

CONFIDENTIAL

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

- LEVERAGING EFFORTS IN PRODUCING COUNTRIES TO MAKE COFFEE GROWERS MORE SUSTAINABLE (PAGE 3)
- PINHALENSE LAUNCHES HI-TECH OPTICAL COFFEE CHERRY SORTER (PAGE 4)

GOVERNMENT OF RONDÔNIA TO INVEST IN POST-HARVESTING EQUIPMENT FOR ITS ROBUSTA COFFEE

A R\$ 6.2 million (US\$ 1.45 mm) agreement was signed by the government of Rondônia and the Ministry of Agriculture, Livestock and Food Supply (MAPA) for the former to purchase post-harvest machinery. This agreement aims to improve the processing infrastructure, especially coffee drying, and to increase the state's production of quality coffee. Rondônia is expected to produce 2.3 million bags of Robusta coffee in 2019/2020, over 90% of the total by small growers.

Source: Seagri

COFFEE SHAMPOO INNOVATES BALDNESS TREATMENT

A revolutionary and unique compound based on coffee actives and capable of inhibiting hair loss and stimulating hair growth has been obtained after four years of research. Caffeine's Therapy, by Magic Science Brasil, created the first shampoo with such product and its effectiveness has been verified by the Brazilian Sanitary Surveillance Agency (ANVISA). The new product is manufactured at the Federal University of Rio de Janeiro's Biotechnology Pole (UFRJ) and exported to countries such as the United States, Portugal, Germany, Switzerland, and Italy.

Source: Jornal do Café

FUNCAFÉ'S 2020 BUDGET HITS NEW RECORD

Brazil's 2020 Annual Budget will allocate R\$ 5.89 billion (US\$ 1.38 bn) to the Brazilian Coffee Fund (FUNCAFÉ), an amount 13% higher than in 2019. The sequence of record budgets, a result of the Brazilian Coffee Policy Council (CDPC) work, is essential to avoid supply concentration and to allow growers to negotiate their coffee throughout the year. It was, therefore, providential that the public-private institutional environment provided by CDPC has been restored so that the coffee supply chain may, in partnership with government, distribute resources responsibly aiming at the sustainable development of Brazilian coffee production.

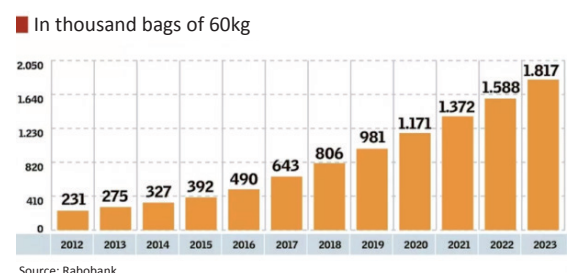
Source: CNC

TOTAL SPECIALTY AND PER CAPITA CONSUMPTION RECORDS IN BRAZIL IN 2020

The recently released Rabobank study "The Brazilian Coffee Market" indicates that 2020 will be a favorable year for investments in the coffee market as the economy picks up. Revenue from coffee sales in Brazil, commercial and specialty, should grow 34.2% to US\$ 3.4 billion between 2019 and 2024. In 2020 the consumption of specialty coffees should increase 22%, totaling 1.2 million bags and overall coffee consumption may reach 22 million bags, with an average of 7 kg consumed per capita annually. Rabobak projects that the 2020 Brazilian coffee crop will surpass 66 million bags (45.9 million bags of Arabica and 20.8 million of Robusta/Conilon).

Source: Valor Econômico

SPECIALTY COFFEE CONSUMPTION IN BRAZIL



ALL-TIME COFFEE EXPORTS RECORD

Brazilian coffee exports reached 40.6 million bags in 2019, an increase of 13.9% compared to the previous year. Revenues have, however, decreased by 1.1% in 2019 in relation to 2018. Arabica coffee exports represented 80% of total exports, Conilon accounted for 10% and soluble coffee for another 10%. The main destinations were the United States (7.9 million bags), Germany (6.8), Italy (3.6), Japan (2.6), Belgium (2.5) and Turkey (1.2).

