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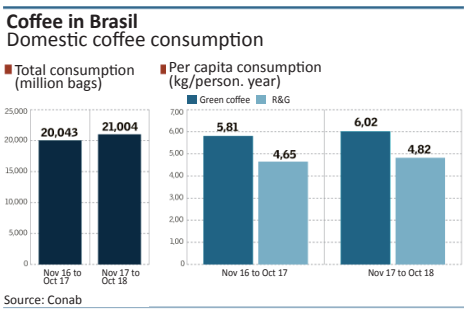
COFFIDENTIAL

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

COFFEE CONSUMPTION KEEPS GROWING DESPITE HIGHER PRICES

Although the final price to the consumer increased substantially in Brazil, 37% from January 2017 to February 2018, coffee consumption grew almost 5% from November 2017 to October 2018 and reached 21 million bags or 6 kg of green coffee per person. The Brazilian Coffee Roasters' Association (ABIC) believes the expansion in consumption reflects the overall quality improvement and the role of coffee among healthy beverages. Euromonitor estimates a 3.5% increase in domestic consumption in 2019.

Sources: ABIC and Embrapa Café



COCATREL LAUNCHES COFFEES PRODUCED BY WOMEN

Três Pontas Coffee Growers Cooperative (Cocatrel) has just released two specialty coffees entirely produced by women. The specialty coffee department of the cooperative selected the best coffees grown by women stored in the cooperative and created two blends, both top quality, with grades above 86 points. These products will be in the market in time for the International Women's Day celebration on March 8th.

Source: CCCMG

NESTLÉ TO MANUFACTURE STARBUCKS' BRAND CAPSULES AND R&G IN BRAZIL

Nestlé, the world's largest manufacturer of food products, will begin to sell Starbucks coffee in supermarkets and online platforms in 14 countries. Brazil is part of this group and, as a key market for the company, will be also a production site for Dolce Gusto capsules and roasted coffee with Starbucks' brand. There will be 24 new products with the Starbucks brand, 16 of which capsules compatible with Nespresso and Nescafé Dolce Gusto machines, besides R&G coffee. The plan is to gradually bring production closer to consumer centers. Starbucks products will be manufactured at the existing Dolce Gusto factory in Brazil. Nespresso production, on the other hand, will remain concentrated in Switzerland for the time being. According to Nestlé, Brazil is definitely a market with huge potential for expansion.

Source: Valor Econômico

TWO-STATE GEOGRAPHICAL INDICATION OF CAPARAÓ CLOSER TO OFFICIAL RECOGNITION

The procedures to establish the Denomination of Origin of Caparaó Coffee are close to their most important step: registration and official recognition by the National Institute of Industrial Property (INPI). The Caparaó Coffee Denomination of Origin covers ten municipalities in the state of Espírito Santo and six in Minas Gerais. The Caparaó region is already well-known by its specialty coffees and its acknowledgement as a Geographical Indication will add more value to the product. The Conilon Espírito Santo and the Montanhas Capixabas regions have also applied for their Geographical Indications.

Source: Safra ES

COFFEE LEAF RUST MAY REDUCE PRODUCTION BY 35% IN 2019

The Campinas Agronomy Institute (IAC) alerts for the high incidence of coffee leaf rust in plantations throughout Brazil this year due to higher than average temperatures and random rain patterns that favor the occurrence of the disease. Field surveys have identified the disease, in non-treated areas, in 44% of Catuaí cultivars in Campinas, 32% of Mundo Novo cultivars in Franca and as much as 53% of Mundo Novo in Caconde, all relevant coffee regions in São Paulo. Growers will have to reduce the intervals between fungicide applications if climate conditions remain favorable to leaf rust.

Source: Estadão Conteúdo

AMAZONAS TO INVEST IN CONILON COFFEE

Amazonas state, in northern Brazil, plans to promote coffee production and to expand its annual crop from merely 7,000 to 360,000 bags by 2022. Current coffee production in the state is concentrated in its southern portion, around the Apuí municipality. The work will involve Embrapa and partnerships with financial and research institutes focusing on the training of technicians and growers. The project will be based on Conilon coffee that is more adapted to conditions in the Amazon Basin.

Source: Globo Rural

CUP OF EXCELLENCE WINNING ORGANIC COFFEE SOLD IN BOTTLES

Design glass bottles were specially developed to bring to consumers the Cup of Excellence winning Orfeu brand micro lot of the Arara cultivar grown organically in high altitudes on its Sertãozinho Farm in South Minas. The 2018-crop lot, that presents a velvety medium body with aromatic notes of honey and spices, is selling at premium prices.

