

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE.

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CONAB RELEASES ITS FIRST ESTIMATE OF 2018 COFFEE CROP

Conab, the Ministry of Agriculture agency in charge of warehousing and crop estimates, has released its first estimate of the 2018 coffee crop. According to the agency, production will be in the range of 54.4 and 58.5 million bags, with an increase of 21.1 to 30.1% compared to the previous year. Arabica production is expected to increase 26% and Conilon 24.3%. The large crop figures correspond to the on-year of the Brazilian biennial production cycle and also results from favorable climate conditions and the implementation of new technologies. Minas Gerais may produce between 29.0 and 30.6 million bags, Espírito Santo 11.6 to 13.3 million bags and Bahia a record 4.0 to 4.2 million bags. The estimate for Rondônia is 2.3 to 2.4 million bags of Conilon.

Source: CaféPoint

GEO-REFERENCING OF BRAZILIAN COFFEE PRODUCING REGIONS UNDERWAY

Conab, the Ministry of Agriculture agency in charge of warehousing and crop estimates, has just completed the mapping of Paraná's coffee growing areas using satellite images. Geo-referencing has already been carried out in coffee regions of São Paulo and Minas Gerais. This important tool will support Conab crop surveys as well as actions of the National Water Agency (ANA).

Source: CaféPoint

SPECIALTY COFFEE CONSUMPTION GROWING 18% PER YEAR IN BRAZIL

The Euromonitor survey commissioned by the Brazilian Specialty Coffee Association (BSCA) shows that the consumption of specialty coffee in Brazil had an average annual growth of 18.1% in the period 2012 to 2016. Retailers sold R\$ 3.2 billion (US\$ 1 bi) worth of specialty coffee that accounts for 5.1% of total coffee sales in the country. The study projects a consumption growth of 1.7 million bags of specialty coffees until 2021. Capsules will have a great influence on this increase providing they respond to the challenge of becoming environmentally responsible with biodegradable or recyclable versions.

Source: Notícias Agrícolas

BRAZIL AND CHINA WILL BE TOP TWO CONSUMERS IN TWO DECADES

Speaking at the Opening Ceremony of the 1st Pu'er International Specialty Coffee Expo, Ted Lingle stated that Brazil will be the main coffee consuming country followed by China and the US before 2040. P&A's Carlos Brando addressed the topic "Building Internal Consumption" and described the tools available to fulfill Mr. Lingle's projection. The event attracted almost 800 hundred people from China and 12 other producing and consuming countries to this traditional tea-origin of China – Pu'er – that has now become the country's top coffee grower accounting for 85% of total production. The three days of the conference and exhibition were followed by two days of field visits to farms and mills in the area. The event was organized by the regional governments and the Yunnan International Coffee Exchange (YICE) in whose Celebration Garden a Coffee Tree Planting Ceremony was held.

Source: P&A



MECHANIZATION HAS POSITIVE IMPACT ON COFFEE PRODUCTIVITY

Conab's study "Analysis of Coffee Production Costs and Profitability in 2009 to 2017" shows that mechanization of coffee production was the main factor behind the increase in coffee productivity and profitability. The data collected for a survey in the main producing states also associated larger productivity with more intense use of fertilizers.

Source: CaféPoint

DRIP IRRIGATION SAVES WATER AND INCREASES PRODUCTIVITY

Coffee growers in Espírito Santo state will have to increase their reliance on irrigation to maintain and improve coffee production. The drip irrigation system, originally introduced to optimize water usage, is showing an even more positive result: productivities of up to 100 bags of Conilon per hectare besides savings of 30% in the water used.

Source: CaféPoint

PLAN TO CURTAIL RESEARCH FUNDING REVERTED BY GROWERS

As a result of the fiscal crisis that Brazil is facing, the Ministry of Planning proposed to expand the Funcafé contingency reserves for this year with negative impacts on the budget available for the Coffee Research Consortium, coordinated by Embrapa Café, to carry out its activities in 2018. The National Coffee Growers' Council (CNC) undertook a series of successful actions at the National Congress in order to revert the plan and to ensure that the funds originally expected are allocated to research that ensures the expansion of sustainable production and the development of the Brazilian coffee business.

