

# CONFIDENTIAL

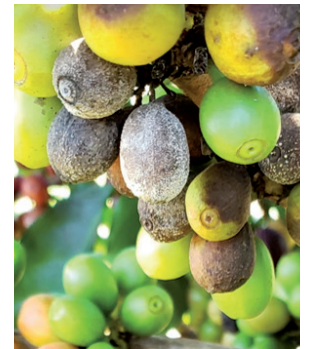
**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS. THIS ISSUE:**

- **CALL TO ACTION TO COLLECTIVELY ADDRESS THE PRICE CRISIS (PAGE 3)**
- **PERFECT BLEND LINE LAUNCHED: BLENDING, SAMPLING AND WEIGHING (PAGE 5)**

## **FORCED MATURATION IMPAIRS COFFEE QUALITY**

The occurrence of immature beans presenting dark spots and then becoming completely dark, i.e., going straight from the immature to the over ripe stage, has been frequently observed in several regions in the current Brazilian crop. This phenomenon, known as forced maturation, happens due to the plant's lack of reserves/energy to complete maturation. Water stress and higher temperatures during the growing stage of the beans accentuated by early flowering, which began in August 2018, are among the reasons behind the phenomenon.

Sources: Fundação Procafé and P&A



## **CRISIS MAKES GROWERS CONSIDER ABANDONING PRODUCTION**

In order to mitigate losses caused by the low prices and the increase in production costs, some Brazilian coffee growers are considering not to renovate areas or even to abandon production in some areas. According to estimates by the National Agricultural Confederation (CNA), costs of production in the 2019/20 crop should be between 5 and 15% higher than last season. In Santa Rita do Sapucaí, Minas Gerais, for instance, the price of the coffee bag was R\$ 373 (US\$ 95) on average in May whereas the cost to produce it was R\$ 450 (US\$ 115), with almost 30% of this cost related to harvesting alone.

Source: Valor Econômico

## **VALUE OF ARABICA PRODUCTION TODAY IS 40% BELOW 2010**

Although production volumes were similar, gross revenue to be received by Arabica growers in 2019 is estimated at R\$ 15.7 billion, a mere 60% of the result from 2010 when revenues reached R\$ 25.7 billion. In Conilon, although the volume produced was 35.8% higher in 2019 than in 2011, the revenue to be received by growers will be only 9% higher (R\$ 4.63 billion) this year.

Source: Embrapa

## **OPTIONS TO CULTIVATE COFFEE DURING CRISES**

Due to the current situation of low coffee prices, growers are challenged to reduce costs. Reducing fertilizer application is usually their first reaction but also a mistake since the plant needs adequate nutrition to develop and produce. The results of such a decision also have long-term impacts with the decrease of vegetative vigor and productivity. Pruning may be the best option because the plant will not produce in the following year ("zero crop") thus reducing costs with fertilization, agrochemicals, labor and harvesting.

Source: Peabirus

## **COFFEE FROM CERRADO EXPORTED TO JAPAN WITH ORIGIN SEAL AND ADDED VALUE**

The Cerrado Coffee Growers Cooperative (Coocacer), in Monte Carmelo, Minas Gerais, made its first coffee shipment to Japan bearing its geographical indication seal that certifies the origin of the coffee and its quality. The seal contributed to a 120% value addition on the price of the bag.

Source: Notícias Cafeicultura

**NARROWER SPACING IMPROVES PERFORMANCE OF ARARA CULTIVAR**

This Arabica cultivar presents very vigorous vegetation that could at first indicate the need for a higher distance between plants to create more space for the branches. However recent research results show that by reducing spacing in lines the trees become more slender and naturally “correct” their architecture to favor leaf development and more uniform flowering and ripening. The Arabica Arara cultivar, the most planted in Brazil lately due to its high productivity, good quality and especially high resistance to diseases, should now be planted with spacing close to 0.5m between trees in a line.



Sources: Procafé and Notícias Agrícolas

**40 MILLION BAGS TO BE EXPORTED IN 2019**

Brazil has exported 13.1 million coffee bags from January to April, a 26.8% increase in relation to the same period last year, but the average price per bag has declined 18.3% to US\$ 129.60. The top destinations of Brazilian coffees until now are the United States (2.4 million bags), Germany (2.2 mi bags) and Italy (1.3 mi bags). Total coffee exports may reach a record 40 million bags in 2019.

Source: Valor Econômico

**ASIA’S IMPORTS OF BRAZILIAN COFFEE UNTIL APRIL ARE LARGER THAN US’**

Brazilian coffee exports to Asia grew 30% in the January to April period of 2019, compared to last year, totalling 2.5 million bags. This is slightly above US imports in the same period. Japan, the largest coffee importer in the region, registered an expressive growth of 37% in coffee purchases from Brazil in the first quarter according to Cecafé (Brazilian Coffee Exporters Association).