Source: Globo Rural Online

GROSS VALUE OF AGRICULTURAL PRODUCTION ON THE RISE

The Gross Production Value (GPV) of agricultural products must reach R$ 633,9 billions (US$ 167.7 billions) in Brazil in 2019. If these estimates are confirmed, the amount will be 5.6% higher than in 2018. GPV grew 3,1% in 2018 compared to 2017, led by soybeans (R$ 172,2 billions | US$ 45.6 billions), corn (R$ 52,4 billions| US$ 13.9 billions) and sugarcane (R$ 51,3 billions| US$ 13.6 billions). The biggest increases were registered in wheat (58 %), cotton (51%), cocoa (46%), and Arabica coffee (23.4%).

Source: CNA Brasil

COOXUPÉ PROMOTES ENVIRONMENTAL AWARENESS OF STUDENTS

Cooxupé's Environmental Education Center (NEA, for its initials in Portuguese) trained more than 6 thousand students from 100 schools in its area of influence on good environmental and preservation practices. Over 35 thousand tree seedlings were distributed in the 21 municipalities covered by the program. The NEA is a partnership between Cooxupé and the Espaço ECO Foundation that aims to contribute to the growth and development of the environmental awareness of students.

Source: Folha Rural

Brazilian Prices

Main Producing Regions / Farm Gate — **February 28, 2019**

Arabica Naturals (R$/ 60 kg bag)	
Cerrado MG	395,00 ↓
Mogiana	390,00 ↓
South Minas	390,00 ↓
Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado MG	405,00 ↓
South Minas	400,00 ↓

+ 3.8%

Conilon / Robusta (R$/ 60 kg bag)	
Colatina-ES fair average price	296,00 ↓

BM&F (US$/60kg Arabica bag)	
Mar 2019	111,35 ↓
Sep 2019	120,50 ↓
Dez 2019	122,05 ↓

Real R$ / Dolar US$	
Feb 28, 2019	3,75 ↑

Source: www.qualicafex.com.br

IS PROMOTING CONSUMPTION A REMEDY FOR LOW COFFEE PRICES AND DECAYING SUSTAINABILITY?

Record low coffee prices are causing despair in producing areas around the world. Reactions are many at all levels of the supply chain and growers and their representatives are by far the most outspoken, as it should be expected. Proposals abound from many quarters but effective solutions to the price crisis are not to be seen.

Meanwhile, one wonders, can coffee be produced sustainably at these price levels? It is highly unlikely except for growers who are either selling at premium prices or have production costs below their country averages or both. In summary, most of the world's coffee is unlikely to be produced sustainably at today's prices unless growers are incurring losses. This explains the growing concern for the Economic Viability of Coffee Farming (EVoF) and living income, especially for small holders and workers in coffee producing areas.

However, looking back at previous price crises, one notices that although they caused the average rate of growth of production to fall, production never shrank consistently and some countries increased their market share. From a market perspective, countries that produced more efficiently gained space and overall the sustainability of world coffee production fell dramatically, specially the economic one, but not to the point of turning growers into other cultures in most countries, probably for lack of alternatives. This is likely to happen again in this crisis in spite of the growing outcry. A safety valve may be technology meaning that it may lower production costs. But how many coffee growers around the world, specially small ones, have access to innovation that may indeed lower costs of production?

If economic sustainability is not there, what to say of the social and environmental pillars of sustainability? This is the time when informal and child work increases, workers' wellbeing and safety fall, and coffee on low-fertility soil is transferred to the initially rich soil of deforested areas not to talk about the turning-off of waste water treatment facilities, to give only a few examples of how unsustainable practices develop. What is the way out?

At times of low coffee prices, talks of transfer pricing and market intervention increase, existing sustainability initiatives gain attention and others are created, and projects to measure sustainability more closely develop to address identified problems in collaboration and to lower risk in areas to where sensitive buyers direct their purchases. Nevertheless little is said about the fact that the statistical evidence that coffee production is increasing faster than coffee consumption can be reversed by actions to promote consumption!

Coffee consumption has been growing faster in the two decades of this century than it did in the last two decades of the previous century. But can it grow even faster? Increases in coffee consumption in the 1990s and early 2000s resulted from the dissemination of new evidence of the positive benefits of coffee to health, the growth of coffee shops, the specialty coffee sector and single-serve, the opening of new markets (e.g.: China), and consistent growth in a few producing countries with large populations like Brazil and Indonesia. What can be done to increase the current rate of growth of coffee consumption?

The ICO is already considering the updating of its Step-by-step Guide to Promote Coffee Consumption in Producing Countries that sparked projects to promote consumption in India, Mexico, Costa Rica, El Salvador and the longer lasting and more successful one in Colombia, besides serving as background for many other initiatives to boost consumption. The World Coffee Producers' Forum has elected promotion of consumption as one of the three major topics to be addressed in its next July issue in Brazil.