Source: Notícias Agrícolas

COFFEE IS FIFTH LARGEST PRODUCT EXPORTED BY BRAZILIAN AGRIBUSINESS

According to the Brazilian Coffee Exporters' Association (CeCafé), the country's coffee exports totaled 30.7 million bags in 2017, a decrease of 10.1% over the previous year's 34.3 million bags. In spite of this fall, the product occupied the 5th position in total Brazilian agribusiness shipments with a share of 5.4%. Coffee exports' reached US\$ 5.2 billion in 2017 to be compared with US\$ 5.4 billion in 2016. The average price in the period (US\$ 169.4) was 6.6% higher compared to the previous year (US\$ 158.9). Exports of differentiated/specialty coffees accounted for 5.1 million bags and generated US\$ 1.02 billion, corresponding to 19.6% of the total. The United States was the main destination of Brazilian coffee exports with 6.1 million bags (19.9%) followed by Germany with 5.5 million bags (17.9%).

Sources: Notícias Agrícolas and Embrapa Café

BRAZIL, COFFEE NATION: ONE COUNTRY, MANY FLAVORS

The slogan "one country, many flavors" was created at the turn of the century when the letter "s" was added in red color to the traditional logo that then became Cafés do Brazil. P&A suggested both the change in the logo and the slogan to indicate the multitude of coffee qualities that Brazil offered in its 14 coffee producing regions, many of which gained for the first time names and logos that are used still today. The regions and the sensorial characteristics of their coffees were defined in a joint, collaborative process that included representatives and cuppers of all regions in order to present Brazilian coffees at the SCAA Conference and Trade Fair in San Francisco in 2000 when Brazil was the theme country. The results just released of the ABIC - Brazilian Coffee Roasters' Association's country-wide coffee quality contest fully support the change in the logo and creation of the slogan: coffees from the states of Bahia, Espírito Santo, Minas Gerais, São Paulo and Paraná share the list of the 11 top-runners with the order above indicating when they first appear. Municipalities in the state of Bahia, 1st and 2nd places, Espírito Santo, 3rd place, and Paraná join traditional Brazilian quality "havens" Minas Gerais and the Mogiana region of São Paulo in the list of winning coffees to be auctioned this week.

Sources: P&A and ABIC

Brazilian Prices

Main Producing Regions / Farm Gate

January 31, 2018

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	455,00 ↑	Colatina-ES fair average price	316,00 ↓
Mogiana	450,00 ↑		
South Minas	450,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	485,00 ↑	Mar 2018	153,55 ↓
South Minas	480,00 ↑	Sep 2018	154,15 ↑
		Dez 2018	157,55 ↑
		Real R\$ / Dolar US\$	
		Jan 31, 2018	3,18 ↓

+ 7.8%

Source: www.qualicafex.com.br

THE CHALLENGES OF MAKING CHINA A LEADING COFFEE CONSUMER

The challenges to fulfill Ted Lingle's prediction that China will become the second largest coffee consumer in the world are not few, starting with the need to evolve from the current dual market: soluble and coffee shop. The bulk of Chinese consumption happens at home in the form of soluble coffee whose sales grow much more slowly than the dynamic coffee shop sector that however already shows signs of excess supply.

Coffee shops may be "top of mind" in Chinese coffee consumption but the prices practiced make them not accessible to the vast majority of the population. One way to make the coffee beverages served in coffee shops more popular and to bring their costs down is to take them to other food outlets, offices and vending machines with the final goal to enter the homes. This happened for example in Brazil, where espresso coffee machines "trickled down" from coffee shops to the bakeries that are ubiquitous in urban areas of all sizes and in the process consumers were educated about coffee.

