

# CONFIDENTIAL

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

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## ICO INVITED TO PARTICIPATE IN SEMINAR ABOUT BRAZILIAN CROP ESTIMATES

The National Coffee Council (CNC) has invited the ICO executive director José Sette to participate in a seminar about crop estimates in Brazil and ways to align the country's methodology with international projections. There are currently many estimates of the Brazilian crop made by institutions and traders in Brazil and abroad and the debate about them has been increasing within the Brazilian coffee sector. The idea is to learn more about the methodology used by the ICO to develop its global estimates. CNC hopes that the Brazilian government and the institutions invited can use that knowledge to improve their own analyses. The seminar to take place in Brasilia in May will gather representatives from relevant ministries, Embrapa Café, Conab and other coffee associations: CNA (growers), CeCafé (exporters), ABIC (roasters) and ABICS (soluble makers).

Source: Cafépoint

## ESTIMATES OF RECORD PRODUCTION MAKE PRICES DROP

Estimates of a 30% increase in the Brazilian coffee crop in 2018 have caused the price of a coffee bag to fall 22%. During Cooxupé's Femagri trade fair, where most deals are closed in the barter system – growers pay for equipment and inputs with coffee delivered to the cooperative –, the coffee bag was negotiated at R\$ 430 (US\$ 134) this year whereas it was worth R\$ 550 (US\$ 172) in 2017. This means that an implement/machine priced at R\$ 10.000 (US\$ 3,200) could be paid for with 18.2 bags of coffee in 2017 to be compared with 23,2 bags this year.

Source: Folha de São Paulo

## SHARE OF CONILON GOING UP IN BRAZILIAN BLENDS

The R&G coffee segment in Brazil is resuming the use of larger percentages of Conilon/Robusta coffee in its blends as a result of price decreases of the raw material in the domestic market. This reflects the recovery of Conilon production after more than two years of scarcity during which the shares used by the industry reached 90% of average-quality Arabica and only 10% of Conilon. Traditionally, these shares used to be around 50-50%. A bag of Conilon is currently priced at R\$ 307 (US\$ 96), 26% less than in the previous year, while Arabica for domestic consumption is priced at R\$ 430 (US\$ 134) per bag.



Source: Valor Econômico

## RECOVERY OF SOLUBLE EXPORTS

The Brazilian soluble coffee industry has the potential to recover its market and raise exports this year with the prospect of a large harvest in 2018. Even though Brazil is the world's largest global soluble coffee exporter, the droughts that hit the main Conilon producing state of Espírito Santo in recent years caused the country to lose businesses in Asia. The price of a bag of Conilon, the Brazilian Robusta, reached record prices above R\$ 550 (US\$ 171) in 2016 while the current price is around R\$ 320 (US\$ 100). The Brazilian soluble sector is optimistic with the expected recovery of the Conilon crop this year.

Source: Reuters

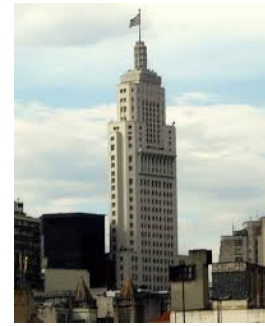
## ROASTER 3 CORAÇÕES IS LARGEST AND HIGHEST BIDDER IN AUCTION

The Brazilian Coffee Roasters' Association (ABIC) held an auction of the 11 highest quality lots in its country-wide quality contest. The average price per bag auctioned reached R\$ 1,828 (US\$ 571). The 3 Corações Group, the largest buyer in the auction, acquired pulped natural coffee from Piatã, Bahia state, for R\$ 2,500 (US\$ 781) per bag and a microlot from the same origin for R\$ 9,000 (US\$ 2,813) per bag!

Source: ABIC

## ☉ COFFEE HOUSE OPENS IN ICONIC SÃO PAULO BUILDING

A historical icon of São Paulo city and its highest skyscraper has been renovated to include new cultural attractions, gastronomical options and a café. The newly renamed Farol (“Lighthouse”) Santander – previously the Altino Arantes building – has 18 of its 35 floors already structured to receive visitors. The major attraction is a coffee shop on the 26th floor with beautiful views of the city. The café is decorated with antique furniture preserved by the bank that previously owned the building. Chandeliers and solid wood armchairs are mixed with a modern counter where the baristas work. The café is operated by the Suplicy chain and serves an award winning coffee from Divinolândia in the Mogiana region of São Paulo.



Source: Espresso Magazine

## ☉ GOOD RESULTS WITH ARARA CULTIVAR

Developed by the Procafé Foundation, the Arara variety, and its adaptation to different regions are currently under evaluation. In recent trials conducted in Araxá, Minas Gerais state, it presented average productivity of 63 bags/ha (compared to 38 bags/ha of the Red Catuaí IAC 144 variety) over seven crops. The new variety is being cultivated in several commercial farms with excellent results. Apart from high yields, the Arara cultivar generates high quality cherries and has good tolerance to high temperatures, water stress, and Phoma and leaf rust diseases.

