

COFFIDENTIAL

ISSUES NOS. 1 TO 13 OF COFFIDENTIAL CAN BE FOUND AT SITE www.peamarketing.com.br

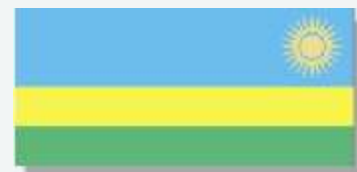
33% OF 2008 RWANDA CUP OF EXCELLENCE WINNERS USE PINHALENSE WET MILLING EQUIPMENT

The winner of this year's Rwanda Cup of Excellence, a coffee produced by MIG and wet milled in Pinhalense equipment, scored above 90 points at SCAA cupping scale. Another 7 winning coffees produced by MIG and Horizon, all with scores above 85 points, including the third place, were also processed in Pinhalense wet mills. The Pinhalense wet mills used to process one-third of the 24 winning coffees had one or all of the following pieces of equipment: mechanical siphon, green cherry separator and vertical pulper.



Mig has 4 Pinhalense wet milling stations and its coffees were awarded, first, third, ninth, sixteenth and twenty-second prizes. Horizon has 8 Pinhalense wet milling stations and its coffees were awarded tenth, thirteenth and seventeenth prizes. Over 200 coffee samples entered the competition. The names of the farm and farmers and their scores are found on the last page of this Confidential, after the Picture of the Month. Additional information about the competition is available at www.cupofexcellence.org.

P&A, PINHALENSE AND BRAZAFRIC, OUR AGENTS IN EAST AFRICA, ARE PLEASED TO CONGRATULATE OUR ESTEEMED CLIENTS MIG AND HORIZON FOR THIS MAJOR ACHIEVEMENT.



PEPRO PROGRAM IN THE LIMELIGHT: 12 MILLION BAGS IN 4 AUCTIONS

A heated debate about the allocation system used by the PEPRO program in 2007 is taking place at the same time that the regulation for 2008 is drafted. While stating that the 2007 program fulfilled its objectives, official sources advance that the criteria will be different in 2008, as discussed in the last meeting of the Coffee Policy Council (CDPC). The following points have been agreed upon: (a) 4 auctions, the first one in October and the last one before December 15; (b) a maximum of 500 bags per grower per auction and a total of 1,000 bags per grower in all 4 auctions; (c) a premium of R\$25,00 (US\$15.00) per bag with a target price of R\$300,00 (US\$185.00) per bag of 60 kg; (d) participants can enter the auctions directly or via cooperatives, unions or associations, with the same criteria applied in either case; and (e) there will be an attempt to simplify the documentation required and to extend the period for its presentation to up to 90 days after the auction. The points above will have to be cleared with the Ministries of Finance and Planning.

Sources: Coffee Break, Cafépoint, Valor Econômico and Folha de São Paulo

COSTS OF FERTILIZERS GROW BUT NOT BEYOND LABOR

The new costs of production released by CONAB show that the participation of fertilizers has grown for both Arabica and Robusta in all producing regions. However, labor remains the main direct, out-of-the-pocket component of the costs of producing coffee in Brazil.

Source: Agência Estado

DUTY SUSPENDED ON FERTILIZERS

Duty of 4% on the imports of sulfuric and phosphoric acids to be used to produce fertilizers have been suspended for six months. This is part of a wider government program to expand the Brazilian production of fertilizers.

Source: Folha de São Paulo



ALTERNATIVES TO CHEMICAL FERTILIZERS

Coffee growers can reduce their expenses with chemical fertilizers, whose prices have skyrocketed in recent months, by using nitrogen and potassium rich coffee pulp and husk. This practice may result in a reduction of 10% in fertilizer use.

Source: Jornal de Uberaba

SATELLITE MONITORING REDUCES COFFEE INSURANCE

Insurance premiums for road transport of coffee, that used to be as high as 0.5%, have been reduced to under 0.1% with the use of satellites to monitor trucks. On-line mapping also helps to improve logistics, operating efficiency and truck availability.

