

# CONFIDENTIAL

**10th Anniversary Issue!**

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

**THIS ISSUE:**

- FEASIBILITY OF COFFEE PRODUCTION REQUIRES SUSTAINABILITY AS ASSET AND NOT LIABILITY (PAGE 3)
- MACHINES OF THE DECADE (PAGE 4)

## **GCP MEETING SHOWS CONSOLIDATION OF SUSTAINABILITY IN BRAZIL**

The National Advisory Board (NAB) of the Brazil Program of the Global Coffee Platform (GCP) met in São Paulo during CeCafé's Coffee Dinner & Summit last June. The board members were represented by their top executives at a meeting also attended by Annette Pensel, the executive director of GCP, and special guest José Dauster Sette, the new executive director of the International Coffee Organization (ICO). The subjects discussed included a summary of the activities carried out in Brazil, for example over 1,500 trainers trained in the Coffee Sustainability Curriculum (CSC) and 2,200 growers trained by the Digital Coffee Farmer Program in partnership with CeCafé. Current activities have a special focus on sustainability indicators initially defined by the GCP's Brazil Working Group (BWG) last February and that are now being finalized. After that, GCP partners and members will take those indicators to the field through an app created by the program to measure them. Ideas for GCP's Brazil Program in 2018 were also discussed. The meeting was successfully evaluated by participants who were satisfied and enthusiastic about the results of the work that demonstrates Brazil's leadership within GCP and in the field of sustainability.



Source: ADS

## **BRAZIL ADVANCING TOWARDS SUSTAINABILITY**

According to Annette Pensel, GCP's executive director, Brazil's coffee industry is advanced in sustainability when compared to other countries but there is still work to be done to further improve. GCP has been operating in Brazil on several fronts since 2012 and aims to help coffee growers to become sustainable, specially small ones, in order to increase volumes of sustainable coffee and to generate higher grower incomes. Coffee growers must be the main beneficiaries of sustainable production because if they do not have enough income they will not be able produce in a socially responsible and eco-friendly way.

Source: CaféPoint

## **FUNCAFÉ'S EXPANSION PROPOSED TO RENOVATE COFFEE AREAS**

A Working Group was created by the Ministry of Agriculture, Livestock and Food Supply (MAPA) to study possibilities and ways to increase the size of the Brazilian Coffee Fund (Funcafé). Led by representatives of the private sector who are members of the Brazilian Coffee Policy Council (CDPC), the group's objectives include financing the renewal of the national coffee park. In 2017 Funcafé will allocate R\$ 4.9 billion (US\$ 1.5 bi) to finance farming, stocking, coffee purchases, recovery of damaged coffee plantations and working capital for cooperatives and the coffee industry.

Source: CaféPoint

## **FIRST COFFEE SHOP RUN BY DOWN-SYNDROME EMPLOYEES OPENED IN BRAZIL**



"Chefs Especiais Café" has opened its first São Paulo coffee shop that stimulates inclusion and diversity, as part of a project coordinated by the Special Chefs Institute. The very innovative shop, with a hardcore style and look, and run only by people who suffer from Down Syndrome is a unique initiative in Brazil. All items in the menu offered in the coffee shop are produced by Institute students who prepare the food in their own homes under the Institute's supervision and quality control. The items served in the coffee shop will be soon produced at the Institute itself with the help of a chef who will teach the students.

Source: CaféPoint

## GEOGRAPHICAL INDICATION TO BOOST SALES OF SPECIALTY COFFEES

Specialty coffees are gaining more space in the Brazilian market but the domestic demand for this product is still relatively small when compared to foreign markets. Specialty coffees represent 15% of the 30 million bags exported by Brazil. The Brazilian Coffee Roasters' Association (ABIC) estimates that 4% of the coffee consumed in the country today – 800,000 bags per year – is gourmet but this figure may rise to 10% over the next 15 years. Geographical Indication (GI) may be a way to attract consumers to specialty coffees via association with producing regions, i.e., origins or “terroirs”. Aware of this, several Brazilian coffee growing regions are applying for their GIs to add to the single Denomination of Origin – Cerrado Mineiro – and the several Indications of Provenance, Região de Pinhal being the most recent one.

Sources: Globo Rural and P&A



## UTAM GROUP AIMS TO DOUBLE ITS SHARE OF SPECIALTY COFFEE MARKET

Utam Group prioritized specialty coffees in 2017 due to tight margins, strong competition and increasing market concentration in the “mainstream” roast and ground coffee sector and expects to double its 10% market share in this segment. The volume of specialty coffee sales in the first five months of 2016 has already surpassed the total for 2016. Utam’s growth in the mainstream market may be 5% this year. Another priority for the company is the single-serve (capsules) segment. Four single-origin capsules will be available soon in the new line “Cafés do Mundo” (World Coffees): Colombia, Guatemala, East Timor and Brazil.

