

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS...

AND MUCH MORE. THIS ISSUE:

- PRODUCTIVITY, EFFICIENCY OF SUPPLY CHAIN, FARM SIZE AND SUSTAINABILITY (PAGE 3)
- THE FUTURE OF DRY MILLING – PART ONE (PAGE 4)



COOP RECEIVES ALMOST 75,000 BAGS AND SHIPS 200 CONTAINERS IN ONE DAY



Cooxupé’s dry coffee mill, supplied by Pinhalense, received a record breaking 74,542 bags of coffee in one single day last month. This volume corresponds to two-thirds of the average yearly production of Panamá and one third of the Philippines’. The dry mill also set a new daily record for both volume processed – 31,154 bags – and shipped: 65,710 bags that are equivalent to about 200 containers of 20’, well above Cooxupé’s average shipment of 120 containers per day.

Sources: Folha Rural and P&A

80 MILLION BAGS OF BRAZILIAN COFFEE EXPORTED

Unicafé, a coffee exporter based in Espírito Santo state, was the Foreign Trade winner of the Best in Agribusiness 2015. The 46 year-old company has exported over US\$10 billion worth of coffee over its history and expects to sell another US\$ 320 million this year. Since its foundation in 1968, when it was called Coser Café, the company has exported more than 80 million bags of coffee which is equivalent to 55% of today’s world coffee production. No other coffee company has ever reached such a number in the 280 years of coffee business in Brazil.

Source: Globo Rural

DROUGHT-RESISTANT COFFEE VARIETY PRESENTED AT RESEARCH CONFERENCE

As a result of a 40-year-study by Procafé Foundation in Varginha, Minas Gerais, a new variety of Arabica called Siriema was presented in the 41st Brazilian Coffee Research Congress held in Poços Caldas, Minas Gerais, last month. Besides the key advantage of high resistance to droughts, the new variety is also resistant to coffee leaf rust and leaf miner. The main challenge now is to make the new variety accessible to growers quickly.

Source: G1

RECORD BUDGET APPROVED FOR COFFEE FUND

The Brazilian Coffee Policy Council (CDPC) approved a record Brazilian Coffee Fund (Funcafé) budget of R\$ 4.6 billion (US\$ 1.2 billion) for the 2016 coffee season, a 12% increase compared to 2015. A total of R\$ 1.7 billion (US\$ 425 million) will be allocated to stocks and R\$ 1 billion (US\$ 250 million) for financing of coffee acquisition, respectively 16.3% and 33.3% higher than the previous budget. The other lines will receive the same resources as last year, as shown in the table on the right-hand side. The higher budget is crucial to support Brazilian coffee growers after two consecutive small crops caused by droughts.

Sources: CNC and Café Point

Funcafé Distribution (R\$ million) – 2016 season			
Financing Lines	2015 (a)	2016 (b)	% (b/a)
Coffee cultivation	R\$ 950	R\$ 950	-
Coffee stocks	R\$ 1.506	R\$ 1.752	16,3
Financing for Coffee Acquisition (FAC)	R\$ 750	R\$ 1.000	33,3
Private Operations and Futures Market Options	R\$ 10	R\$ 10	-
Working Capital for Soluble Industry	R\$ 200	R\$ 200	-
Working Capital for Roasters	R\$ 300	R\$ 300	-
Working Capital for Cooperatives	R\$ 400	R\$ 400	-
Recovery of Damaged Coffee Plantations	R\$ 20	R\$ 20	-
Total	R\$ 4.136	R\$ 4.632	12

BERRY BORER CONTROL TO BE DISCUSSED AT PUBLIC AUDIENCE

The Brazilian Congress' Commission for Agriculture, Livestock, Food Supply and Rural Development (CAPADR) will hold a public audience to debate efficient means to control berry borer in December 2015. Berry borer is a current concern in all Brazilian coffee producing areas. Growers are having difficulties to control the plague due to the availability of one single product in the market since Endosulfan was banned in 2013.