Source: Segs - Portal Nacional

COFFEE EXCELLENCE CENTER CREATED IN MINAS GERAIS

The government of Minas Gerais, the country's largest coffee producing state, has chosen the prestigious Federal University of Lavras (UFLA) as the location of the state's Coffee Excellence Center. Its mission will be to integrate the coffee related activities of universities, research centers and private companies. Plans for the Center emphasize capacity building and training, including the integration of current graduate programs and a new MBA on Coffee Business.

Source: Jornal Hoje em Dia

MELITTA TO INVEST US\$ 300 MILLION IN BRAZIL

Fourth largest roaster in the country and market leader in vacuum packed coffee and paper filters, Melitta plans to invest US\$ 300 million until 2012 to expand its Brazilian operation, the largest outside Germany. With three factories in Brazil - two for coffee and one for paper filters - Melitta has been growing at a faster pace than Brazilian consumption and thus gaining market share.

Sources: Gazeta Mercantil and O Estado de São Paulo

IGUAÇU TO EXPAND FREEZE DRIED CAPACITY

Iguaçu, a member of the Marubeni Group, will invest US\$ 30 million on its soluble coffee factory located in the state of Paraná. The freeze-drying unit will grow from 2,500 to 6,500 tons/year and extraction will have to be expanded from 18,000 to 20,000 tons/year to also accommodate the current capacity of 13,500 tons/year of spray-dried soluble coffee. Soluble coffee produced in Brazil is mostly exported because it accounts for only 5% of domestic consumption.

Source: Gazeta Mercantil

OUT-OF-HOME CONSUMPTION GROWING STRONGLY

Coffee consumption in coffee shops, offices, bakeries (a major coffee outlet in Brazil), institutions, etc. grew from 32 to 36% of the country's total consumption between 2006 and 2007. The Brazilian Coffee Roasters' Association (ABIC) expects that out-of-home consumption will reach 40% of all coffee consumed in the country by the end of 2008. The number of coffee shops is likely to reach 3,000 with the opening of 500 new coffee outlets.

Source: Jornal Hoje Notícia

ESPRESSO CONSUMPTION EXPANDING AT HOME

Practical preparation, consistent coffee quality and falling prices of the equipment are making the use of espresso machines more attractive to Brazilian mid to high income households. An important supplier informs that besides strong demand from offices, stores and institutions, home sales increased 25% in the last three months.

Source: Jornal Comunique-se

COFFEE FLAVORED BEER LAUNCHED

A small brewery in the state of São Paulo launched a new beer that it claims to have the flavor and aroma of Brazilian coffee.

Source: Company release



COFFEE QUALITIES, VALUE ADDITION AND CONSUMPTION IN PRODUCING COUNTRIES

Value addition to green coffee has been traditionally associated with high quality beans. However changes in consumption patterns and harvesting conditions are now calling for value addition to both high and low quality coffees in order to maximize grower profits and to meet market expectations.

As I updated my chapter on Coffee Processing in the book *Coffee: Growing, Processing, Sustainable Production*, whose second edition is about to be published, I realized how much has changed in only 4 years, specially in wet milling but also in dry processing. Let's analyze market trends and see how they affect processing in a producing country environment where harvesting is becoming less selective due to labor scarcity and costs, and profitability is being lowered due to the high prices of fertilizers and other inputs.

