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COFFIDENTIAL

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

BRAZILIAN COFFEE CROP TO DROP IN 2017

Released by Conab in January, the first estimate of the 2017 coffee crop is between 43.5 and 47.5 million bags. Arabica production should be between 35 and 38 million bags, smaller than in 2016 due to the low year in the biennial cycle. Conilon production should grow somewhat and reach 8.5 to 9.6 million bags due to higher productivity in Bahia and Rondonia states.

Source: Notícias Agrícolas

IMBROGLIO ABOUT CONILON STOCKS POSTPONES DECISION ON COFFEE IMPORTS

The Minister of Agriculture decided to suspend the debate about green coffee imports after a contradictory survey of Conilon/Robusta stocks presented by Conab. The institute estimated that there are only 2.1 million bags of Conilon in private stocks in Brazil while leaders of the coffee business in Espírito Santo claim that the state holds approximately 4 million bags of Conilon in stocks. These same sources claim that Conab uses a methodology to evaluate stocks that is incomplete and includes only a few warehouses. The decision about coffee imports has now been postponed again as it moved up from the Ministry of Agriculture's Executive Secretary to the Minister himself and now reached President Temer who may over-ride the tendency in Brasília to authorize imports.

Source: CaféPoint

BRAZIL LOSES MARKET SHARE IN GLOBAL EXPORTS

Brazil total coffee exports fell to 34 million bags in 2016 causing the country's share of the world supply to drop to 29%, the lowest since 2012, due to the shortage of Arabicas and the drop in Conilon/Robusta production in Espírito Santo state. The country has lost participation to Robusta producing countries such as Vietnam and Indonesia but has kept its share in the case of Arabicas. Brazilian coffee export revenues decreased 12.3% to US$ 5.4 billion in 2016, the lowest figure since 2013.

Source: Valor Econômico

PINHALENSE TRAINS ITS TECHNICAL TEAM IN AFRICA, ASIA AND AMERICA: BRINGING SERVICE CLOSER TO CLIENTS

In order to provide faster and better service to its large number of clients and mills of all sizes around the world, Pinhalense has offered intensive training to the technical personnel working for its agents in the main coffee producing countries outside Brazil. Pinhalense agents, who are required to have their own technical team to perform assembly and maintenance services, are expected to be *both* the commercial *and* technical arm of Pinhalense and P&A to ensure smooth running of Pinhalense equipment at all times no matter how remote its location is. More information about the training is found in the Machine of the Month section.

Source: P&A

LEADING SOLUBLE EXPORTER AVOIDS NEW CONTRACTS

Cacique, Brazil's largest soluble coffee exporter, is refraining from closing new export contracts with short-term delivery due to uncertainties over Conilon/Robusta supply. Although green coffee shipments are not a concern due to last year's good Arabica crop, the soluble coffee industry is suffering with a sharp decrease of Conilon output after two years of drought in Espírito Santo, the largest Robusta producing state. Soluble coffee makers are trying to convince the government of the need to import green Robusta in order to avoid the loss of market share abroad but the Ministry of Agriculture is still evaluating the issue.

Source: Reuters

COFFEE PRODUCTION GROWS IN AMAZONAS AND APPEARS IN STATISTICS

Robusta coffee production is growing in Amazonas state, Northern Brazil, due to better technologies and crop innovation and should reach 6,700 bags in 2017. This volume, higher than last crop's, was included for the first time in Brazilian statistics although it is comparable to the production of many farms in the Paraná - São Paulo - Minas Gerais - Espírito Santo "coffee belt". The neighboring state of Pará, also in the Amazon basin, expects to produce 11,300 bags in 2017.

Sources: Notícias de Mato Grosso and P&A

IPANEMA EXPECTS TO DOUBLE PRODUCTION IN 10 YEARS

Ipanema Coffees has ambitious plans to double its coffee production in 5 to 10 years through the incorporation of new producing areas or via partnerships and joint ventures. Partially owned by foreign coffee companies Tchibo and Mitsubishi, Ipanema will invest R$ 60 million (US$ 19.2 million) in renovation of coffee plantations and irrigation systems in Capoeirinha Estate, in Alfenas, and R$ 30 million (US$ 9.6 mi) in coffee processing infrastructure at Rio Verde Estate. Ipanema's three farms are located in Minas Gerais and total 3,500 hectares. It harvested 88,000 coffee bags and bought additional 25,000 bags from growers/partners in 2016 and expects to produce 135,000 bags in 2017. The total investment to double Ipanema's production should reach R$ 300 million (US$ 96 million).

