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COFFIDENTIAL

11th Anniversary Issue!

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

EXPORTS DOWN 35% DUE TO TRUCKERS' STRIKE

The truckers' strike that took place in Brazil last May has affected coffee exports: shipments fell 34.7% compared to the same period in 2017 and totaled only 1.7 million bags including green, R&G and soluble coffee, according to the Brazilian Coffee Exporters' Association (CeCafé). Revenue has declined even more drastically, as much as 42% compared to 2017, reaching US$ 258.6 million.

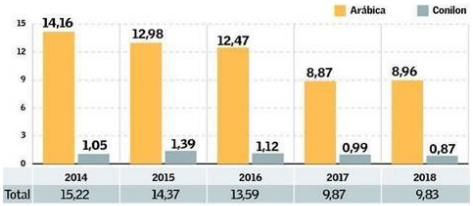
Source: Valor Econômico

FOURTH CONSECUTIVE DECLINE IN BRAZILIAN COFFEE STOCKS

According to CONAB, the Ministry of Agriculture agency in charge of warehousing and crop estimates, private coffee stocks in Brazil totaled 9.82 million bags in March, 2018, a slightly decrease of 0.4% compared to the 9.86 million bags held one year before. It is the fourth consecutive decline, with stocks at the lowest level since 2012. Arabica currently represents 8.96 million bags and Conilon 0.87 million bags of the coffee stored.

Source: Valor Econômico

Evolution of private coffee stocks
(in million bags)



	2014	2015	2016	2017	2018
Total	15,22	14,37	13,59	9,87	9,83

Source: Conab

ROBUSTA CLONES DEVELOPED FOR SÃO PAULO STATE

The Agribusiness Technology Agency of São Paulo (APTA) together with the Campinas Agronomy Institute (IAC) have been selecting Robusta coffee clones adapted to the state's needs and conditions for the past 10 years. The aim is to encourage the diversification of production and cater to the roasting industry whose demand is increasing for good-quality Robusta for their blends. Six clones of high quality Conilon/Robusta from Espírito Santo state were selected and crossed with IAC 2258. Tests with the new material are being conducted on farms located at 400 meters of altitude in São Paulo state with average temperatures of 23°C. A new clone will soon be released for growers.

Source: Revista Plasticultura

NEW APPROACH HELPS CONTROL COFFEE LEAF RUST

Research developed by ESALQ, the São Paulo State University's Agronomy School, can help growers prevent and control coffee leaf rust, first found in Brazil in 1970 and still among the main diseases affecting production today. The approach developed uses basic data such as minimum temperatures and air moisture levels to estimate the ideal date to apply fungicides, with an approximate 30-day antecipation, so growers can plan the activity. Seven field experiments using the model were conducted in commercial coffee plantations in Varginha, Boa Esperança, Uberlândia, Campinas and Buritizal and in all of them the proposed approach was better to control leaf rust in comparison with the traditional system of "calendar" applications. ESALQ developed the work in partnership with the São Paulo Biological Institute, Embrapa Informática and Procafé.

Sources: Revista Cafeicultura and ESALQ/USP

ROASTERS ASSOCIATION ORGANIZES TRIP TO CERRADO

Roasters members of ABIC have recently been on the first Trip to Origin, to the Cerrado of Minas region widely known for its highly productive and modern production approach (and also for the first Denomination of Origin for coffees in Brazil). The group was there for two days following harvesting, processing and the preparation of the beans for exports, cupping coffees and visiting farms and the MonteCCer Cooperative. The trip intended to integrate the coffee chain enabling networking and bringing buyers and growers closer together.

Source: Revista Cafeicultura

BRAZILIANS LOVE SOCCER...AND COFFEE!

Data released by Euromonitor reveals that Brazilians drink an average of 817 cups of coffee per year; it is the non-alcoholic beverage most consumed in the country, followed by soft drinks and bottled water. It is estimated that 15% of the global coffee volume drunk in the world is consumed in Brazil.

Source: Época Negócios

INCREASED ATTENDANCE AND SALES BY BRAZILIANS AT WOC

The Brazilian delegation that attended the World of Coffee 2018 in Amsterdam in June was composed of 28 entrepreneurs. The delegation closed deals worth US$ 26.1 million and expects another US$ 209.6 million to be closed over the next 12 months. The Brazilian Specialty Coffee Association (BSCA) booth offered cuppings of top quality coffees from several producing regions.

Source: BSCA

MELITTA TO ENTER BRAZILIAN CAPSULE SEGMENT

Melitta will start producing coffee capsules aiming to expand its presence in Brazilian homes. The capsules will be manufactured in the company's factory in Avaré, São Paulo state, where its R&G coffee is already produced. Melitta already counts with a recycling program: the consumer will store the used capsules in a box (that holds up to 50 capsules), then access the website to print a prepaid stamp and dispatch the box to the recycling center at any post office.