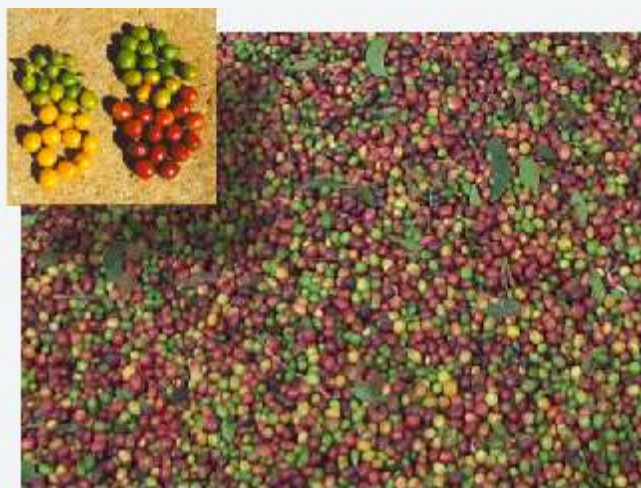
Espresso, the fastest growing form of coffee preparation, is resorting to ever higher extraction pressures which emphasize defects that were not as noticeable before, specially the adstringency that derives from cherries that have not reached full maturation. As a result unripe cherry separation by hand or machine is no longer enough. New procedures for mechanical separation must be used to ensure that only 100% ripe cherries are pulped. Unlike unripe cherries, partially mature cherries cannot be separated manually using a visual criterion.

Degree of cherry maturation is a much better indicator of parchment quality than density, which has been the traditional criterion for a long time. The market is increasingly calling for first quality parchment that derives from 100% ripe cherries as a way to ensure that the cup is free from any trace of adstringency. A second quality parchment will be produced from partially ripe cherries whereas unripe cherries can be pulped using special techniques that produce a third quality of parchment.


These new, lower qualities of parchment, whose volumes will increase as selectivity falls, will have to find their way into new products and new markets. Soluble coffee, whose consumption is growing strongly in emerging markets, will be a natural destination for these new Arabica products if the difference between Robusta and Arabica prices continues to decrease.

Alternatively these new products may be sold in the countries where they are produced, specially to lower income consumers who are usually the majority and cannot afford the high prices of the first quality products. This creates interesting opportunities for value addition in origin countries by means of roasting, distribution and retail. This type of value addition is very difficult to do in importing markets that are dominated by strong brands. The promotion of coffee consumption in producing countries therefore becomes a major instrument to enable value addition to lower quality products and to ensure the sustainability of the coffee business.

Last but not least, the specialty and espresso markets call for beans of specific sizes. Grading coffee in many different sizes (or shapes, in the case of peaberries) is yet another way to add value to all qualities of coffee with the additional advantage that both gravity separators and color sorters do a much better job when they process different bean sizes rather than a partially graded or ungraded lot.



Brazilian prices

August 29, 2008 

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)

Cerrado-MG fair average quality T.6	260,00
Mogiana-SP fair average quality T.6	255,00
South Minas fair average quality T.6	260,00

Arabica Pulped Naturals (R\$/ 60 kg bag)

Cerrado-MG	267,00
South Minas	265,00

Conilon/ Robusta (R\$/ 60 kg bag)

Colatina-ES fair average quality	210,00
----------------------------------	--------

BM&F (US\$/ 60 kg)

Sep 2008	179,90
Dec 2008	177,65
Mar 2009	180,70

Dolar US\$/ Real R\$

August 29	1,64
-----------	------

MVF, THE GRAVITY SEPARATOR FOR COFFEE

The fact that coffee is one of the few seeds that have one flat and one round surface poses specific challenges for the separation of low-density defective beans. This led Pinhalense to develop a gravity separator / densimetric table that is strikingly different from conventional models. The main difference has to do with the way that the upward air-flow is directed to help the separation process and to consume less power.