Source: Globo Rural

## JDE TO EXPAND BRAZILIAN OPERATION

Roaster Jacobs Douwe Egberts (JDE) expects a double-digit growth in Brazilian sales in 2017 and 2018. The company may make new acquisitions in the second largest coffee consuming country in the world and bets on higher quality products to increase sales and market share. JDE holds approximately 20% of the local coffee market only behind the leader Três Corações that holds 24% and is a 50-50 joint venture between the Israeli holding company Strauss Group and the Brazilian family-owned company São Miguel. Brazil accounts for 20% of JDE’s global sales volume but for only 10% of total revenues.

Source: Reuters

## IAC CELEBRATES 130 YEARS

The Campinas Agronomy Institute (IAC) has just completed 130 years of activities. A cycle of events was held at the headquarters of the Institute to commemorate the date. In addition to the coffee center, the Institute has another 13 research centers, eight in Campinas and five in other municipalities in the state of São Paulo. Today IAC works to improve coffee plants considering not only resistance to pests and diseases and productivity increases but also quality, environmental sustainability and economic viability. The Institute was also honored during CeCafé’s 7th Coffee Dinner & Summit in São Paulo when the president of CeCafé emphasized the importance of integrating research to industry, marketing and logistics to reach the consumer. IAC’s director acknowledged the award that represents recognition of the Institute’s work and dedication to research in order to develop good technologies, processes and products.

Source: São Paulo’s Secretariat of Agriculture

## PINHALENSE DEMONSTRATES NEW MACHINES IN FIELD DAYS

In partnership with Cooxupé, the largest coop in Brazil, Pinhalense held a field day in South Minas Gerais. Others will follow. The attendees had the opportunity to witness the operation of two new recently launched machines: the Terrena coffee collector and the ECO SUPER pulper. With more advanced technology compared to other similar equipment, the Terrena gathers coffee from the ground and adapts easily to different slopes. The zero water consumption ECO SUPER with unripe cherry separator was recently chosen as best new product of the year by the Specialty Coffee Association (SCA).

Source: ADS

## Brazilian Prices

Main Producing Regions / Farm Gate

June 30, 2017

Arabica Naturals (R\$/60 kg bag)		Conilon / Robusta (R\$/60 kg bag)	
Cerrado MG	455,00 ↓	Colatina-ES fair average price	415,00 ↓
Mogiana	450,00 ↓		
South Minas	450,00 ↓		
Arabica Pulped Naturals (R\$/60 kg bag)			
Cerrado MG	485,00 =		
South Minas	480,00 =		

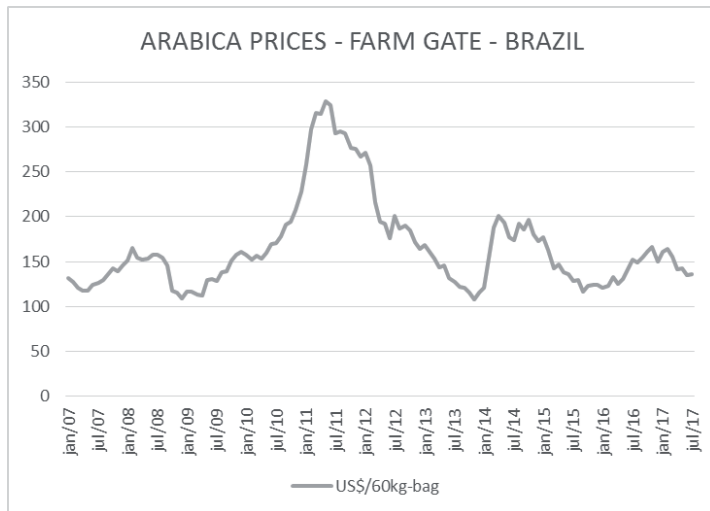
[B] <sup>3</sup> ex-BM&F (US\$/60kg Arabica)		Real R\$ / Dolar US\$	
Jul 2017	145,35 ↓	Jun 30, 2017	3,31 ↑
Sep 2017	149,05 ↓		
Dec 2017	154,00 ↓		

+ 7.8%

Source:  
www.qualicafex.com.br

## FEASIBILITY OF COFFEE PRODUCTION REQUIRES SUSTAINABILITY AS ASSET AND NOT LIABILITY

As Confidential approaches its 10th anniversary and in the eve of a world producers' forum that is going to discuss the feasibility of coffee production, we could not resist the temptation to look at coffee prices in Brazil in the past decade and to draw a few conclusions.



