

# CONFIDENTIAL

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

- **THE COMPETITIVENESS OF BRAZIL AND OPPORTUNITIES FOR OTHER COFFEE PRODUCING COUNTRIES (PAGE 3)**
- **THE SUSTAINABILITY OF THE COFFEE CHAIN'S SUPPLIERS (PAGE 4)**

## **Ⓛ BIGGER AND BETTER, SIC CLAIMS ITS PLACE AMONG WORLD'S TOP COFFEE EVENTS**



Three days of connections, learnings, meetings, more than 80,000 cups of coffees served, 23,000 visitors, 220 exhibitors (25% more than 2018), over 40 simultaneous events, including workshops, professional competitions, courses and cupping sessions, and an estimate of R\$ 50 million (US\$ 11.8mm) in businesses is a snapshot of this year's *Semana Internacional do Café (SIC) / International Coffee Week* in Belo Horizonte, Minas Gerais. The International Women's Coffee Alliance annual meeting also took place at the ICW, gathering 800 women coffee growers.

Source: Revista Cafeicultura

## **Ⓛ ALTO CAPARAÓ ARABICA AND MUQUI CONILON ARE COFFEES OF THE YEAR 2019**

The 2019 Coffee of the Year Competition, that “closes” the International Coffee Week (SIC), awarded the first prize for Arabica to Wílans Valério (Recanto dos Tucanos Farm), from the Alto Caparaó region, MG, and for Conilon to Neuza Maria and Luiz Claudio de Souza (Grãos de Ouro Farm), from the Muqui region in Espírito Santo. The quality contest received a record 500 samples this year and an indigenous grower was among the finalists for the first time: the Conilon produced by Wilson Nakodah Suruí of the Kabaney Village, near Cacoal in Rondônia state, got the 5th place.

Source: Portal Caparaó

## **Ⓛ AGRICULTURE 4.0: DIGITAL TECHNOLOGIES REVOLUTIONIZE COFFEE SECTOR**

The current revolution involving digital systems and the advent of cyber machines are modifying the way the entire coffee production system is managed, from farming to consumption. The steps that the grower must follow in order to reach complete innovation were discussed at the Sustainable Coffee Forum 2019, another event of the International Coffee Week (SIC). Among the lessons learned are: use of technology to simplify everyday life, systems that help management control, monitoring of all phases of the agricultural activity, reduction of costs and waste, increased productivity, cost-benefit analysis and investments in sustainable systems – environmental, social and mainly economical. Having all crop information “at hand”, in tablets, smartphones, and apps, and using digital technology is really time and effort saving.

Source: Embrapa Café

## **Ⓛ INNOVATIVE DRYING CONTROL SYSTEM ATTRACTS MUCH INTEREST AT SIC**

Pinhalense's new Drying Control System (CSP) – the only one in the market with three temperature measuring points – was one of the key products featured at Pinhalense's booth at SIC. It attracted much attention from potential clients, researchers and coffee-quality-minded visitors. The ability to have drying curves and profiles as in the case of roasting was a big plus in visitors' views. The CSP is 100% automated, allowing better temperature control and accuracy to ensure coffee quality. It reduces drying time and generates greater energy efficiency with lower fuel consumption.

Source: CaféPoint



**SOCIAL INCLUSION ADDS VALUE TO SPECIALTY COFFEE GROWN IN BRAZIL**

The leading Brazilian coffee brand will launch a new product made from coffee grown by the Suruí ethnic group that lives in Rondônia, Northern Brazil, in a natural reserve with almost 250,000 hectares. The Robusta coffee, organic and cultivated in the forest next to banana and Brazil nut trees, is harvested by indigenous people and the post-harvest processing is done manually. The coffees grown by the Suruí usually sell at double the market price of the average Robusta coffee produced in the state. On a different front, a group of 30 women in Minas Gerais decided to create the association of women coffee growers of Matas of Minas region in order to commercialize their product together and to reach new markets. The coffee is produced by these smallholders with extreme care, which results in top quality coffees with differentiated attributes.

Source: Agência Brasil



**PROJECT TO RECOVER ATLANTIC FOREST ON COFFEE FARMS**

Nespresso has started a joint project with SOS Mata Atlântica Foundation in Brazil to plant 120,000 seedlings of native trees on coffee farms and recover the landscape of the Pardo River basin, in São Sebastião da Gramma municipality, state of São Paulo. The partnership will recuperate 277 hectares of the original Atlantic Forest over 4 years, helping to create ecological corridors and recover the ciliary vegetation besides promoting the improvement of the quality and quantity of water in the region. Planting will start in 2019 and continue until the end of 2020 including species like “ipês”, “jatobás” and “jequitibás”.