Sources: Valor Econômico and Revista Cafeicultura

BRAZILIAN ADVERTISING AGENCY REDESIGNS CQI LOGOS

GSB2 advertising agency has recently redesigned the Coffee Quality Institute's family of logos that now covers all CQI programs. The force of the letter "Q" for quality is a key component of the logos to emphasize the essential feature of CQI's branding. Now all of the CQI logos have been harmonized with the main logo, also redesigned by GSB2 in 2015.

Coffee Quality Institute® | Q Arabica Grader® | Q Certified Robusta® | Q Processing™ Professional | Coffee Corps® Program

Sources: ADS and P&A

Brazilian Prices

Main Producing Regions / Farm Gate — **May 30, 2018**

Arabica Naturals (R$/ 60 kg bag)		
Cerrado MG	455,00	↓
Mogiana	450,00	↓
South Minas	450,00	↓
Arabica Pulped Naturals (R$/ 60 kg bag)		
Cerrado MG	505,00	=
South Minas	500,00	=

+ 12.2%

Conilon / Robusta (R$/ 60 kg bag)		
Colatina-ES fair average price	336,00	↓

BM&F (US$/60kg Arabica bag)		
Sep 2018	134,65	↓
Dec 2018	138,25	↓
Mar 2019	143,45	↓

Real R$ / Dolar US$		
May 30, 2018	3,88	↑

Source: www.qualicafex.com.br

HOW TO COUNTERACT THE FALL IN DEMAND FOR SUSTAINABLE COFFEE?

Not only have price premiums for sustainable coffee fallen but, growers and traders have been complaining, the demand for sustainable coffee has also been falling. This is in clear conflict with all supply chain efforts to increase the supply of sustainable coffee. What is going on?

It has long been known from consumer surveys that the vast majority of coffee drinkers is in favor of buying sustainable coffees but only a small minority would pay premiums for these coffees. Sensitive to all this, precompetitive multi-stakeholder initiatives like Sustainable Coffee Challenge (SCC) and Global Coffee Platform (GCP) have been urging roasters to pledge to buy more sustainable coffee and to voluntarily declare how much sustainable coffee they are buying. But is this enough?

It seems unlikely that growers will be able to cover the costs of producing in a sustainable way unless consumers pay more for sustainable coffees. It is a known fact that as a grower moves toward sustainable production there is also a tendency to produce more and to become a better manager. But is this enough, more so with current coffee prices?

All in all, the solution to this puzzle lies on convincing consumers to pay more for sustainable coffee in order to ensure that the environmental, social and economic benefits of sustainable production are achieved with gains to all. As economist would say, consumers to pay more is the marketing instrument to internalize the costs of the externalities that are behind the concept of sustainability. Is this an impossible task?

Let's look at other developments in the coffee business and see if one can learn from them. For many years it was thought that to increase coffee consumption depended on the competitive efforts of brands alone. However the Brazilian experience cast new light onto this by increasing coffee consumption from 6 to 13 million bags and per capita consumption from 2 to 4kg per person per year in 10 years with a pre-competitive investment of only US$ 27 million made by the roasting industry. This paved the way for further developments that raised Brazilian consumption to today's 21 million bags and per capita consumption of 6.0kg/year.

The original Brazilian pitch on purity was complemented by a focus on the benefits of coffee drinking to health. This in turn sensitized the international coffee community and had several developments ranging from strengthening the efforts of the Association for Science and Information on Coffee (ASIC) to the beginning of ICO's Coffee and Health Program and including the creation of the Institute for Coffee Studies at Vanderbilt University in the US. These pre-competitive efforts followed by new trends in the coffee business – coffee shops, single-serve and the third wave – managed to first break away from the 1% yearly growth in world coffee consumption and then to retain a growth rate of 2 to 2.5% per year. This raises the question of whether there is room for a pre-competitive effort to convince consumers to pay more for sustainable coffees.

If consumers are concerned with the negative impacts of unsustainable coffee growing on the environment and workers' rights, for example, it is high time that the potential risks of unsustainable coffee production are associated with the inability to produce sustainably unless the consumer pays more for sustainable coffees. That being the case, who is supposed to do so?

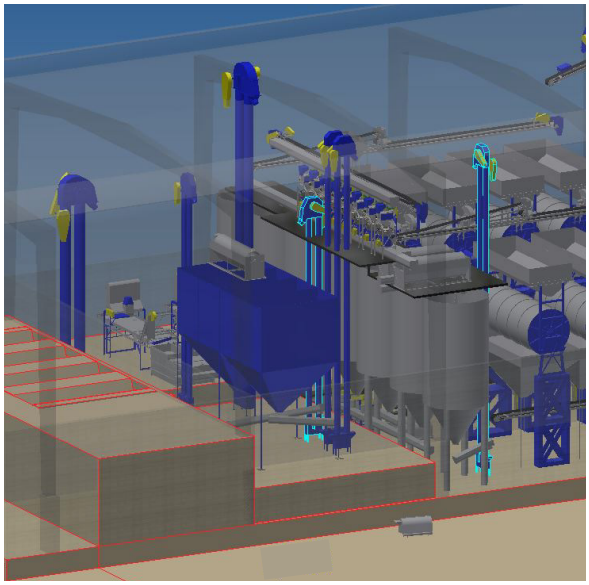
It is unlikely that roasters who operate in a competitive environment may do more than to associate some of their brands and products to sustainable production. They may however embark on pre-competitive public relations campaign that the pre-competitive multi-stakeholder initiatives that they belong to may propose and carry out. Additionally, they can use their own competitive marketing efforts to echo these pre-competitive campaigns much in the way it was done for coffee and health.