Source: Agência Estado via Café da Terra

COLLECTIVE TECHNICAL ASSISTANCE TO PAVE THE WAY FOR MORE SUSTAINABLE COFFEE

A workshop about Methodologies of Collective Technical Assistance directed at rural extension services, cooperatives and associations was held at the Agricultural Research and Extension Services Institute of Espírito Santo (Incaper) as part of the Sustainable Coffee Program (SCP). Several models of collective technical assistance being used in Brazil were presented such as the ones coordinated by the Paraná Agronomy Institute (Iapar) and the Neumann Foundation, in Minas Gerais. The objective is to identify ways to increase the number of growers reached in the main coffee regions, specially small growers, with the same resources and quality of services. Eighty percent of the existing 287,000 Brazilian coffee growers are considered small. The SCP is coordinated by P&A Marketing in Brazil.

Sources: Rural Centro - Campo Grande and Incaper

THIRD COFFEE CONFERENCE AND TRADE FAIR HELD IN PINHAL

Relevant presentations, mini-courses, coffee trade roundtables and debates on trends in the coffee sector and rural entrepreneurship, as well as over 30 exhibitors booths – Pinhalense's included – were part of the 3rd São Paulo Coffee Business Trade Fair held in Espírito Santo do Pinhal, state of São Paulo. The event, which counted with P&A's Carlos Brando's and João Alberto's participation and presentation, brought together state and municipal authorities, entrepreneurs, researchers and, of course, coffee growers.

Source: Jornal O Pinhalense



COFFEE CAPSULES INVADE BRAZILIAN MARKET

The Brazilian market is being flooded with coffee capsules. Only 8 companies offered coffee in capsules in Brazil one year ago to be compared with more than 70 brands in the market today according to ABIC, the Brazilian Coffee Roasters Association. Most of the capsules being launched are compatible with the Nespresso system and two companies are responsible for their production: Lucca, located in Curitiba, in the southern part of Brazil, and the Portuguese Kaffa, whose factory in Ribeirão Preto recently expanded from 300 m² to 1,200 m² and can produce up to 300 capsules per minute. The competition keeps increasing for Nespresso that arrived in Brazil in 2006. Both Nescafé's Dolce Gusto, launched in 2009, and Brazilian leading brand Três Corações' Tres, launched in 2013, have exclusive systems. The e-commerce company Wine has recently joined forces with Tristão export and soluble coffee group to launch a new capsule technology that will use only Brazilian coffees and will hit the market in early 2016. So far, the majority of capsules produced in Brazil, made of plastic and sealed with aluminum, have a small perforation on top which allows air in and exposes coffee to oxidation if not consumed immediately after the package is opened.

Source: O Estado de São Paulo - Paladar section

OBITUARY: COFFEE AND HEALTH PIONEER DARCY LIMA



A pioneer in the studies that associated coffee consumption with health benefits, the medical doctor, researcher and university professor Darcy Roberto Lima passed away on July 24th leaving behind an invaluable legacy to the coffee business and to the medical and scientific community. Dr. Lima researched the effects of coffee on human health for over 20 years having conducted important projects including the "Coffee and Memory" study that surveyed 10,000 people to arrive at results that showed that coffee consumption is highly beneficial to the human brain and that it can help prevent a series of diseases. He is the author of more than 20 books, including his final work called "101 Reasons to Drink Coffee," published in 2010. Darcy is survived by his wife Dada Novais and three children.

PRODUCTIVITY, EFFICIENCY OF SUPPLY CHAIN, FARM SIZE AND SUSTAINABILITY

We have been using tables like the one below but without the last three columns in presentations around the world for a couple of years now to support our statement that the competitiveness of the Brazilian coffee business derives from its high productivity that offsets higher prices commanded by other origins. High productivity also helps to bring down production costs that are in addition reduced by efficient harvesting practices – manual and mechanical – that compensate for the comparatively high Brazilian rural wages that are in the top of the list of coffee producing countries.