Source: Época Negócios

**BRAZILIAN SPECIALTY COFFEE EXPORTS TO JAPAN INCREASE**

For every 10 cups served in Japan's coffee shops, 3 are made with coffees from Brazil. The country is Japan’s main coffee supplier and has maintained its 30% market share for a decade. However, as prices paid for coffee have fallen significantly, revenue from coffee exports to Japan is decreasing although the volume shipped remains the same. Brazilian growers are counting on the strong growth of the specialty coffee segment in the country. High quality coffees, that accounted for only 1% to 3% of the market ten years ago, currently represent 11% of Japanese imports.

Source: Valor Econômico

**UTAM TO DOUBLE CAPSULE PRODUCTION**

Utam Coffee Group plans to double its capsule production in 2020, reaching 6 million units. The capsules, which represented only 2% of the company’s revenue in 2018, advanced to 5% in 2019. The target for 2020 is 10% of revenues and there is much space for the capsules to grow since they account for only 10% of Utam’s production capacity. Utam’s turnover from all types of coffee should be around R\$ 80 million (US\$ 19 million) this year.

Source: Broadcast Agro (in O Estado de S. Paulo)

**COFFEE IS PRIORITY IN NESTLÉ’S 2020 BRAZIL STRATEGIES**

Nestlé has bilaterally met with 21 major retailers in Brazil to outline joint strategies for 2020. The company expects a stronger performance next year, especially with sales of high value-added products such as coffee, chocolate, organic and pet foods. Nestlé has already doubled its product portfolio in the coffee segment in 2019, with Nescafé Origens R&G. It also launched Starbucks in capsules and Nescafé Gold (instant coffee). For 2020, there are plans to launch two new versions of Nescafé Origens, three new types of Dolce Gusto capsules, and to boost sales of Nescafé Gold and Starbucks coffees. Nestlé currently has 2.3% of the Brazilian coffee market in volume and 15.1% in value according to Euromonitor.

Source: Valor Econômico

## THE COMPETITIVENESS OF BRAZIL AND OPPORTUNITIES FOR OTHER COFFEE PRODUCING COUNTRIES\*

There is today a strong concern about concentration of coffee production in Brazil and Vietnam. However, what strikes me is that if Brazil is a success story in coffee production, why aren't other countries looking at what Brazil has been doing and what can be learnt, adapted and used in their own countries? I know this is easy to say but hard to do. But, is it worth trying?

The competitiveness of Brazil is not accidental but the result of a process. Production increased 50% in 10 years without expansion of the area planted supported by new techniques and technology that drive productivity, with agronomic research and development behind it. There is an organized production infrastructure and enabling environment within and outside farm gate besides a large local consumption of 21 million bags per year in 2018. Coffee exports reached 35.2 million in the same year. All this makes the country a dynamic coffee production pole.

Many countries believe there is nothing to learn from Brazil because it does not produce quality coffee. However, according to different sources, Brazilian exports of specialty coffee are around 5 million bags per year, which positions the country as one of the world's largest origins for these top-quality coffees. In addition, Brazil exports 10 million bags per year of sustainable and high-quality differentiated coffees to roasters and shops around the world.

What is behind Brazil's competitiveness? Productivity; mechanization of cultivation and harvesting; an efficient enabling environment and supply chain that ensures that more than 80% of the FOB export price reaches growers; and a large domestic consumption, still growing at 3 to 4% per year that acts as a "safety net" at times of low international prices. Brazil has larger small growers than other countries but, contrary to what most people think, it is also a country of small growers: 86% of Brazilian growers are under 20ha and account for 52% of Brazilian production. Finally there is rural-urban diversification with coffee growers seeking income outside farms in neighboring towns.

What are the opportunities for other coffee producing countries based on the Brazilian experience? To increase productivity; to use more efficient harvesting systems, manual and mechanical; better processing to have greater efficiency and control, from small micro lots to large volumes of differentiated coffees used in "world blends"; to bring small growers together; and to increase domestic consumption. But, it is not the case of simply copying what Brazil is doing but instead of understanding what is being done and adapting it to other countries' conditions.