Institutional programs in some countries and actions by the industry in others or both together in the same countries are the major tools to increase coffee consumption. Besides promotion of consumption in producing countries whose low consumption per capita presents great potential for growth and in "new" tea-drinking markets like China and India, key areas to be addressed are the traditional markets of Europe and Japan that have been growing more slowly than the US that has recently shaken itself out of the same slow growth. It is worth investigating how the US did it and if and how it may be replicated in Europe, Japan and even other countries. Another area to be studied is if and how the concept of sustainability can be more intensely disseminated among consumers in order to convince them to pay more for sustainable coffee if not to consume more. Not a short term solution but this all deserves another Outlook article…

PINHALENSE LAUNCHES IoT-COMPATIBLE SYSTEM TO MONITOR AND CONTROL THE COFFEE DRYING PROCESS

Drying is by far the most expensive post-harvest processing step and one that is critically related to the quality and price of the final product.

Pinhalense has just launched an innovative IoT - Internet-of-Things compatible system to monitor and control the drying process in order to ensure that the intrinsic quality of the coffee beans is retained and emphasized.

The new Pinhalense system is the only one to monitor temperature at three points: heat source – heat exchanger or boiler –, air used to dry coffee and coffee in the drying drum*. It then uses this information to control and turn on or off the electric motors that drive:
- husk feeding,
- air flow and
- rotation of drying drum.

This is done according to programs designed to correlate the temperature in the three measuring points and to dry the product in a continuous process or with resting periods that help homogenize the moisture of the beans.

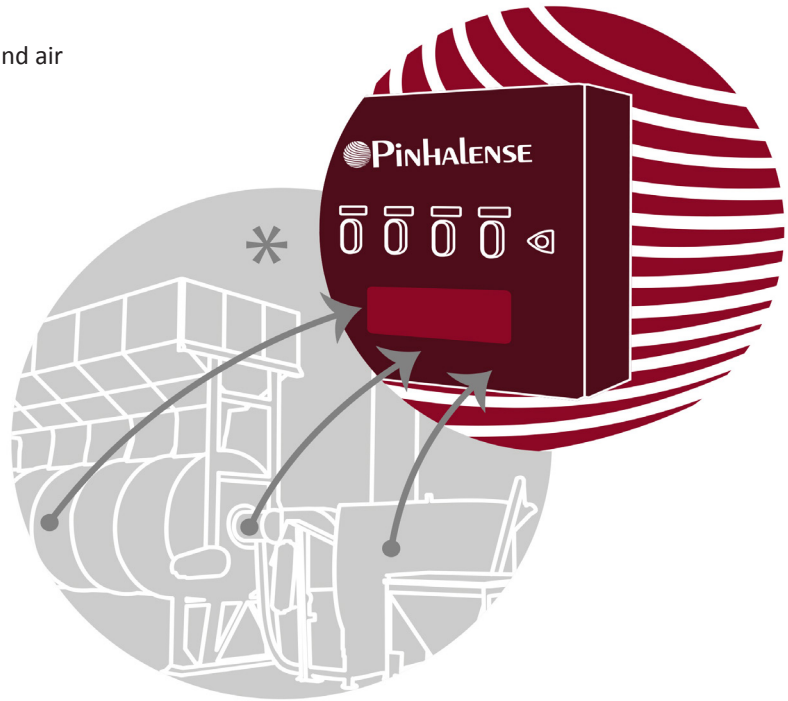
Very important, from an operational perspective, users only have to set the target temperature to dry their coffee and the system will adjust all other temperatures accordingly.

The Pinhalense system was developed specifically for coffee as opposed to other technologies used to control the drying of grains and other products that are not as valuable as coffee and do not require strict temperature control to retain quality and maximize price. But the unique Pinhalense system may be also used for other products with adjustments in programming.

The system monitors and controls the temperatures of coffee and air
- actual and
- target

at
- heat source
- air entering drier and
- coffee mass

in a precise way in order to keep coffee exposure to heat within programmed temperature ranges that consider not only product quality but also energy consumption that is one of the key costs in the drying equation.



The new Pinhalense system is compatible with and can be programmed for different types of coffee:
- washed,
- pulped natural / honey and
- natural

and can be used with any Pinhalense rotary drier, *new* or *existing*, from the smallest SRE-025 to the largest SRE-240 and including the best-selling SRE-150 single drum driers besides the SRE-B family of divided-drum driers.

Pinhalense's unique system to monitor and control the drying process is (1) available for single machines as well as (2) any combination of drier units and sizes with either individual or collective heat sources and (3) can be connected to integrated plant control systems.

OPTIMAL TEMPERATURE CONTROL – ENERGY SAVINGS – BETTER QUALITY COFFEE