Sources: Cecafé and P&A

**CHEAPER PRICES IN RETAIL AND NEW CONSUMPTION TRENDS**

Coffee retail prices have been declining, with leading brands reducing their average price in about 15% since 2018. Higher quality coffees sold out of home have however become 8% more expensive over the past 12 months. A recent survey hired by JDE about consumption habits in Brazil, that interviewed 3,400 people, identified that the average Brazilian drinks between 3 and 4 cups of coffee per day, with 80% of consumers drinking roast and ground coffee more frequently. The results also show that coffee consumption is highly associated with social gatherings – friends, family, pleasure and socialization – and the workplace – to boost energy.



Source: Valor Econômico

**Brazilian Prices**

Main Producing Regions / Farm Gate

May 31, 2019

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	405,00 ↑	Colatina-ES fair average price	290,00 ↑
Mogiana	400,00 ↑		
South Minas	400,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	425,00 ↑	Jul 2019	125,10 ↑
South Minas	420,00 ↑	Sep 2019	127,70 ↑
		Dec 2019	131,85 ↑
		Real R\$ / Dolar US\$	
		May 31, 2019	3,92 =

+ 6.25%

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

**The 10-year chart of coffee prices**



## CALL TO ACTION TO COLLECTIVELY ADDRESS THE PRICE CRISIS

The **Global Coffee Platform (GCP)** believes that the economic viability of coffee farming is key to ensuring sustainable livelihoods in coffee producing communities throughout the world. However, current and persistent low international coffee prices have caused severe damages to the viability of sustainable coffee production and are harming coffee farming families.

Given our serious concern, **the GCP calls for urgent global collective action** to overcome this crisis which is threatening the lives of millions of smallholder coffee farmers, the environment and the coffee industry itself.

Through GCP’s partnership with the International Coffee Organization (ICO), in support of ICO Resolution 465, and with reference to the World Coffee Producers Forum (WCPF), we acknowledge that the entire global coffee sector bears responsibility to foster the path towards a reasonable living income for coffee producers, and to help ensure the economic viability of coffee farming worldwide.

Therefore, the Global Coffee Platform calls on all coffee industry stakeholders and partners to take the following actions:

### 1. Engage with the international coffee exchanges (US and EU) to:

- Enhance the coffee futures contracts (Arabica and Robusta) as genuine and effective price discovery tools to service producers, exporters, traders, roasters, and retailers.

This includes the regulation of high frequency, artificial intelligence, and algorithmic (black box) trade participation to minimize excessive speculative participation

### 2. Encourage roasters and retailers to:

- Make forward looking and increasing commitments about sourcing sustainable coffee<sup>[i]</sup> with remunerative prices that allow for investments into sustainable coffee production

- Transparently report volumes of sustainable coffee purchased by origin on an annual basis to encourage diversity of sourcing

- Promote consumption of sustainable coffee both in coffee importing markets and coffee producing countries

- Enlarge the scope of sustainable coffee, enabling greater participation of smallholder farmers to manage their farms as businesses

### 3. Activate stakeholders in producing countries – governments, producers, businesses, and donors – to:

- Foster the improvement of a conducive business environment for sustainable coffee production through public-private country platforms
- Reduce inefficiencies and increase transparency along the supply chain to ensure that the farmer receives a higher percentage of the price
  - Promote hedging strategies and insurance schemes through producer organizations in order to protect coffee growers' margins
  - Encourage income diversification for smallholder coffee farmers in collaboration with governments, private sector, donors, NGOs

### 4. Mobilize governmental agencies, the private sector, and civil society to:

- Achieve policy changes that enable a living income and the economic viability of coffee farming
- Explore practical ways to channel revenues from taxes generated specifically by coffee (excise, specific, tariffs, etc.) directly to coffee farmers to pay for good environmental practices, achieve optimum productivity, and reduce costs
- Design innovative solutions to fund sustainability initiatives, for example through “check-off” programs<sup>[ii]</sup>

GCP's action network of over 140 global members, strategic funding partners, and National Coffee Sustainability Platforms has been working on several of the items above to improve the business environment for sustainable and profitable coffee production.

Through National Coffee Sustainability Curricula, digital tools with harmonized metrics to measure sustainability, and GCP Member Initiatives for collective action we are increasing investments, efficiencies and local ownership to eliminate sustainability gaps and inspire progress towards Sustainable Coffee Regions. GCP advances local action for global results in 9 countries representing 70% of global production.