Source: Valor Online

BRAZIL INDICATES JOSÉ SETTE TO LEAD ICO

After the unexpected death of executive director Robério de Oliveira Silva last December, Brazil has formalized José Dauster Sette's candidacy for the position he already occupied *ad interim* in the past. Sette, who currently manages the International Cotton Advisory Committee (ICAC), has been unanimously supported by entities that represent Brazilian growers, exporters and industry. A Yale graduate, Sette has extensive experience in the coffee sector, from trading to industry associations and think-thanks. Sette's indication is aligned with Brasília's strategy of "maximizing the chances" of a Brazilian leading the Organization given Brazil's position as the world's largest coffee grower and exporter as well as the second largest coffee consumer.

Source: Valor Econômico

JDE'S ACQUISITIONS MAY INCREASE CONCENTRATION IN BRAZIL'S R&G MARKET

The world's leading coffee company Jacobs Douwe Egberts (JDE) has announced its intention to acquire Café Pelé and other roast-and-ground brands of Cia. Cacique, one of the largest Brazilian soluble exporting companies. JDE already controls market leader brands sold in Brazil such as Pilão, Café do Ponto, Caboclo and Seleto. The transaction, that still depends on final approval by the regulatory authorities, will allow Cacique to focus its energy on its main business, soluble coffee. If approved, this transaction will leave only one Brazilian owned brand in the top six of a market worth R$ 8 billion (US$ 2.6 billion) at retail level.

Sources: CaféPoint and Museu do Café

Brazilian Prices

Main Producing Regions / Farm Gate — **January 31, 2017**

Arabica Naturals (R$/ 60 kg bag)		
Cerrado MG	515,00	↑
Mogiana	510,00	↑
South Minas	510,00	↑
Arabica Pulped Naturals (R$/ 60 kg bag)		
Cerrado MG	545,00	=
South Minas	540,00	=

+ 6.9%

Conilon / Robusta (R$/ 60 kg bag)		
Colatina-ES fair average price	460,00	↓

BM&F (US$/60kg Arabica bag)		
Mar 2017	179,85	↑
Sep 2017	188,35	↑
Dec 2017	193,25	↑

Real R$ / Dolar US$		
Jan 31, 2017	3,13	↓

Source: www.qualicafex.com.br

REPLICATING SUCCESS STORIES IN THE COFFEE BUSINESS: METHODOLOGY, ENABLING ENVIRONMENT AND TECHNOLOGY TRANSFER

When P&A was commissioned by the International Coffee Organization (ICO) to prepare the "Step-by-step guide to promote coffee consumption in producing countries" the initial idea was to create a manual to replicate what Brazil had done – a unique success story – in other producing countries. As the work started and P&A reviewed the Brazilian case in detail it became apparent that what had been done in Brazil was not necessarily applicable in other countries. This perception was confirmed when next P&A investigated attempts to promote coffee consumption in a few other producing countries.

With all this information in hand, P&A concluded that the way other producing countries could profit from the example of Brazil was not to replicate what had been done there but instead to use the methodology used in Brazil to help other countries to create their own strategy compatible with their own social, economic and coffee drinking environments and to use both concepts and tools inspired by the Brazilian experience and fresh original ones to increase consumption. The Guide recommends a methodology to develop programs to promote coffee consumption mostly derived from the Brazilian case but not necessarily with the same strategy and tools. The Guide spells out the steps to create the right enabling environment, to define strategies and to choose tools that are adapted to local conditions.

Bearing this example in mind and looking at other success stories, for example, the marked increase in productivity in Brazil whose average production has been growing while the area planted with coffee has remained the same or even fallen, shall one think of transferring the technology used – varieties, spacing, nutrition, husbandry, etc. – or investigating what led to these choices? This remits to the title of this article: "Methodology, Enabling Environment, and Technology Transfer", to the Outlook article "South-South Collaboration and the Plight of the Small Grower" in the September 2016 Coffidential, and to my keynote speech at AFCA's coming conference in Addis Ababa, "Reshaping African Coffee Industry for Productivity Improvement and Investment". The correct approach is to analyze all factors together first. Even in the likelihood that Brazilian high-productivity technology can be applied to a given country where productivity is low, it may be the case that the technology already available in this country does not raise productivity beyond low prevailing average values because it cannot be implemented widely for lack of diffusion and training, growers' inability to purchase inputs and equipment to make proper use of the technology or, even more basic, growers' lack of business acumen or incentives to make choices.