Source: Folha Procafé

## ☉ 50 MILLION BAGS OF COFFEE IN LESS THAN 1% OF AGRICULTURE LAND IN BRAZIL

A study of territorial occupation conducted by Embrapa shows that of the 850 million hectares that comprise Brazil’s total area, 30% or 256 million hectares corresponds to crops, planted forest and pasture land. Brazil is a major producer of food while also a giant in environmental preservation, with 66% of its native vegetation preserved. Coffee occupies only 0.86% of the explored territory, or 2.2 million hectares, with a high output of more than 50 million bags and one the largest average yields in the world. Minas Gerais, the largest coffee producing state, produces alone around 30 million bags in an area of 1 million hectares, while Espírito Santo will produce 12.5 million bags of coffee in 2018 in only 388,000 hectares.

Source: Embrapa

## ☉ 20,000 PEOPLE LEARN ABOUT GLOBAL COFFEE PLATFORM / GCP’S PROGRAMS AT FEMAGRI 2018

After outstanding results in the 2017 fair, the Global Coffee Platform participated again at Cooxupé’s three-day traditional Femagri event. GCP had a booth at the Environmental Education Area, known as “Small Farm”, during the 3-day event and distributed to growers educational materials with the 18 Fundamental Items of its Coffee Sustainability Curriculum. The focus was to demystify and promote sustainability among coffee producers. Approximately 20,000 people visited the “Small Farm” area including coffee growers (cooperative members or not), their employees, and suppliers from the wide region covered by Cooxupé. The Brazilian GCP Program, created in 2012, currently has 53 members and dozens of partners such as extension services, entities, universities and research centers. To know more about GCP go to: <http://www.globalcoffeeplatform.org>

Source: Estadão Conteúdo

## Brazilian Prices

Main Producing Regions / Farm Gate

February 28, 2018

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	435,00 ↓	Colatina-ES fair average price	308,00 ↓
Mogiana	430,00 ↓		
South Minas	430,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	455,00 ↓	Mar 2018	143,70 ↓
South Minas	450,00 ↓	Sep 2018	151,20 ↓
		Dez 2018	154,95 ↓
		Real R\$ / Dolar US\$	
		Feb 28, 2018	3,24 ↑

+ 5.8%

Source:

[www.qualicafex.com.br](http://www.qualicafex.com.br)

## PROFITABLE SUSTAINABLE PRODUCTIVITY AND THE FEASIBILITY OF COFFEE FARMING - PART 1

Two important issues were brought to the limelight last year: should productivity be maximized and is that a way to ensure the feasibility of farming?

To maximize productivity without considering the costs of doing so may not increase the feasibility of coffee farming and this, added to the fact that productivity should be increased in a sustainable way, is what heated the debate about productivity. It is needless to say that when one recommends to increase productivity in order to increase profitability and to help ensure the feasibility of coffee farming one means to increase productivity with due attention to the respective costs and environmental and social impacts. Obvious as this is it seems to be ignored by those who claim that to increase productivity may be detrimental to growers!

Two large scale, country-wide examples show that to increase productivity is beneficial to growers: Brazil and Vietnam. Today the two countries account for roughly 50% of the world's production that is grown in about 25% of the world's area under coffee with an average productivity between 25 and 30 bags per hectare (1.5 to 1.8 tons/ha) depending on the year. The two countries have the largest average productivity in the world for Arabica and Robusta. This resulted from a virtuous circle whereby larger productivity brought more profits to growers that in turn invested in more coffee production. Not coincidentally, Brasil is also the world's largest source of sustainable coffees which indicates that the country satisfied the proposition above that productivity increases should be economically, environmentally and socially sustainable.

Other examples exist. Colombian production has increased markedly without substantial expansion of planted area. The process was one of renovation of existing areas in order to increase productivity. The examples are not limited to countries but abound in regions, municipalities, farms and groups of small growers.

To state across the table that to increase productivity may not improve the lot of coffee growers puts in risk the feasibility of coffee farming in many countries where productivity is low and the one way forward is to increase productivity up to a *sustainable limit* that has to be above where it is now or the country will stop producing coffee. What is this sustainable limit?

It is good to remember here what I heard from a group of highly technified Brazilian growers who said that they could and had reached average productivities above 50 bags per hectare (3.0 tons/ha) but that they were settling for 40 bags per hectare (2.4 tons/ha) because the costs of inputs to go above it were greater than the corresponding gain in profitability. This is what economists call the *law of diminishing returns*.