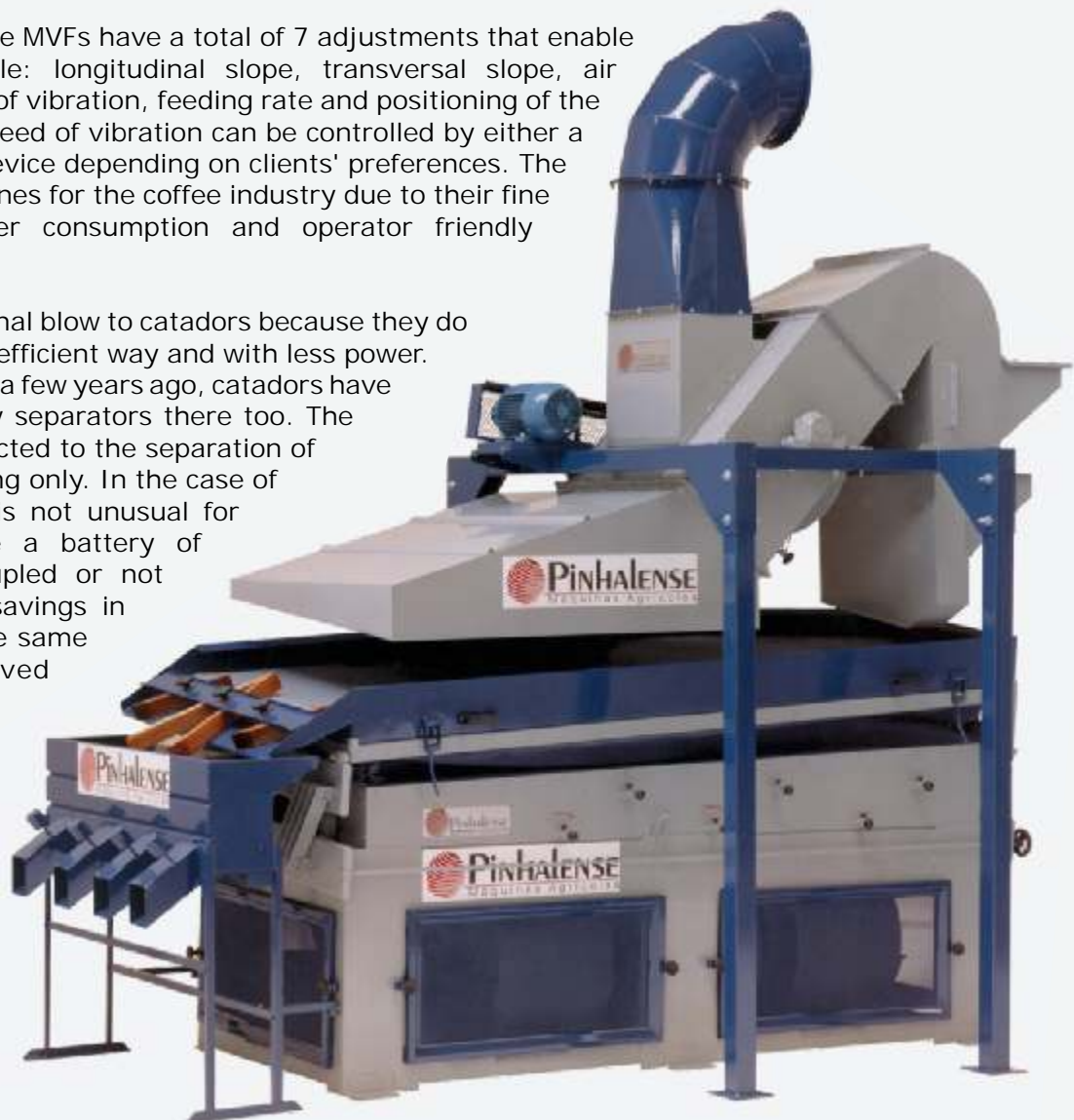
Air flow is directed first by a series of adjustable flaps located under the deck and second by the way the deck itself is designed. Differently from the wire-mesh decks of conventional separators, Pinhalense's MVFs have a perforated metal sheet deck with holes that allow air to blow both vertically and parallel to the deck surface. The perforations and bulbs in the deck have the additional effect of increasing the contact between the deck and the sound coffee beans that can then move upward more efficiently. The combined effect of these innovative systems to direct air flow and to increase contact is an enhanced separation power that is in turn reflected in lower power consumption per ton of product separated.

