

CONFIDENTIAL



YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS.

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☉ JULY FROST AFFECTS SEVERAL COFFEE PRODUCING AREAS

The frost that hit Paraná and the Mogiana region of São Paulo more intensely and a few localized areas in the Cerrado and South Minas is causing increasing concern regarding the 2020/21 super crop that may no longer come even considering that it will be the on-year of the Arabica biennial crop cycle.

Sources: Diário do Comércio and Valor Econômico

☉ GREATER FUNCAFÉ DEMAND THIS YEAR

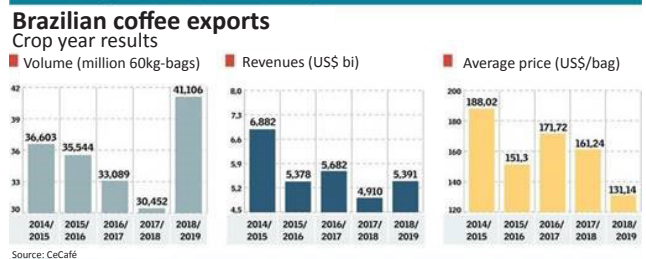
The demand for Funcafé credit has increased substantially this year. According to the Ministry of Agriculture, Livestock and Food Supply (MAPA), R\$ 3.5 billion (US\$ 890 mi) were disbursed for coffee production alone, that represents an increase of 34.6% compared to the R\$ 2.6 billion (US\$ 662 mi) contracted in the last coffee season. The financing share of Funcafé's budget was expanded to reach R\$ 5 billion (US\$ 1.3 bi) in the 2019/20 coffee crop. The resources available for 2019/20 are expected to meet the demands of the coffee sector.

Source: Diário do Comércio

☉ NEW RECORD IN BRAZILIAN COFFEE EXPORTS

Brazil exported a record of 41.1 million coffee bags in the 2018/19 crop. According to the Brazilian Coffee Exporters' Association (CeCafé) this volume is 35% higher compared to the 2017/18 coffee season. The previous record was registered in 2014/15 when the country exported 36.6 million bags. The higher supply – Brazil harvested a record of 61.6 million bags in the 2018/19 coffee season – helped expand Brazilian participation in traditional consuming markets. The United States is still the main destination of Brazilian coffee exports, with an increase of 30.67% and reaching a total of 7.5 million bags imported.

Source: Valor Econômico



☉ INDUSTRY TO EXPAND CONSUMPTION OF SOLUBLE COFFEE

Soluble coffee plays an important role in Brazilian coffee exports but accounts for only 5% of Brazil's domestic consumption, with an average of 1 million bags per year. In order to expand its share of domestic consumption, the Brazilian Soluble Coffee Industry Association (ABICS) has launched a brand for the product, "Enjoy & Explore", that aims to double domestic consumption by 2026. Three companies have already announced their intention to invest a total of R\$ 1 billion (US\$ 254 mi) until 2022 to expand capacity and build new units for soluble coffee production in Brazil.

Sources: Boletim Carvalhaes and Valor Econômico

☉ CACIQUE TO ANTICIPATE INVESTMENTS IN SOLUBLE PLANT

Largest soluble coffee maker in Brazil Cacique is considering to anticipate investments in order to be prepared for the new opportunities that the agreement between Mercosul and the European Union (EU) will open for the segment. The company is investing US\$ 60 million in the state of Espírito Santo town of Linhares to build a factory that will have a capacity of 12,000 tons, a volume that represents one-third of the company's total capacity today. The new unit should start operation in 2022. The European Union is the second main destination of Brazilian soluble coffee exports that reached 470,000 of green-coffee-equivalent bags with revenues of US\$ 72 million in 2018.

Source: Valor Econômico

☉ COFFEE PRODUCED IN BRASÍLIA TO RECEIVE ILLYCAFÉ AWARD

A coffee sample from the Federal District that surrounds Brasília is for the first time among the 40 finalists of the Ernesto Illy Award for Sustainable Coffee Quality for Espresso and made it to the top three along with two Minas Gerais coffees. The coffee beans grown in the Lago Oeste municipality in the 2018/2019 crop were among 1,174 samples analyzed by Illycaffé.

Sources: G1 and CNC

☉ FALL IN COFFEE PRICES AFFECTS 3 CORAÇÕES' TURNOVER

Coffee industries may have a harder semester ahead given the weak pace of the Brazilian economy and the low coffee prices. 3 Corações Group, the largest supplier of roast and ground coffee in the country, has already acknowledged that its turnover goal of R\$ 5 billion (US\$ 1.3 bi) may not be achieved thus missing the growth target of 4.1% compared to last year's R\$ 4.8 billion (US\$ 1.2 bi). The difficulty in reaching scheduled revenues reflects the more competitive market scenario. As raw material prices fell sharply in the international market – the Arabica average price reached the lowest level in a decade – roasters needed to transfer this to retail and turnover was affected.

