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COFFIDENTIAL

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

SOLUBLE INDUSTRY LAUNCHES PROJECT TO INCREASE EXPORTS

The Brazilian Soluble Coffee Industry Association (ABICS) has signed an agreement with APEX, the Agency in Charge of Promotion of Exports and Investment, to strengthen the market presence of Brazilian soluble coffee abroad. The product already reaches 120 countries and generates US$ 650 million per year in foreign currency. Although Brazil is the global leader in exports of soluble coffee (28% of market share), it has been losing market to competitors in Asia mostly because of the high price of local raw materials, specially Conilon coffee. The partnership with APEX is part of the Plan to Develop Brazilian Soluble Coffee launched in 2016 that aims at improving both exports and the domestic consumption by 50% over the next 10 years. The sector currently exports annually the equivalent of 3.8 million bags of green coffee and the domestic soluble market absorbs 1.1 million bags (5% of total coffee consumption in Brazil).

Sources: Reuters and ABICS

BRAZILIAN COFFEE EXPORTS MAY REACH 35 MILLION BAGS THIS YEAR

Brazil will ship at least 35 million bags in the 2018/19 coffee year including green, soluble and R&G coffees according to CeCafé, the Brazilian Coffee Exporters' Association. The country registered coffee exports of only 32.9 million bags in 2016/17, with record shipments in 2015 when exports reached 37 million bags of coffee.

Source: Reuters

NATIONAL MONETARY COUNCIL APPROVES FUNCAFÉ CREDIT LINES

The National Monetary Council (CMN) has announced the allocation of the Brazilian Coffee Fund (Funcafé) resources for 2018. Production costs up to harvesting stage will receive R$ 1.1 billion (US$ 338 mi), stocks will have R$ 1.9 billion (US$ 584.6 mi), Financing for Coffee Acquisition Program (FAC) will receive R$ 1.06 billion (US$ 326.1 mi) and R$ 10 million (US$ 3.08 mi) will be available for the recovery of damaged crops. The budget for working capital will direct R$ 200 million (US$ 61.5 mi) to the soluble industry, R$ 300 million (US$ 92.3 mi) to the roasting industry, and R$ 425.2 million (US$ 130.8 mi) to cooperatives.

Source: Estadão Conteúdo

RAINFALL DELAYS HARVESTING IN RONDONIA BUT WILL ADVANCE IT IN ESPÍRITO SANTO!

Rondônia, the second largest Conilon producing state in Brazil, has already initiated its 2018 harvest in areas where coffee is riper. However, recent rains have limited harvesting there. On the other hand, rains continue to benefit coffee plantations in Espírito Santo. If good weather persists over the coming weeks, maturation could be accelerated and the Conilon harvest started as early as April in the state; Arabica harvesting should begin by mid-May in most Brazilian coffee regions.

Source: CaféPoint

ROBUSTA HUSK IS VALUABLE TO PRODUCE FOOD, BEVERAGES AND COSMETICS

Conilon/Robusta coffee husks, commonly used as a fertilizer, can also be used for the production of food, cosmetics and beverages. Researchers at the Food Technology Institute (ITAL) and the Campinas Agronomy Institute (IAC) have developed technology that extracts caffeine from the husk without the use of solvents. The natural dry ingredient extracted from the husk is rich in antioxidants and compounds of nutritional interest while caffeine can be used to produce natural energetic and low calorie foods and beverages as well as cosmetics. The extraction process reduces the disposal of organic waste and can be used by associations and cooperatives.

Source: CaféPoint

DOMESTIC COFFEE CONSUMPTION ADVANCES

Domestic coffee consumption should grow 3.4% in Brazil this year to 23 million bags according to a market survey conducted by Euromonitor. The coffee industry generated sales of R$ 7.6 billion (US$ 2.3 bi) in 2017 according to ABIC, the Brazilian Coffee Roaster's Association, divided among the premium (3.6%), mainstream (58%) and low-price (38%) coffee categories. The study shows that 81% of the total volume consumed in 2017 corresponds to R&G coffee, 18% to whole bean and 0.9% to capsules, a sign that the industry's diversification of product portfolio is increasing and moving toward higher quality.

Source: ABIC

NEW PRODUCTS INNOVATE SOLUBLE CATEGORY

In order to expand its presence in the Brazilian coffee market, Nestlé has launched both its Nescafé "Origens", a premium soluble brand produced sustainably, and Nescafé Smoovlatté, a ready-to-drink beverage that mixes coffee and chocolate and targets younger consumers. The multinational is following in Brazil its global approach of innovating in the soluble category. Nestlé is the market leader for instant coffee in Brazil since 1983 with a current share of 48.2%, followed by Tres Corações with 32.3%. Soluble consumption is still low in the country (28% of market penetration) while roast and ground dominates and is present in 98% of the homes.