Farm-gate coffee prices are at the same level they were ten years ago and unless productivity increased markedly growers' profits must have been squeezed by rising costs and additional requirements, e.g., sustainable production. Productivity has indeed increased in Brazil in this period but much less than in the previous ten years. Inflation has at times been compensated by devaluation of the local currency but the Real is judged to be still overvalued. Very rigorous labor and environmental legislations pose a special cost toll on producing in a sustainable way. Prospects do not seem bright for Brazilian growers who are among the most competitive in the world.

This is why it is high time for sustainability to be repositioned from being a cost to becoming a profit factor. Challenging as this

may sound it is necessary to ensure the future of sustainable coffee production not to say the future of coffee production itself. This change of paradigm is beyond the realm of coffee growing alone and requires collective action by the full supply chain. Is this feasible?

In a crude way, sustainability was born out of desires to protect the environment and to drink a beverage produced in a socially-responsible manner. It is needless to say that these concerns are much closer to the mind set of consumers in high-income coffee importing countries than to lower-income coffee growers many of whom are toiling to survive. Priorities are obviously different at these two ends of the market!

This "spatial" allocation of costs and benefits was initially addressed by a price premium paid for sustainable coffees. However and as expected, such premiums fell as more sustainable coffee was produced and the tendency is for such premiums to disappear in the long term with sustainability becoming a market requirement and an additional cost for coffee growers.

However as the use of sustainable practices was progressively implemented in coffee producing countries it became evident that these costs also translated into benefits for growers because the adoption of sustainable practices required improved management skills that in turn were also used to improve growers' profitability. This opened up an important window of opportunity.

But dissemination of and training on sustainable practices is critical to extend this opportunity to small growers in a process that requires time and money. The current marginal premiums for sustainable coffees do not make this investment feasible and pose a challenge not only to growers but to the full supply chain. One answer is multi-stakeholder precompetitive programs that involve growers, trade and industry to provide such training and to unlock existing resources in both producing and consuming countries. Such programs should expand and grow and the current tendency to have them cooperate if not work together under the Vision 2030 concept and involving the International Coffee Organization is a major step to achieve a multiplier effect and an optimum use of scarce resources.

As the key contact point between the supply chain and the consumer, the industry has a key role to play in this process. It is the one stakeholder that can use its marketing skills to convince drinkers to pay more for sustainable coffees and to channel this extra gain to growers through a mix of better prices and funding for precompetitive programs. That failing, sustainability or its lack will be treated as a liability, as it is already happening, and the golden opportunity of making sustainability an asset will be lost.

## MACHINES OF THE DECADE

It is amazing to see the scope and breadth of new technology and innovation found as one peruses through the 119 monthly issues of the Machine of the Month that preceded this one. Pinhalense introduced more than one new machine or process per year and improved as many in the last 10 years. A summary is presented below:

### - Harvesting

- self-propelled harvesters P1000
- several machines to raise coffee from the ground being TERRENA the latest one

### - On-farm Processing

- winnowers for the mechanical siphon LSC to handle coffee harvested with more impurities that are light
- larger mechanical siphon LSC-30
- improved unripe cherry separator
- pulping of over-ripe and unripe cherries
- upward-flow mucilage remover DMPE
- zero-water-consumption pulper ECO SUPER

### - Drying

- more efficient heat exchanger FTD
- improved husk burning systems
- faster drying
- divided-drum rotary driers SRE to dry small or micro lots simultaneously
- flat bed drier SE

### - Dry Milling

- larger destoner CPFNBR-4
- combined hulling unit CON with polisher attached
- upward-flow size graders PFA
- system to recover rejects from color sorters
- blending systems with variable speed conveyors
- electronic big-bag scales SMARTBAG, FLOWBAG and EASYBAG
- electronic flow scale SMARTFLUX
- self-cleaning dust filters
- several systems for husk and dust removal
- combined huller for micro lots C2DPRC

### - General

- speed variators in several machines
- bulk coffee handling systems with big-bags and silos
- electric control panels and automation



DIVIDED-DRUM DRIER SRE



PFA



C2DPRC

In the past 10 years Pinhalense supplied some of the world's largest coffee mills in countries as diverse as Vietnam, India, Honduras, Indonesia and Colombia besides Brazil, wet-milling, drying and dry milling. At the same time thousands of small and mid-size mills with the same advanced technology were supplied in as many as 44 countries on the 5 continents.