Source: Valor Econômico

☉ STARBUCKS EXPANDING INTO SOUTHERN BRAZIL

The American coffee chain Starbucks will enter Brazil's South region after 13 years in the Brazilian market. These new Starbucks coffee shops will be the first ones outside the Rio de Janeiro - São Paulo axis. The three shops at the new Floripa Airport, in Santa Catarina's state capital of Florianópolis, will open on the same day the airport starts operation. The 4 million people expected to travel through Floripa Airport have attracted Starbucks to the site.

Source: Folhapress

☉ NEW COFFEE SHOP "TO GO" LAUNCHED IN PARANÁ STATE

Coffee franchise chain Cafeteria Mais1 - Coffee To Go arrives in the Brazilian market with the first five units to be opened in the next three months in the state of Paraná. The new coffee shops aim to facilitate the daily lives of consumers by combining technology and self-service. Customers can place an order and pay using a touch screen totem installed in compact stores of up to 150 square feet.

Source: Revista Exame

Brazilian Prices

Main Producing Regions / Farm Gate

July 31, 2019

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	415,00 =	Colatina-ES fair average price	282,00 ↓
Mogiana	410,00 =		
South Minas	410,00 =		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	465,00 ↓	Sep 2019	119,55 ↓
South Minas	460,00 ↓	Dec 2019	124,30 ↓
		Mar 2020	129,05 ↓
		Real R\$ / Dolar US\$	
		July 31, 2019	3,82 ↓

+ 13.4%

Source: www.qualicafex.com.br

POVERTY AND THE SIZE OF COFFEE FARMS

The intense discussion of the plight of coffee growers during this time of low prices has largely ignored one of the root causes of the problem: the small size of most coffee farms around the world. Should this be taken as a given or should it be addressed? If the latter, how?

It is no surprise that a major reason why Brazil is so competitive in coffee growing is that the average size of the coffee farm is about 7 ha, compared with perhaps less than 2 ha in most of the rest of the world, and less than 1 ha in many coffee areas. Another reason is Brazil's high productivity (even though yields are even higher in Vietnam), and the efficiency of its supply chain, which transfers over 80% of the FOB price to producers (as is also the case in Vietnam and Colombia). This may allow one to single out the average size of coffee holdings as a critical competitive advantage of Brazil and emphasizes the importance of addressing the issue of the small size of most coffee holdings in other parts of the world.

Perhaps legal issues around property rights prevent the issue from being effectively tackled. However, is interfering with the actual size of farms the only way to address the issue of their uneconomical size? We should be more creative and think about how to bring growers together in order to obtain economies of scale.

The most traditional and best known way to bring growers together is cooperatives. These seem to work well in some countries and environments but fail, sometimes miserably, in others. In some cases, the micro size and huge number of coffee holdings create specific obstacles to achieving economic sustainability. Even efficient cooperatives of small-scale coffee producers do not address the underlying problem of too many people depending on too little land.

One way to address this limitation is to bring properties together in an association or consortium, with the additional provision that some owners remain on the farm to run the business - growing coffee - while others will have to obtain income elsewhere. This is a solution that clearly extrapolates the realm of coffee production and falls into the scope of regional economic development, a possible reason why this approach tends to be neglected in coffee projects. Are jobs available in the region, especially in towns? If not, who should work to create them?

Existing and readily available technology can be deployed to use even fewer workers in coffee-producing areas and to release more people to seek employment elsewhere. This would have positive impacts in two ways: first, fewer workers on the farm and more people earning money from other sources, i.e., more income for the group; and, second, higher productivity due to improved technology and again more income for the farm and the group. The technology factor may have given incentives for the rural-urban diversification in Brazil that I describe below.

For a long time I have had an anecdotal perception, yet to be actually measured and confirmed, that in the coffee areas of the Mogiana and South Minas regions of Brazil where there are many small towns, smallholders' family members work in the towns in what I call a rural-urban diversification. This could explain why Brazil increased production during some of the worst years of the coffee price crisis at the beginning of this century. This should perhaps be studied in further detail with a view to application in other countries, *in combination with coffee growers' consortiums*. Could this, for example, be an option in Colombia, where small towns abound in coffee areas?

It may be the case that, in addition to looking beyond coffee farm gate, as I have so often advocated, we also have to address the poverty associated with coffee growing on small properties by using a regional economics approach. Living income is obviously associated with farm size. This is not really thinking out of the box, but using a more comprehensive approach that looks not only beyond the farm gate but also beyond the coffee business!



PINHALENSE IS AGAIN REINVENTING ITSELF WITH STRONG RESEARCH AND DEVELOPMENT AND NEW TECHNOLOGY

It is relevant to review how Pinhalense is again reinventing itself as it approaches 2020, the year of its 70th anniversary. Longevity is not everything and it does not mean much in the absence of permanent renewal. The process of reinvention is absolutely important to retain market leadership and to live up to the slogan “three out of every four cups of coffee consumed in the world go through at least one Pinhalense machine”.