Source: Valor Econômico

STARBUCKS SELLS BRAZILIAN OPERATION

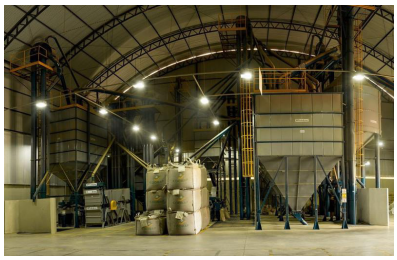
Starbucks has changed hands in Brazil again, this time through a licensing deal with the investment company SouthRock that will now operate the chain's 113 stores in 17 cities. With annual national sales of R$ 250 million (US$ 76 mi), Starbucks now plans to accelerate growth and improve profitability while exploring new regions such as southern Brazil and Brasilia. The company has been in Brazil since 2006.

Source: Valor Econômico

LEADING COOP EXPANDING DRY COFFEE MILL IN SOUTH MINAS

The 60-year-old Paraguaçu Cooperative (Coomap), in South Minhas Gerais, has been renovating and expanding its coffee storage and export processing line in several stages since 2011 and has now become one of the most modern dry coffee mills in its region. Coomap stated that it has over the years always preferred Pinhalense equipment due to its quality, efficiency an reliability. The state-of-the-art Coomap Coffee Mill has not only become a regional showcase but also a destination for many foreign visitors that P&A and Pinhalense receive.

Source: EAE Máquinas



Brazilian Prices

Main Producing Regions / Farm Gate — March 29, 2018

Arabica Naturals (R$/ 60 kg bag)	
Cerrado MG	430,00 ↓
Mogiana	425,00 ↓
South Minas	425,00 ↓
Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado MG	445,00 ↓
South Minas	440,00 ↓

+ 4.7%

Conilon / Robusta (R$/ 60 kg bag)	
Colatina-ES fair average price	316,00 ↑

BM&F (US$/60kg Arabica bag)	
Sep 2018	146,05 ↓
Dec 2018	149,05 ↓
Mar 2019	154,55 ↑

Real R$ / Dolar US$	
Mar 29, 2018	3,30 ↑

Source: www.qualicafex.com.br

PROFITABLE SUSTAINABLE PRODUCTIVITY AND THE FEASIBILITY OF COFFEE FARMING - PART 2

The economic feasibility of coffee farming is greatly affected by the percentage of the FOB export price that reaches growers. This percentage is known to be between 80 and 90% in countries like Vietnam, Brazil, Costa Rica and Colombia whereas it can be as low as 40% in some countries with many important coffee producing nations falling in the range of 60 to 70%. This percentage that reaches growers depends on the efficiency of the country's coffee supply chain that is in turn affected by its own structure of traders, middlemen, brokers, etc., government regulation and taxes, logistics (e.g.: road and rail networks and harbors), availability of finance, etc. This is a key component of a producing country's business environment that renders coffee growing more or less viable.

The enabling environment above is not the one mentioned at the end of Part 1 of this Outlook (see Coffidential No. 128). This other part of the enabling environment beyond farm gate affects performance within farm gate and comprises, for example, whether coffee growers have access to plant material, training on husbandry, inputs, equipment and finance besides the efficient supply chain mentioned earlier. Countries with high productivity, that increases the viability of coffee production, have:
- their own coffee research facilities or access to results of research performed elsewhere including plant material – varieties – adapted to the country's conditions;
- efficient extension services often public, provided by government, but also by cooperatives or others,
- efficient markets for inputs (e.g.: fertilizers and agrochemicals) and equipment (e.g.: sprayers);
- availability of finance to purchase inputs and equipment and to market coffee at the right moment;
- smart regulation and taxation;
- access to competitive coffee markets;
- etc.

The role of government in the creation of this complex enabling environment, that should ideally both transfer a greater share of FOB price to growers and facilitate more efficient production, is critical as either an actor and stakeholder itself or a catalyzer of change. In the first role above, governments may improve the tax system, provide and improve infrastructure (logistics), extension services, finance, etc. In the second role, governments may improve regulation not only of the coffee business itself but of input and equipment markets and the coffee supply chain. It is this absence of a proper enabling environment that often renders actions to increase productivity within farm gate either inefficient or not durable (not sustainable!) after the project ends. In other words, to try to improve productivity within farm gate without a sound enabling environment beyond farm gate may be near-sighted and not work at all. The enabling environment will have to be improved first or at the same time.