All this points to the importance of the proper enabling environment to make things happen and the methodology to define the scope of this environment, to make it understand the challenges, and to deliver what is expected by means of legislation, financing, programs, activities, etc. Such environment often involves government but is not limited to it; it may involve civil society (e.g.: NGO's), international agencies (e.g.: development banks) and the private sector itself, on its own or in public private partnerships (PPP). The bottom-line is that the usual cry to transfer success stories in the coffee business and perhaps to make them universal – e.g.: expansion of consumption, productivity increase or quality improvement – requires a lot more than to replicate a solution that worked in one country in others. The real story is that the actual change may derive from a different process in each country because cultures, government organizations, business practices, etc. are different. The emphasis should be on investigating the reasons behind the success story and identifying the methodology used and/or the environment existing or created to bring about the change. This is what should be transferred elsewhere rather than the actual interventions carried out in the successful country.

The success stories of the ICO Guide that was used to create programs to promote coffee consumption in India, Costa Rica, Mexico and Colombia and the introduction in Brazil of coffee processing technology that worked abroad but had to be adapted to Brazilian conditions demonstrate that the sequence to bring about change is (1) identify the success story, (2) define the methodology behind it, (3) bring together the enabling environment required, (4) create the strategy, programs and activities and (5) implement them to achieve the objectives.

IMPROVING TECHNICAL SERVICE ABROAD

As part of our continuous effort to improve after-sales services around the world, we brought to Brazil nineteen engineers and technicians working with our machinery in twenty-five countries of Africa, Asia and Latin America for one full week of intensive training on the installation, troubleshooting and maintenance of Pinhalense equipment.

The training program covered wet milling, drying and dry milling machinery and transport equipment. The machine-by-machine training was delivered simultaneously in English and Spanish to two groups of trainees formed according to their language preference. The seventeen machines that were reviewed in detail were assembled in a large high-roofed hall next to the basketball court in the Pinhalense Employees Club in order to create a proper training environment away from the hectic factory floors of the three Pinhalense manufacturing units.

The program conducted by two senior Pinhalense experts with worldwide experience was structured around the machines during the work day and followed by late afternoon question-and-answer and discussion sessions with the trainers themselves and the P&A traders so that layouts, flows and general needs could also be addressed. The connection between technical and commercial issues took place at dinner-time when trainees were divided in smaller groups around the P&A trader in charge of their area.

The training on each machine was supported by materials in English and Spanish that included a series of photographs depicting the step-by-step assembly, the machine manual itself – assembly, operation and maintenance with full technical drawings and specification – and the catalog. Great emphasis was placed on the most frequent maintenance needs and on how to help clients operate the machines properly in order to get the most out of them.

The training program also included visits to the three Pinhalense factories and the project division where both machinery layouts for clients and manufacturing drawings for internal use are made with the help of CAD and 3D systems. The visit to the main factory focused on the new state-of-the-art automated machines that use digital interfaces and robotics for punching screens, laser cutting and other operations. In Factory II the trainees saw the ecological painting facilities, inventories – from spare parts to finished machines ready for shipment – and, most importantly, containers being loaded. Simulations were made of container unloading, specially in the case of large items like the drier drum. Finally, in Factory III, where elevators, conveyors and silos are made, the trainees visited the area dedicated to the production of harvesting machines and saw the self-propelled harvester P1000 launched two years ago and its tractor driven version P1000 TR.

The program, that started on Monday morning with presentations about Pinhalense and P&A, closed on Friday with a visit to Santana Farm – wet milling, drying, storage, hulling and grading – and final discussions at P&A followed by a happy hour. A farewell barbecue attended by all involved in the training took place at the Employees Club on Saturday.

The trainees evaluated the program at an average of 4.5 out of 5 points using a 25-question survey. The trainers, in turn, felt that much was accomplished and that the trainers returned home well prepared to upgrade the services that they provide to Pinhalense clients in their respective regions. We count on this team of capable engineers and technicians to upgrade the speed and quality of our service in Africa, Asia and Latin America.