A different type of improvement has to do with the repassing of coffee, that may be referred to the same MVF machine with the help of a pneumatic conveyor. This facilitates mill design and avoids extra elevators. Pinhalense's development efforts have also addressed workers' welfare and the working conditions in coffee mills. The fans that blow air through the layer of coffee on the deck have been redesigned to produce as little noise as possible and a dust suction hood is now offered as an option.

The state-of-the-art Pinhalense MVFs have a total of 7 adjustments that enable the finest separation possible: longitudinal slope, transversal slope, air pressure, air direction, speed of vibration, feeding rate and positioning of the outgoing flow dividers. The speed of vibration can be controlled by either a mechanical or an electronic device depending on clients' preferences. The MVFs are now standard machines for the coffee industry due to their fine separation power, low power consumption and operator friendly features.

The MVFs have also meant a final blow to catadors because they do the same job in a much more efficient way and with less power. Still used in Robusta mills until a few years ago, catadors have been replaced by MFV gravity separators there too. The use of catadors is today restricted to the separation of coffee immediately after hulling only. In the case of either Arabic or Robusta, it is not unusual for Pinhalense MVFs to replace a battery of conventional separators, coupled or not with catadors, with energy savings in the range of 40 to 60% at the same capacity and with improved separation power!

A high performance MVF gravity separator can facilitate the job of costly color sorters because some off-color beans, e.g. overfermented and black beans, may have lower density and may therefore be separated by these sophisticated densimetric tables.



For further information, please contact us:
P&A International Marketing
E-mail peamarketing@peamarketing.com.br

Phone 55-19-3651-3233 Fax 55-19-3651-2887
Praça Rio Branco, 13 - Caixa Postal 83
13.990-000 - E. S. Pinhal - SP - Brazil



Ethiopian eco-friendly coffee



Photo sent by Mr. Berhanu Gezahegn from Ethiopia
THANKS!

Send us your photo:
coffidential@peamarketing.com.br

2008 Rwanda Cup of Excellence® Winning Farms - Auction Oct 14, 2008

The winning lots are coffees scoring 84 points and above in each cupping by both the Rwanda National Jury and the Cup of Excellence® International Jury. These coffees have each been cupped a minimum of five different times during the cupping process.

Lot #	Farm	Farmer	Score
1	Buremera Mig	Uwimana Rose	92.07
2	Fakco-Rulindo	Nsengumuremyi Jean	90.84
3	Buremera Mig	Nziorera Lanouard	89.41
4	Sdl Minazi Abakundakawa	Ribarimana Jean Baptiste	89.07
5	SDL Muyongwe	Hagumagutuma	89.00
6	Kabuye/Maraba li/Abahuza	Dusangiyumwami Pascal	88.95
7	Bufcoffee Remera	Gakwaya Fillipe	88.36
8	Coopac Kabirizi	Mvunabandi Bernard	88.07
9	Buremera Mig	Nziorera Lanouard	87.98
10	Horizon Nyamyumba	Siborurema Joseph	87.09
11	Bufcoffee Nyarusiza	Munyandainda Deo	86.98
12	Coopac Nyamwenda	Munyakazi Anastase	86.26
13	Horizon Nyamyumba	Maniraguha Daniel	86.19
14	SDL Musasa Coffee	Hakizimana Andre	85.90
15	Nyabumera Coop-Abaryoshyakawa	Hategika Francois	85.90
16	Murera Mig	Nkurunziza Eugene	85.86
17	Horizon Mushonvi	Twizerimana Ismael	85.76
18	Bufcoffee Nyarusiza	Nkundiye Innocent	85.55
19	Sovu/Maraba III/Abahuzamugambi	Nyillimana Bernard	85.38
20	Kabuye/Maraba li/Abahuza	Bitwayiki Vincent	85.17
21	SDMLJ	Kajuga Tenedole	84.83
22	Mig Kibumbwe	Mihigo Patrice	84.74
23	Bufcoffee Nyarusiza	Ruhirwa Pascal	84.50
24	Coopac Kirorero	Nayikoziki Felecien	84.48



Users of
Pinhalense wet
milling equipment