ORIGIN	PRICE (US\$/lb)	COST (US\$/lb)	YIELD (bags/ha)	GROSS PROFIT (US\$/ha/year)	FARM GATE/FOB (%)	AVERAGE COFFEE HOLDING (ha)	PROFIT PER GROWER PPP ADJUSTED (US\$/MONTH)
BRASIL CD	1,30+0,15	0,7	25	2.480	85	7,5	1.882
BRASIL Fine Cup	1,30-0,06	0,7	23	1.643	85	7,5	1.247
BRASIL Good Cup	1,30-0,10	0,7	23	1.521	85	7,5	1.154
AFRICA 1	1,30+0,75	1,0	5	694	70	0,5	41
LATIN AMERICA 1	1,30+0,08	0,9	14	889	90	1,5	167
LATIN AMERICA 2	1,30+0,45	1,4	17	787	80	3,5	367
LATIN AMERICA 3	1,30+0,02	1,1	14	407	75	2,5	127

We have now added the three last columns that show, respectively:

- the efficiency of the coffee supply chain (Farm Gate / FOB), measured by the proportion of the export price (FOB) that reaches the farmer (farm gate price),
- the average area under coffee (Average Coffee Holding), and
- the profit per average grower adjusted according to Purchasing Power Parity, i.e., the dollar value required to buy the same basket of goods in each country.

The efficiency of the coffee supply chain is affected by a multitude of factors beyond farm gate that range from the structure and efficiency of coffee processing and trading to shipping costs in harbors and includes financing, logistics, taxes and fees, contributions to coffee funds and institutions, etc. The quickest and most objective measure of this efficiency is how much of the coffee export price actually reaches the grower, as indicated by the percentages in the table above.

The average size of the coffee holding allows the profit per hectare to be transformed in profit per average grower in the country, i.e., average grower income per year and month.

The actual income per month shown in the last column of the table above cannot be obtained by simple arithmetical calculation using the three columns before the last one because it has been adjusted to reflect the cost of living in each country. For example, the corrections made show that the cost of living in African country 1 is lower than in Latin American country 1 that is in turn lower than in Brazil.

We chose to omit the names of the countries because some of the information was gathered from sources that do not want to be identified, other data had to be estimated and the identification of the actual countries is irrelevant for the arrival at the conclusions presented in this article. But they are real, existing coffee producing countries.

The numbers in the table above constitute a clear road map to guide programs that intend to improve the economic sustainability of coffee growers: focus on productivity and efficiency of the coffee supply chain. It is evident that the latter is associated with factors beyond farm gate but it is not as obvious that the former – productivity – is also affected by these factors to the extent that growers depend on efficient markets for inputs, availability of financing, and competent extension services to mention only a few important ones. The table also demystifies the idea that by simply aggregating value to coffee – higher prices – one can make up for inefficiencies. A Brazilian grower producing the lowest export quality and penalized with a negative price differential is much more profitable than an African or Latin American grower who benefits from a large price differential.

The size of the average farm has a very critical impact on grower income and must be considered in policy design and sustainability programs. Considering that historically, in the long run, the tendency for the price of all commodities is to fall due to better production technology, and coffee is no exception, specific strategies will have to be developed to ensure the survival of small growers whose children have greater aspirations than their parents and live in a more sophisticated and costly world. Except for the periodic supply crunch and the consequent price rise, the future seems bleak in the absence of policies and strategies that bring small growers together to change the cold reality of the numbers above. Regretfully, too small does not seem beautiful!

Last but not least, the numbers in the table above explain clearly why Brazil has been consistently gaining share in the global coffee market and is likely to continue doing so lest the most radical climate change predictions become reality.