Brazil does not have ready-made recipes but solutions applicable elsewhere may be derived from what the country is doing in all areas mentioned above and others. Value addition alone, as pursued by many countries, is not a solution if costs of production are high. There are examples of highly competitive farms and groups of growers outside Brazil that address the points mentioned in the last paragraph using Brazilian "technology" or indigenous adaptations. However they often face obstacles outside farm-gate for lack of a good enabling environment.

If I had to pin-point a few areas I would pay special attention to, I would list plague and disease control; renovation to increase leaf area and lighting; localized stripping to replace selective harvesting; separate pulping of all cherries harvested; central wet milling to gain economies of scale, efficiency and consistent quality for world blends; ways – cooperatives, associations, partnership, else – to bring growers together; and the creation of jobs outside the farms.

The slides in the link below have a lot more information about opportunities for coffee producing countries. Even though the presentation is about Central America, many if not most suggestions are applicable to other countries as well.

Having presented on this subject many times before and discussed the subject at length, I know that every time I talk about harvesting cherries other than ripe ones I hear the argument that this is bad because there will be less quality coffee and growers will lose. I have three points against this argument. First, the goal of coffee growers is to maximize profit and not income. Growers will be better off if by picking cherries other than ripe they save more money in harvesting than the total loss in coffee price. Second, if there is area available, growers may plant more coffee and produce the same volume of quality coffee with the extra "bonus" of the sale of the lower quality ones. Third, lower quality, less expensive coffee has specific uses and helps increase coffee consumption in markets that are very price sensitive.

The opportunities are there. It is up to you, your neighbors, your region, your country to question what is being done today and to change... as Brazil did.

\* *This Outlook was based on a Sintercafé (Costa Rica, November 15th) presentation whose slides are found at <http://www.peamarketing.com.br/91021151-SINTERCAFE.pdf>.*

## THE SUSTAINABILITY OF THE COFFEE CHAIN'S SUPPLIERS

Although much has been written and said about the economic, social and environmental sustainability of the coffee supply chain from seed to cup, not much is discussed about the sustainability of the coffee chain's suppliers of inputs (fertilizers, agrochemicals, etc.), tools and equipment, transport and logistics, packing, etc. It goes unsaid that all such suppliers should be sustainable!

Pinhalense is definitely doing its part.

The company is said to be one of the most coveted places to work in its home town of Espírito Santo do Pinhal. This is not only because of salary and benefits, that are indeed important, but also due to working conditions and on-the-job safety, private health plan and food stamps. It must be added that all workers are formally employed; obvious as this may seem, it must be noted that the use of informal labor is not unusual in machine shops and even full industries in many countries.

Personal Protection Equipment (PPE) with different features and specifications depending on the type of work performed is a requirement for everybody in the production facilities and is duly enforced by management. This can be verified by the many plant visitors who must also wear their own PPE.

Pinhalense employees' club offers a variety of sports and entertainment activities that are open to their families. This adds to the package that altogether says a lot in terms of the well-being and economic and social sustainability of the Pinhalense work force.

Pinhalense is also concerned with the environment, in its three plants themselves and outside, neighbors included. Noise reduction in production is an on-going activity actively pursued by workers and management with frequent investment. The same holds for waste from production, with all scrap recycled and other types of residues sent to recycling facilities in the region. Residues from painting are treated in the plants themselves and recycled if feasible.

Last but not least, Pinhalense is a firm that believes in honoring patents because this is a legal right that benefits all the sector. Patents promote investment in research and development of new processing products that benefit the full supply chain. A holder of over 25 patents in coffee processing alone, Pinhalense has frequently met with attempts to copy its equipment in many countries, Brazil included. If, on the one hand, this bears witness to Pinhalense's leadership in R&D and coffee processing technology, on the other hand it shows a politically incorrect not to say "unsustainable" position by some competitors.

## Brazilian Prices

Main Producing Regions / Farm Gate

November 29, 2019

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	535,00 ↑	Colatina-ES fair average price	316,00 ↑
Mogiana	530,00 ↑		
South Minas	530,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	575,00 ↑	Dec 2019	129,85 ↑
South Minas	570,00 ↑	Mar 2020	138,15 ↑
		May 2020	143,00 ↑
		Real R\$ / Dolar US\$	
		Nov 29, 2019	4,24 ↑

+ 8.5%

Source:  
www.qualicafex.com.br