Source: CeCafé



ALL-TIME SOLUBLE COFFEE EXPORTS RECORD

Soluble coffee exports reached 4 million bags in 2019 and broke a historical record with sales in 106 countries in the 5 continents. The country regained markets that were lost in 2016 and 2017 due to climate problems that hit Espírito Santo state and, therefore, affected the country's Conilon coffee supply.

Source: ABICS

STRONG GROWTH AND RECORDS IN COOXUPÉ EXPORTS AND DAILY SHIPMENT

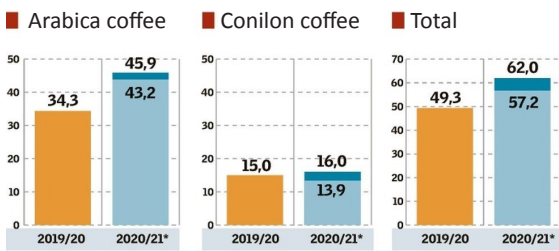
Cooxupé, the largest Brazilian coffee cooperative, exported 5.5 million bags of coffee in 2019, a 41% increase over the 3.9 million shipped in the previous year. The cooperative received 5.1 million bags from its members that grow coffee in the South and Cerrado regions of Minas Gerais and the Mogiana region of São Paulo state. The largest-ever daily shipment out of the coop main mill, of 80,000 bags, occurred on September 30, 2019, and required 215 containers to be transported to Santos.

Sources: Reuters and Folha Rural

NEW RECORD COFFEE PRODUCTION IN BRAZIL IN 2020?

Record crop?

Coffee crop estimates (in million bags)



Source: Conab

Coffee production in Brazil may reach a new record in the 2020/21 season. According to the first CONAB crop estimate, Brazil may produce between 57.2 and 62.02 million bags, an increase of 15.9% to 25.8%, respectively, compared to the previous season. Such increase is motivated by the on-year of the Arabica biennial crop cycle. Arabica coffee production may increase between 26% and 34.1% compared to the 2019/20 crop, reaching between 43.2 and 45.9 million bags. Conilon production is expected to reach between 13.9 and 16.04 million bags, that range from a decrease of 7.1% to an increase of 6.8%, respectively, compared to the previous year.

Source: Valor Econômico

ESPIRITO SANTO PREDICTS SMALLER ROBUSTA OUTPUT DUE TO CLIMATE

Unfavorable climate combined with coffee berry borer and mealybug outbreaks will affect this year's Robusta/Conilon crop that should not surpass 10 million bags in the state. The northern part of the state, responsible for 70% of the crop, suffered with droughts and high temperatures during 2019. The strong rains that hit south Espírito Santo in January have caused 22 cities to declare state of emergency with agribusiness losses of approximately R\$ 88 million (US\$ 21 mm).

Sources: Notícias Agrícolas and A Gazeta



LEVERAGING EFFORTS IN PRODUCING COUNTRIES TO MAKE COFFEE GROWERS MORE SUSTAINABLE

Current international initiatives to make coffee growers more sustainable should be complemented in producing countries themselves by local efforts that can have a strong multiplier effect. Such efforts have a potential to transfer to coffee growers 1 to 2 billion dollars in kind or money annually.

The Outlook article in Confidential No. 147 states that “out of US\$ 200 billion that consumers pay for coffee per year, only US\$ 20 billion reach the producing countries as FOB export price”. US\$ 20 billion is therefore an estimate of the total FOB export price value for all producing countries. Coffee producing countries Vietnam, Brazil and Colombia transfer from 85 to 90% of the FOB export price to growers. The estimate for the average of the other producing countries lies in the range of 60 to 70%. There is comparatively a huge amount of money that is not reaching coffee growers in these other countries assuming that they could improve their supply chain to the efficiency level of the three countries above.

Simple math shows that if the averages are 87.5% for the three countries and 65% for the rest, the gap is $87.5 - 65 = 22.5\%$. Since the three countries together account for about 60% of world coffee exports and assuming that the US\$ 20 billion that reach producing countries is distributed across countries based on share of exports, 40% of this value, i.e.: US\$ 8 billion, go to the other countries. If the gap hurting the countries with less efficient supply chains is 22.5%, we arrive at an annual amount of 22.5% of US\$ 8 billion, i.e.: about US\$ 1.8 billion per year. This gap can be theoretically captured by growers in these countries if their supply chain is improved to the level of Vietnam, Brazil and Colombia. Can that be done?