The sustainable limit to productivity increase in a given coffee area is the one that brings the greatest returns to growers, does not impact the environment in a negative way and is socially responsible. Considering that taking Brazil and Vietnam apart all other countries produce the other 50% of the world's coffee in 75% of the world's coffee area, with an average productivity of under 10 bags per hectare, and a good number of countries still have average productivity around 5 bags per hectare, I am tempted to say that there is a huge space to increase productivity in the world. If this is not economically feasible at farm level alone is because the problem lies beyond farm gate, e.g.: inadequate extension services, inefficient markets for inputs and equipment, logistics bottlenecks, and lack of finance not to mention an inefficient coffee supply chain. If this is the case, the *enabling environment* to increase productivity is not there and it will only go up if these imperfections beyond farm gate are addressed in order to allow the sustainable productivity limit to be raised!

The enabling environment and the potential environmental and social impacts of increasing productivity will be addressed in Part 2.

## OLD BUT GOLD: WHY THE QUINTESSENTIAL ROTARY DRIER IS STILL THE BEST OPTION TO DRY QUALITY COFFEE BE IT CHERRY, PARCHMENT OR GREEN

Recent years have been prolific in the introduction of drying systems, mostly new versions of old concepts and a few different ideas: vertical, static, multi-chamber, fast or slow drying, etc. Pinhalense has been monitoring these changes closely, accepted some – e.g.: it launched a flat-bed drier – and introduced other of its own in its line of rotary driers – e.g.: divided drums – but truth is that the sales of Pinhalense rotary driers are growing in Brazil and abroad irrespectively of all these new options.

Sales are increasing because Pinhalense rotary driers have undergone many changes to cope with new marketing trends and to incorporate new technology: more efficient and larger heat exchangers, improved husk feeding systems, larger fans to cut down drying time if and when required, hot air injection in the overhead loading silos, and divided drums to mention the most visible changes. The table on the right-hand side depicts the wide offer – sizes and configurations – of Pinhalense rotary driers that is unique in the market and comprises 14 different models!

SINGLE DRUM	
SIZE	CAPACITY (m <sup>3</sup> )
SRE-016X	1.6
SRE-025X	2.5
SRE-033X	3.3
SRE-050X	5.0
SRE-066X	6.6
SRE-075X	7.5
SRE-090X	9.0
SRE-100X	10.0
SRE-150X	15.0

Pinhalense's line of rotary coffee driers is well-known around the world for the quality of the final product it dries (uniform color and moisture content and no damage to *parchment, cherry or bean*), the accurate temperature control, the efficiency of the process, and the ability to burn coffee husk, timber and other solid fuels, and fossil fuels (gas and oil). All these features are within full reach of micro, small, mid-size and large coffee growers, processors and exporters. These driers can receive fully washed (fermented or mechanically demucilaged) wet parchment directly from the wet mill after the surface water is drained. Pulped-natural / honey coffee will have to be pre-dried under the sun to the point that the remaining mucilage is no longer “sticky” before it may be fed to the drier. Coffee cherries (to produce naturals) can be fed to the drier drum immediately after harvesting.

SIZE	CAPACITY (m <sup>3</sup> )	
	PER DRUM	TOTAL
SRE-025/50X	2.5	5.0
SRE-033/66X	3.3	6.6
SRE-050/100X	5.0	10.0
SRE-075/150X	7.5	15.0
SRE-090/180X	9.0	18.0

By offering single- and divided-drum rotary driers Pinhalense is able to cover a wide range of coffee drying needs, from only 1.6 to 18 cubic meters per batch, i. e., from about 1 to 12 tons of wet coffee per load. Added a few years ago to the traditional line of single-drum rotary driers, the divided-drum rotary driers are useful for: micro-lots; small growers at the beginning and the end of the harvesting season, when coffee volumes picked fall; handling of small lots processed by different methods (e.g.: parchment and cherry); quality and variety trials; and also mid-size and large growers active with small lots in the specialty coffee market. In a word, the new line of divided-drum rotary driers was designed to complement the single-drum line and to increase drying flexibility for growers of all sizes and types from small to large, specialty to commercial, including sustainable and fair trade coffee suppliers interested in the traceability of small lots.

The advantages of the Pinhalense line of rotary driers for coffee growers are: uniform drying, short drying time, quick loading and unloading, fuel savings, ability to burn coffee husk and long useful life. In summary, Pinhalense rotary driers can have a significant impact on the efficiency of coffee drying because they help to decrease the costs of the most expensive operation in green coffee processing with due respect for its quality. If not properly done either under the sun or in inadequate driers, coffee drying causes more damage to coffee quality than most other processing operations. Pinhalense has sold over 25,000 rotary coffee driers to clients in over 30 countries on the 5 continents because of their positive impacts on quality and costs besides their ease of maintenance, availability of local service and durability.



**MOST DRIER MODELS AND SIZES ARE ALSO PRODUCED WITH FEATURES AND SPECIFICATIONS REQUIRED TO DRY COCOA BEANS**

