

CONFIDENTIAL

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

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CLIMATE IS CONCERN FOR FUTURE CROP

The current weather in coffee growing areas of Southeastern Brazil is already raising concerns for the next crop. A small Arabica flowering has already happened due to rainfall that hit the region in late July / early August. However, flowering abortion may occur if there is no continuous rainfall. It is not yet possible to predict the impact of the current climate on the new season but lack of homogeneity at the harvesting period will take place as a result of flowerings occurring at different times.

Source: Valor Econômico

BRAZILIAN ROBUSTA EXPORTS GROW 500% PLUS

Exports of Conilon (Robusta) coffee surpassed 872,000 bags in January to July with a 527% growth over the same period in 2017. This large increase in exports points to the recovery of the Conilon production that had declined in the previous two years due to a severe drought. Overall coffee exports from Brazil reached 17 million bags from January to July, including 14 million bags of Arabica (83,2%), and 2 million bags green-coffee equivalent of soluble coffee (11,6%), according to the Brazilian Coffee Exporters' Association (CeCafé).

Source: Embrapa

HIGH QUALITY COFFEE PRODUCED IN MATO GROSSO

The northeastern portion of Mato Grosso state has been developing its coffee production that already adds up to 130,000 bags grown on more than 10 thousand hectares. The city of Colniza alone is responsible for 51% of the coffee produced in the state, located in Brazil's mid-west. With favorable soil and climate, the region plans to double its output over the next 5 years if more investment in infrastructure and logistics – including new roads to access farms – are made by government.

Source: 24 Horas News

PINHALENSE LAUNCHES NEW HARVESTERS FOR CONILON

In response to the growing production of Conilon and the high cost and shortage of labor, Pinhalense has just launched two harvesting machines especially developed for this variety: the Robusta, that separates coffee from branches that have been cut, and the Conilona, that winnows coffee to separate leaves, sticks and other impurities. These hi-tech robust machines are totally adapted to the needs of the Conilon coffee grower with hydraulic leveling, simple operation, little coffee loss and high performance.

Source: CaféPoint



Conilona



Robusta

GREAT FUNDING FOR COFFEE RESEARCH REQUESTED

The National Coffee Growers' Council (CNC) has requested an increase in resources for the Coffee Research Consortium at the Ministry of Agriculture (MAPA). CNC proposes that the Funcafé Coffee Fund allocates R\$ 15 million (US\$ 3.6 million) annually for coffee research in order to keep the sector's technological innovation advancing. The generation and transfer of new technologies to coffee growers is essential to retain Brazilian leadership of global coffee production.

Source: Notícias Agrícolas

NEW GENETIC MATERIAL TO FIGHT LEAF MINER

Leaf miner (*Leucoptera coffeella*) has become the main pest in many coffee growing areas. It has been recently necessary to alternate insecticide types, increase product doses and reduce application intervals at increasing costs and not always with the desired efficiency. Genetic materials resistant to the miner are a good way to control it; innovative research with the *Siriema* plant material, that is also resistant to leaf rust and tolerant to water stress, is in its final phase of development and the material will soon be available commercially.

Source: Revista Cafeicultura

CONILON GROWERS ABLE TO JOIN SPECIALTY COFFEE ASSOCIATION

Producers of Conilon and Robusta coffees can now apply for membership at BSCA (Brazil Specialty Coffee Association). Increasing efforts towards quality and the growing acceptance of this variety of coffee in Brazil have led to the decision. Warehouses, cooperatives and growers associations, exporters, traders and roasters of Conilon and Robusta are invited to apply. Conilon/Robusta represents 24% of the national coffee production today.

Source: CaféPoint

MELITTA ENTERS E-COMMERCE IN BRAZIL

Melitta, the German coffee multinational, started to sell its coffees via Internet and created a platform to interact with consumers. With content on coffee as well as exclusive products, services and accessories available only at the site, the platform includes a tool called "Café do Meu Jeito" (Coffee My Way) that allows consumers to create their own blends based on their sensory profiles and with their favorite acidity, sweetness, etc., and level of grinding.

Source: Melitta

COKE INNOVATES AND LAUNCHES COFFEE BEVERAGE IN BRAZIL

Coca-Cola Plus Espresso Coffee Flavor has been launched in Brazil after tests in Japan, Australia and Vietnam. The beverage, that smells and tastes like coffee, is a version of the traditional soft drink with 40% more caffeine and 50% less sugar. The new product was developed to cater to Brazilians' taste; it comes in 220ml cans at a retail price of R\$ 2,50 (US\$ 0,60). Consumption of soft drinks has been plummeting over the past 10 years in the country in opposition to coffee whose consumptions has been steadily growing.



