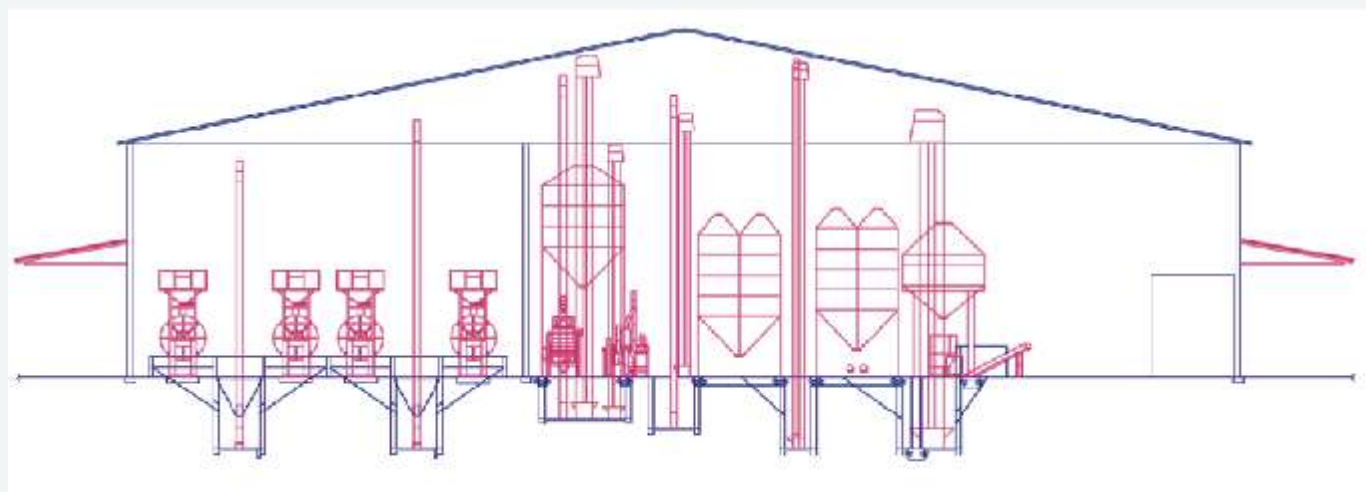
Pinhalense's experience in the design of coffee mills is unique and unparalleled by any other company in the world. At the closing of this issue Pinhalense's design team was working simultaneously on 9 different projects for Brazil and other 5 countries; the latest of these projects will receive number 15,142. In 57 years Pinhalense has designed over 15,000 coffee mills of all sizes for more than 70 countries on the 5 continents. Have you considered

that you can have all this know-how at your service without any cost whenever you buy a Pinhalense coffee mill of any size, from the smallest wet mill to the largest dry milling and export complex?



Efficient flows designed by Pinhalense and its state-of-the-art handling equipment – the "hidden heroes" – avoid problems with elevators that clog or damage coffee (a coffee elevator is very different from a grain elevator!), conveyors that spill coffee, silos that either do not fill or do not empty completely, blending facilities that do not produce a uniform blend, weighing stations that are not accurate, or bad congestion at the finished product area.

The next time you buy a set of Pinhalense machines do not forget to consider the possibility of having a complete project. The next time you buy an individual machine do not forget to consider the "hidden heroes" and to include high performance conveyance equipment or silos that are specially designed for coffee. Pinhalense flow designs, engineering projects and handling equipment help you get the maximum benefit out of the machines you purchase.



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