THE FUTURE OF DRY MILLING – PART ONE

In the last five years, Pinhalense has designed and supplied some of the largest Arabica and Robusta dry mills in the world for clients in Asia, Africa, Latin America and Brazil. At the other end of the spectrum, Pinhalense designed and supplied many small dry mills to process specialty coffee, micro-lots and coffees with a cause: sustainable, fair trade and organic. This wide range of solutions has witnessed coffee traditionally held in hessian / jute bags to be now packed in small vacuum bags, big-bags of up to 2 tons and in bulk in silos and containers, besides the conventional 60 kg bags. Processing lines on raised metallic platforms, electronic big-bag and flow scales, hi-tech systems to recover rejects, and sophisticated husk and dust aspiration and disposal systems have become either optional or standard parts of dry mills, large and small.

One may argue that a new dry milling world is being created – as indeed it is – but that machines have remained the same. This is not correct. Even though the bulk of change is in layout / design, handling / logistics, accountability / weight control, and better environment / work conditions, machines have diversified and evolved to adapt to these new requirements. The list and descriptions below summarize the machine options that Pinhalense offers today and the development they have undergone – *emphasized in italic* in the text – to create state-of-the-art dry milling facilities.

- **Precleaners:** three lines of machines with different features and degrees of sophistication – BJ, PL and PRELI – to suit different capacities and types of incoming products, some including *size sorting capability*.
- **Destoners:** two lines of machines – CPF and CPFBNR – to suit different products: dry cherries, parchment and green coffee. New features include *electronic control of vibration, dust suction hoods and several options of magnets* that are also compatible with the precleaners above.
- **Combined hulling units:** different versions – CON, CON-DCP, C2DPRV and CDVR – with cold hullers, *parchment hullers*, and *hullers-polishers*, most with *electronic speed control*, some with *size graders, catadors, or micro-lots specific features* and all with repassing facilities.
- **Hullers-polishers:** three different technologies – DBD, DEPOL and DEPOS – for different capacities and degrees of polishing, all with *state-of-the-art husk separation and aspiration systems* to ensure a processing environment free of parchment pieces.
- **Size graders:** two lines of equipment to separate coffee lots in up to 10 sizes in one single machine – the traditional Porto downward-flow graders and the *new PFA upward-flow machines* – that offer different capacities, precision of separation and layout possibilities.
- **Gravity separators:** four sizes of the state-of-the-art MVF gravity separators now equipped with *electronic speed control and a new dust suction system* besides the six-level adjustment settings, *low-noise fans*, sturdy indented metallic screen deck and several repassing possibilities.
- **Blending units:** three different solutions – round silos with high capacity elevator(s), *rotary valves, and variable speed conveyors* – for different lot sizes, number of incoming products and market requirements.
- **Scales:** mechanical scales for jute bags, three types of *electronic big-bag scales* for different applications and space saving *compact flow scales*.
- **Container loaders:** high-speed bulk container loaders CPC with *multiple installation options* and equipment to load containers with bags.

The list and descriptions above show that even though some of the type and functions of machines remained the same, their features and capabilities evolved. In addition, new accessories – dust suction hoods, electronic speed variators, etc. – were added and new machines introduced, e.g.: electronic scales. The wide array of machines and solutions available and the growing complexity of the market – micro-lots, capsules, differentiated coffees, ready-to-roast blends, etc. – have rendered dry mill design a highly complex activity that is mastered by only a few and at which Pinhalense excels. Not only Pinhalense engineers and designers understand in detail the equipment options but also know how to put them together to create highly efficient and versatile processing lines.

Do rely on the expertise of Pinhalense’s highly capable design team for your new coffee mill. This unique group of professionals has been responsible for the design of over 20,000 coffee milling projects including some of the most successful dry mills in the world today, from the largest ones to small micro-lot processing units.

Brazilian Prices

Main Producing Regions / Farm Gate

October 30, 2015

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	495,00 ↓	Colatina-ES fair average price	365,00 ↑
Mogiana	490,00 ↓		
South Minas	490,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	555,00 =	Dec 2015	146,75 ↓
South Minas	550,00 =	Mar 2016	151,00 ↑
		Sep 2016	147,65 ↑
		Real R\$ / Dolar US\$	
		Oct 30, 2015	3,86 ↓

Source: www.qualificafex.com.br