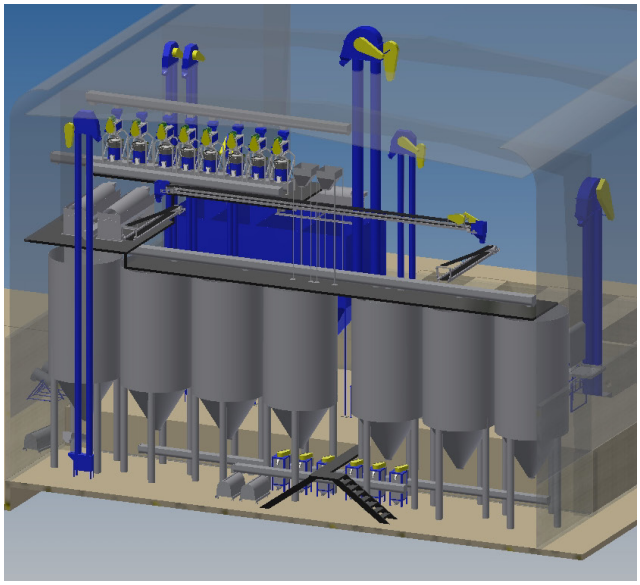
This is only an idea, perhaps far-fetched, that may be worth to consider since (1) it seems to be a losing preposition to expect that growers will invest their own resources to produce sustainably without some sort of compensation, (2) it seems equally unlikely that the supply chain will provide the respective resources required and, therefore, (3) a higher consumer price for sustainable coffee may be the solution. Comparing the US$ 350 million that is said to be invested in sustainability per year and the US$ 27 million over 10 years invested in promotion of consumption in Brazil and the amounts of the same magnitude invested in coffee and health by ASIC and the ICO, is it worth to use some of these US$ 350 million in a public relations campaign to show that it costs more to produce sustainable coffee and that consumers should help cover these costs. This, combined with sustainable coffee regions and other new ways to measure sustainability, would help pave the way to make coffee a fully sustainable product from consumers' cups (and wallets) to growers' seeds.

CHALLENGES TO DESIGN *ECOLOGICAL* WET MILLS

The main focus of ecological wet milling of coffee has traditionally been on reducing water consumption in the main processing machines themselves: *siphon*, to separate light, less dense cherries and stones, *pulpers*, to remove the pulp involving parchment and *mucilage removers*, to remove the mucilage attached to parchment. However, another important source of water consumption and contamination is feed hoppers where coffee flows out with the help of water and the transport of coffee using water channels, not to say fermentation tanks themselves that are usually responsible for the largest water consumption in the whole process. Unless ecological machines – mechanical siphons, pulpers and mucilage removers – are interconnected with *dry* feed and transport equipment, the actual ecological impact of wet milling will not be minimized. The same holds for combining fermentation, if required, with mucilage removers, even in the case of dry fermentation.

Pinhalense has played its part over the years from the invention and patenting of the mechanical siphon LSC to the recent launch of its reduced water consumption ECO SUPER pulper, including several generations of mucilage removers (DFA and now DMPE). But Pinhalense's role has not stopped there! Its ecological wet milling projects – layout and design – more than ever strive to eliminate water from coffee feeding and transport and even fermentation. Pinhalense has always stated that the success of a coffee mill depends not only on the machines themselves but also on how they are interconnected, i.e., the flows of products. Paraphrasing this, how ecological a wet mill is depends not only on the machines themselves – mechanical siphons, pulpers and mucilage removers that use little water – but also on how these machines are interconnected – dry feed hoppers and transport of coffee (elevators, conveyors, pipes, chutes, etc.) – and how water efficient fermentation, if used, is designed to be.





The Pinhalense project portrayed above – one of the largest wet mills in Colombia, currently being assembled – uses dry mechanical transport of coffee and rejects, including coffee pulp, from the feed hoppers to the rotary driers and relies on dry fermentation.

The strategy of using ecological machines – mechanical siphon LSC, pulpers ECO SUPER and mucilage remover DMPE – combined with transport of coffee and rejects without water is today a trade mark of Pinhalense wet milling projects of all sizes, from large central mills to small projects for individual growers.

Rely on Pinhalense machines ***and*** *complimentary* projects to build your state-of-the-art ecological wet mill.