**Join the efforts of GCP Members and partners today to act on the price crisis and ensure an equitable, sustainable and thriving coffee sector for generations to come.**

Geneva, 6th June, 2019

#### The GCP Board of Directors and Executive Director:

Carlos Brando - Chair of Board, Juan Antonio Rivas - Vice Chair of Board (Olam), Marcelo Burity (Nestlé), Dan Martz (JDE), Shannon Higgins (Mother Parkers Tea & Coffee), Trishul Mandana (Volcafé), Silvia Pizzol (National Coffee Council Brazil - CNC), Juan Esteban Orduz (Colombian Coffee Growers Federation - FNC), Joseph Kimemia (African Fine Coffees Association - AFCA), Han de Groot (Rainforest Alliance), Herbert Lust (Conservation International), John Schluter (Café Africa), Jenny Kwan (Sustainable Trade Initiative - IDH), Annette Pensel - GCP Executive Director.

<sup>[i]</sup>Currently, sustainable coffee is understood to include every scheme that has been recognized for GCP Reporting: 4C, Certifica Minas, Fairtrade, Rainforest/UTZ, C.A.F.E Practices and Nespresso AAA. Additional sustainability schemes are foreseen to be recognized.

<sup>[ii]</sup> A check-off program collects funds from a small value added to the price of a product and uses these funds to do research, expand markets, increase demand or for other generic initiatives related to the product.

## PERFECT BLEND LINE LAUNCHED: BLENDING, SAMPLING AND WEIGHING

At times of low coffee prices, margins are squeezed in producing countries and those of coffee millers are no exception. Better processing controls are important to both protect margins and deliver the qualities that clients require. Bearing this in mind, Pinhalense has launched a line of equipment that provides **customized and automated solutions to blend, collect samples, weigh and bag coffee with high performance and precision.**

This new line, called **Perfect Blend**, comprises the following items:

- the VEDP valve-and-belt blending system,
- the CAP pneumatic sampler, and
- the SMARTSAC electronic bag scale.

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# PERFECT BLEND



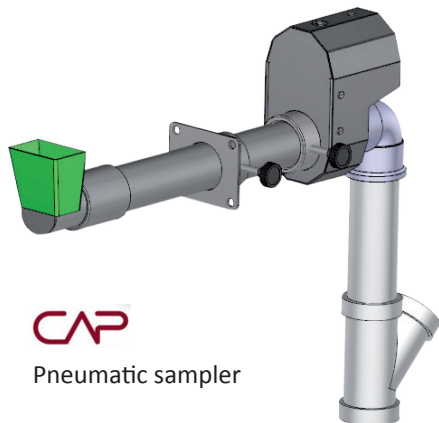
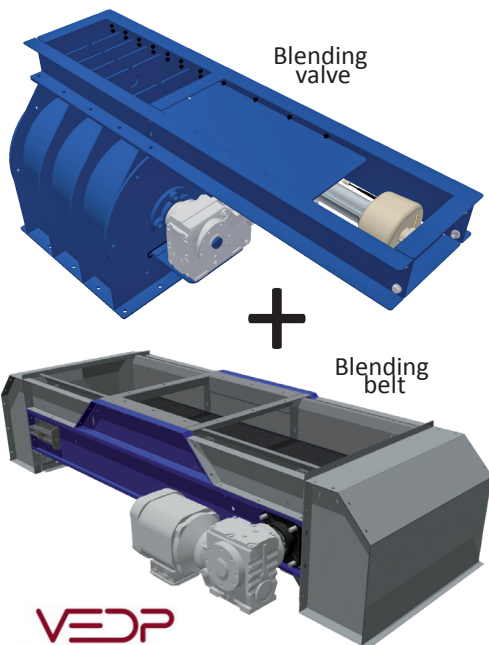
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The three items above can be sold and installed separately or together to improve performance and accuracy of new or existing coffee milling lines.

The **VEDP valve-and-belt blending system** prepares any recipe or blend desired with high precision and replicates them with 100% fidelity. It is easy to operate with the help of and interfaces for touch screens, has short set up time and provides a high pattern of blending homogeneity.

The **CAP pneumatic samplers** can be installed at any piping to enable sampling at any processing stage. The interval and timing of sampling are easy to adjust in an operation that is 100% automated. The suction system of sample collection provides maximum fidelity and prevents physical damage to product.

The **SMARTSAC electronic bag scale** has higher precision and efficiency than the competition and the highest performance in the market. It can be programmed for bags from 25 to 60kg, has interfaces for printers and automation, and is equipped with a CAP pneumatic sampler.



Learn more about these products – operation, specifications and advantages – in the slide presentation: [www.peamarketing.com.br/perfect\\_blend\\_pinhalense.pdf](http://www.peamarketing.com.br/perfect_blend_pinhalense.pdf)