Let's first look at the magnitude of this additional amount of US\$ 1.8 billion that may be transferred to growers annually. Prof. Jeffrey Sachs proposed a fund to support coffee growers that starts at US\$ 5 billion and can be expanded to US\$ 10 billion to be spent over many years. The value said to be invested in sustainability worldwide every year is in the range of US\$ 300 to 350 million. Therefore, one may conclude, US\$ 1.8 billion per year is well in the range of what may cause substantial impact on the economic sustainability of coffee growers in countries other than Vietnam, Brazil and Colombia.

Can the supply chain in these other producing countries be brought up to the level of efficiency of those in Vietnam, Brazil and Colombia that are very diverse countries in government and economic system, structure and organization of the coffee business, and coffee production itself? If, on the one hand, this diversity makes it hard to identify what they do right to use in other countries, on the other hand, these other countries have the option to select which of the three models is closer to their conditions. Also, the solution may be to identify the factors and reasons behind the efficiency of the supply chain in these countries and to apply them with due adaptation to local conditions.

Items high in the solution list are likely to be logistics, the average number of times coffee change hands between farm gate and export harbor, and “unfriendly” legislation, specially that behind taxes and fees. Costs of logistics are highly affected by the quality of the road and/or railroad system from coffee producing areas to harbor and the efficiency of the transport systems. A multiple-tier coffee trading system with micro, small, mid-size, regional and national level traders tends to be less efficient than one with fewer stages. Legislation may act in several ways to curb the percentage of the export price reaching growers with the most obvious ones being taxes and fees that impact coffee directly or indirectly. It may be argued that some of this money taken by government reverts in favor of coffee growers but very seldomly only in their favor and in many cases not at all.

Aid agencies, donors and sustainability initiatives and specially their projects should require counterpart local actions in producing countries to ensure that a larger part of the FOB export price reaches growers, with the priorities above and others in their lists. It is needless to say that local governments will play a key role in these counterpart actions but they will not be restricted to them. National coffee sustainability platforms, like the ones the Global Coffee Platform is developing in several producing countries, may either lead or support the process to identify bottlenecks to be addressed, to propose solutions, and to implement them.

PINHALENSE LAUNCHES HI-TECH OPTICAL COFFEE CHERRY SORTER

Pinhalense’s new coffee cherry sorter, that uses digital optical technology, has been now released to the market and was presented simultaneously at the AFCA and Femagri trade fairs in Mombasa, Kenya, and Guaxupé, Brazil, respectively, in the week of February 11.

The new Pinhalense digital optical color sorter has been developed to facilitate and improve the separation of just-harvested fresh coffee cherries in order to sort out the ripe ones and to enable the preparation of top-quality natural coffees. The electronic digital optical sorting process is more precise and ensures better selection performance in less time when compared to other methods.



ADVANTAGES

- improved cherry selection
- shorter processing time
- no water required
- easy to install
- user-friendly operation

FEATURES

- capacity: 2 to 4 tons of cherry/hour
- efficiency of separation: 90 to 95%
- dimensions: 1.30m front, 3.78m depth and 2.01m height
- compressor (with air drier): screw-type, 22HP

The new cherry sorter should be used after the Pinhalense LSC mechanical siphon and cleaner, that will remove the over-ripe and partially dry floaters besides impurities and stones. The mixture of unripe (green) and ripe cherries will be fed to the cherry color sorter to separate the top-quality ripe cherries.

Efficiency of separation apart, the new machine does not require water in its operation and enables the production of top-quality natural coffees in an ecofriendly way.

Brazilian Prices

Main Producing Regions / Farm Gate

January 31, 2020

Arabica Naturals (R\$/ 60 kg bag)

Cerrado MG	435,00 ↓
Mogiana	430,00 ↓
South Minas	460,00 ↓

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

Cerrado MG	505,00 ↓
South Minas	500,00 ↓

+ 17.4%

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

Colatina-ES fair average price	309,00 ↑
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BM&F (US\$/60kg Arabica bag)

Mar 2020	118,65 ↓
Mai 2020	120,30 ↓
Jun 2020	125,80 ↓

Real R\$ / Dolar US\$

Jan 31, 2020	4,28 ↑
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Source:

www.qualicafex.com.br