Source: StartSe

Brazilian Prices

Main Producing Regions / Farm Gate

August 31, 2018

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	425,00 ↓	Colatina-ES fair average price	323,00 ↑
Mogiana	420,00 ↓		
South Minas	420,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	455,00 =	Sep 2018	119,20 ↓
South Minas	450,00 =	Dec 2018	117,70 ↓
		Mar 2019	120,95 ↓
		Real R\$ / Dolar US\$	
		Aug 31, 2018	4,07 ↑

+ 8.3%

Source: www.qualicafex.com.br

LOW PRICES, ECONOMIC SUSTAINABILITY AND POVERTY: IS THERE A WAY OUT?

At the end of August, Colombia and Brazil issued a joint statement about what they called a “destructive scenario in the world coffee market” (<https://bit.ly/2NkYk4R>). If two of the most efficient and profitable Arabica coffee producing countries in the world are concerned with international coffee prices that they claim “are below production costs”, one can only wonder about other Arabica producers that are less productive, have less efficient supply chains and lack some of the enabling business environment – research, extension services, financing, logistics, efficient input and equipment markets and smart regulation – that Brazil and Colombia have.

For example, a recent study by Promecafé shows that four Central American countries – Guatemala, El Salvador, Honduras and Costa Rica – have average production costs well above current ICE prices when such costs are properly calculated. The same study shows that the “out-of-the-pocket” costs usually adopted as costs of production by small growers ignore not only returns to investment and rent and management costs but even the labor costs of harvesting and cultivation that are carried out by the grower and family themselves. Even if such underestimated out-of-the-pocket costs, as perceived by growers, are below current prices, they are impoverishing growers because they are not considering their actual production costs.

This brings to the limelight the issue of sustainability with emphasis on its economic component that is the one that matters the most to growers, especially those closest to or already in poverty conditions. It is often hard for these growers to understand sustainability concerns if they can barely survive on what they make. They may have to cut trees as an alternative source of income or simply to cook. They may have to plant in protected areas to increase production. They may not be able to send children to school to count on their help at home if not at coffee work. It is obvious that consumers should not be happy with these unsustainable practices but are they aware that current green coffee prices may not cover production costs and therefore may not lead to economic sustainability?

It is high time for a change of paradigm to occur and for the economic sustainability of coffee growers to be placed at the forefront otherwise the whole concept of sustainable coffee production will be at risk. But how can this change take place? I have already elaborated on this topic at the Outlook article in July’s Confidential No. 132 – get consumers’ support – and will not repeat the same arguments here. However, I now have other ideas to add to what I wrote before and to the ideas that the Joint Statement Colombia - Brazil proposed.

The joint statement does mention programs to promote sustainability and I want to mention here an idea that has been floated recently. There are many international initiatives today that directly or indirectly address sustainability – research, climate, financing, enabling environment, evaluation, etc. Shouldn’t these initiatives work together more closely or even under one umbrella in order not to compete with each other for funds only but to increase available funding for coffee sustainability, to coordinate actions and to achieve economies of scale? It is unavoidable that the competition for the same funds may cause initiatives to miss out on meaningful collaboration and confuse donors and companies. On the other hand, whereas some initiatives are more keen on creating tools – e.g.: research and climate – others are more oriented to implementation and therefore complement each other and should work together lest the former will have to develop ways to implement and the latter to develop tools with further repetition of functions and tasks. Last but not least, this umbrella or alliance would help integrate projects into a comprehensive approach that ensures the sustainability of localized results and their dissemination.

The question is who would “bell the cats” and how it should be done.

BEATING THE MARKET WITH MICRO-LOTS

At times of low coffee prices as now, micro-lots are a good marketing and sales tool because they are much less sensitive to coffee exchange prices. There is growing demand for micro-lots of different qualities and features by roasters who want to please their clients in a customized way.



The investment on micro-lot processing equipment pays off quickly as shown by Pinhalense clients in countries and markets as diverse as China and Guatemala and including Colombia, Kenya, Brazil and others.

Pinhalense offers many options in micro-lot processing equipment:

- mechanical siphons LSC-5 and 10
- pulpers ecoflex-2 and ECO SUPER
- mucilage removers DMP-0 and 3
- driers SRE-016, 025, 033 and 050
- combined huller, polisher and grader C2DPRC
- combined huller CON-6
- size graders PFA-1 and 2
- gravity separator MVF-0

besides elevators, conveyors and small silos of adequate capacity.



P&A's experts and Pinhalense's project engineers can help you select the ideal size of machines and sequence of equipment to meet your processing needs in order to respond to your clients' micro-lot demands. All pieces of equipment can be placed above ground on a single floor as shown in the pictures to minimize civil works and costs. Pinhalense offers unique processing solutions for washed, pulped natural / honey and natural coffee micro-lots.

The pictures shown above are from Finca El Cadejo, Antigua, Guatemala (see more pictures here: www.peamarketing.com.br/galeria/finca-el-cadejo)