At the other end of the coffee spectrum, at home Chinese soluble consumption may benefit from new beverages, e.g.: 3 in 1 – soluble coffee, sugar and non-dairy cream with or without flavoring – and other marketing gimmicks that are making soluble consumption much more dynamic in countries like Indonesia and Mexico. The use of technology, e.g.: freeze dried and soluble-based cold coffee beverages, can modernize the soluble market, attract youngsters and again help educate consumers about coffee.

It is obvious that the changes proposed above are in the hands of coffee companies and brands to introduce and bring about but there is one area where there is much room for them to work together: institutional programs to inform consumers about the well-being and health benefits of coffee drinking. Tea does a fantastic job in China in this area that of course benefits from millennial traditions and knowledge. An individual coffee company will not manage to do it alone because it will look suspicious. However, together companies may inform current and potential consumers in a professional way about the benefits of coffee that have been exhaustively researched and made available in recent decades. This has worked well in several producing and consuming countries.

Last but not least, what seems to be missing in China is at home consumption of roast-and-ground coffee whose progressive entry has been a turning point in consumer education and growth of consumption in soluble consuming countries whose per capita coffee intake started to grow, e.g.: the UK and Mexico. This new form of consumption will have to come by the hands of coffee companies with or without the help of institutional programs. There is no better reminder of today's importance of R&G coffee than the decision by the world's largest coffee company to include it in its product line in a major way after decades of oblivion and sole reliance on soluble coffee.

One may claim that income growth and coffee quality are badly missing in this article about increasing consumption in China. Income growth is indeed missing because it creates the environment to increase consumption of all beverages but the ones to benefit the most from more money available to Chinese consumers will be the beverages promoted more intensively and coffee has to play its part against competing products, as proposed above. Quality is implicit in many places in the article, e.g.: education of consumers, technology and R&G at home. The danger of emphasizing quality too much in an article like this is the risk of implying that quality alone, say specialty coffees, the third wave and the like, will make China create mass consumption and become a great coffee consuming nation.

PROCESSING NATURALS

Pinhalense has been receiving a large number of inquiries about the processing of natural coffees as a result of the increase of their production in most coffee growing countries. This is understandable considering that Brazil is the largest producer of naturals in the world and many Pinhalense machines have been specifically designed to process them, for example rotary driers and cross-beater cold hullers.

The Guardiola rotary drier was invented in Guatemala to handle parchment coffees. It was Pinhalense that redeveloped and adapted these machines for natural coffees and sold about 15,000 of them to dry cherries into natural coffees.

The Pinhalense rotary driers SRE for naturals are available in several sizes, ranging from 1.5 to 10.0 tons of humid coffee cherry per batch. New additions to the line are divided drum driers that can handle different products in each half including naturals in one side and parchment in the other. The Pinhalense SRE rotary driers incorporate key features to retain all quality imbedded into naturals and that may be lost in drying, e.g., temperature controls of air and specially coffee, uniform delivery of hot air to all coffee cherries, and compatibility with procedures to homogenize incoming lots with a wide range of moisture contents.



The state-of-the-art Pinhalense hullers for naturals received several patents including the one for the oscillating screen separator. The combined hulling units CON were originally developed for the specific tasks and operations that this type of coffee require. Pinhalense natural hulling sets have a wide range of capacities, from 300kg/hour (C2DRC) to 1,800kg/hour (CON-12), and all can be equipped with an optional polisher to also hull parchment.



C2DRC

Whereas the C2DRC is equipped with a 3-size grader, the larger CONs have a pre-cleaner (optional) destoner, huller, repasser and catadors. Both lines of machines are known for increasing coffee yields by up to 2% because they do not heat coffee, no coffee is discarded with the husk and the percentage of damaged beans is nearly null. The Pinhalense cold hullers avoid unnecessary heating that negatively affects the quality of natural coffees.



CON-12

PINHALENSE, THE QUINTESSENTIAL CHOICE TO PROCESS NATURAL COFFEES.