The other aspect pending from Part 1 is the environmental and social impact of increasing productivity. The maximum economic yields must respect the environment and this does not mean to outrightly reduce the use of water, fertilizers and agrochemicals but to optimize their use to reach a balanced outcome. Erosion control, preservation of soil fertility and water availability, and other factors must be also considered. One example of how complex achieving this ideal yield can be is shown by shaded coffee. The progressive removal of shade does increase productivity but may require more intensive use of fertilizers. Less shade may decrease the risk of incidence of some pests and diseases but increase the risk of others. The actual ideal productivity level will therefore depend not only on the extent of shade but also on the cost of fertilizers, agrochemicals, etc. as it does in areas without shade.

The social aspects enter the picture for example when new technologies cause labor to be reduced in activities like spraying, husbandry, and even harvesting in an increasing number of countries. While labor that is retained tends to command higher wages, there is the risk of unemployment. However what anecdotic evidence shows in many countries is that there is shortage of labor at currently prevailing wage levels and that youngsters are not interested in coffee jobs unless there is a technological change. Technology apart, maximum economic yields must be achieved with due respect to labor safety and health including availability of personal protection equipment and training on its proper use, satisfactory housing and living conditions, etc. besides a decent salary.

In summary, what Parts 1 and 2 together show is that there is room to increase the economic viability of coffee farming with greater productivity and attention to the physical environment, social responsibility and the creation of an enabling environment beyond farm gate. Not an easy task in many countries but doable if the factors above are duly considered.

A ROAD MAP TO PROCESS HONEY COFFEES

Pinhalense is the coffee machinery company that supported with equipment development the first Brazilian coffee growers who started to produce honey coffee in the late 1980s putting into practice a concept that the Campinas Agronomy Institute (IAC) had proposed as early as 1953. Pinhalense developed special arrangements with its pulpers with unripe cherry separators, mucilage removers and rotary driers that enabled growers to obtain and dry parchment with all or some mucilage attached. After this pioneering approach Pinhalense developed these different pieces of equipment further to offer what has become the state-of-the-art line of machines to process honey coffee anywhere in the world.

ECO SUPER

Brazilian growers and traders called this new product Cereja Descascado or simply CD for its initials and its name was translated into English as Pulped Natural Coffee, whose definition was and is green coffee that derives from parchment that is dried with all or some mucilage attached. Central American growers have lately given the name Honey to this type of coffee and associated the amount of mucilage left to different colors and created the terms Black, Red and Yellow Honey for parchment that is dried with all to very little mucilage attached to parchment respectively.

SRE-090X

Pinhalense recommends several machines in its line to process high quality Honey Coffee:
- the new ECO SUPER and the well-known ecoflex pulpers,
- the DMPE line of mucilage removers,
- the SRE rotary driers and
- the combined hullers CON and C2DPRC,

all available in several sizes and capacities. Processing of Honey Coffees can start with mechanical siphons and it will continue with size grading, gravity separation, etc. but the machines itemized above are the ones that respond to the specific processing needs of Honey Coffees.

The combination or not and adjustment of the Pinhalense ECO SUPER or ecoflex pulpers and DMPE mucilage removers will determine if the final product will be Black, Red or Yellow Honey as required by clients. The main goal here is not only to supply the quality the market wants but to do so with the minimum amount of water, the least damage to parchment and beans, as little pulp as possible mixed with parchment, and little or no loss of parchment with the pulp to be discarded.

C2DPRC

Parchment with mucilage attached can be fed into the Pinhalense SRE rotary driers, single or divided drum, when it will no longer stick to the drum walls. Pinhalense provides to clients simple rules to determine when parchment is ready to go into driers and advises on drying times to be expected under different conditions. Clients can select continuous or intermittent drying and even the use of different drying techniques for the same coffee lot.

Large lots of Honey Coffee can be pre-cleaned, destoned, hulled and separated in Pinhalense combined hulling units CON and polished, if required, in its polishers DBD or DEPOL depending on the features expected for the final product, green coffee. In order to allow Honey Coffee to be marketed in micro-lots, Pinhalense now offers the combined machine C2DPRC that comes with a cold huller *and* polisher *and* a grader in the same structure and can be followed by a micro gravity separator MVF.

If this sounds as too many possibilities it is because it is indeed a road map on which to choose the specific route that fits your and your clients' needs. Come to Pinhalense's Booth No. 709 at Seattle's Specialty Coffee Expo, talk to Pinhalense's representative near you or to P&A directly to define your own route and the machines you need to process Honey Coffees.