Product development to incorporate new technology and the creation of new machines have been so intense in the last 5 years that this typical one-page Machine of the Month is too short to describe it. Therefore, we will list the recent advances and, if the case, refer the reader to the previous Machine of the Month where it was featured. Click on the link to access it (them). The list below follows the coffee flow rather than the importance of the launchings that affect players in post-harvesting processing in different ways.

① LOW-WATER-CONSUMPTION ECO SUPER PULPER

- Confidential No. 118: http://peamarketing.com.br/imgs/pa_coffidential__118__may2017_170522093406.pdf

① INNOVATIONS IN COFFEE DRYING

① divided-drum rotary driers

- Confidential 81: http://peamarketing.com.br/imgs/pa_coffidential__81__april2014.pdf

- Confidential 123: http://peamarketing.com.br/imgs/pa_coffidential__123__october2017.pdf

① static driers

- Confidential 123: http://peamarketing.com.br/imgs/pa_coffidential__123__october2017.pdf

① overhead pre-drying silos for rotary driers

- Confidential 131: http://peamarketing.com.br/imgs/pa_coffidential__131__june2018.pdf

① improved husk feeding

① circular pre-driers

① DRYING CONTROL SYSTEMS

- Confidential 141: http://peamarketing.com.br/imgs/pa_coffidential__141__april2019.pdf

- Confidential 142: http://peamarketing.com.br/imgs/pa_coffidential__142__may2019.pdf

① PNEUMATIC COFFEE SAMPLERS

- Confidential 143: http://peamarketing.com.br/imgs/pa_coffidential__143__june2019.pdf

① MICRO LOT MILLING

- Confidential 117: http://peamarketing.com.br/imgs/pa_coffidential__117__april2017_170413055121.pdf

- Confidential 134: http://peamarketing.com.br/imgs/pa_coffidential__134__septiembre2018.pdf

- Confidential 109: http://peamarketing.com.br/imgs/pa_coffidential__109__august2016.pdf

- Confidential 98: http://peamarketing.com.br/imgs/pa_coffidential__98__september2015.pdf

① BLENDING SYSTEMS

- Confidential 143: http://peamarketing.com.br/imgs/pa_coffidential__143__june2019.pdf



① ELECTRONIC SCALES

① flow

- Confidential 68: http://peamarketing.com.br/imgs/pa_coffidential__68__march2013.pdf
- Confidential 139: http://peamarketing.com.br/imgs/pa_coffidential__139__february2019.pdf
- Confidential 97: http://peamarketing.com.br/imgs/pa_coffidential__97__august2015_no_promotion.pdf

① big-bags

- Confidential 68: http://peamarketing.com.br/imgs/pa_coffidential__68__march2013.pdf
- Confidential 139: http://peamarketing.com.br/imgs/pa_coffidential__139__february2019.pdf

① bags

- Confidential 143: http://peamarketing.com.br/imgs/pa_coffidential__143__june2019.pdf

① DUST SUCTION SYSTEMS

① PROCESS FLOW AND LAYOUTS

- Confidential 132: http://peamarketing.com.br/imgs/pa_coffidential__132__july2018_180725092821.pdf
- Confidential 135: http://peamarketing.com.br/imgs/pa_coffidential__135__october2018.pdf
- Confidential 120: http://peamarketing.com.br/imgs/pa_coffidential__120__july2017_170710113912.pdf
- Confidential 127: http://peamarketing.com.br/imgs/pa_coffidential__127__february2018.pdf
- Confidential 113: http://peamarketing.com.br/imgs/pa_coffidential__113__december2016.pdf
- Confidential 102: http://peamarketing.com.br/imgs/pa_coffidential__102__january2016.pdf
- Confidential 101: http://peamarketing.com.br/imgs/pa_coffidential__101__december2015.pdf
- Confidential 95: http://peamarketing.com.br/imgs/pa_coffidential__95__june2015.pdf

Last but not least, as Pinhalense likes to say, the success of a coffee milling operation depends 50% on the equipment itself and 50% on the process flow, i.e., how the machines are laid out in order to process coffee as per ever changing qualities and market requirements and, very important, to gain efficiency. Machines may be made to look alike without all the Pinhalense features but process flows and layouts – the way a coffee mill is designed – are a much less tangible, hard to copy asset that Pinhalense holds and is doubtless behind its success story and leadership in the coffee processing business.

The way coffee mills are designed has changed dramatically in recent years, from the clustering of equipment to create central wet mills to small dry mills to process micro lots. This is not to mention the other extreme of the market with large dry mills with very sophisticated flexible flows that have vastly evolved and changed to reach a new size/capacity scale in the last 5 to 10 years. It is needless to say that the technological development that is usually triggered by large projects invariably trickles down to mid-size and small projects.

Although less relevant for foreign, rarely mechanized coffee growers, Pinhalense has also been improving its line of mechanical Arabica harvesters and equipment to lift coffee from the ground in addition to a new solution to harvest Robusta coffee.

Please contact the Pinhalense/P&A agent nearest to you or P&A itself to learn more about the systems and products above.