

CONFIDENTIAL

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

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MECHANIZED HARVESTING INCREASINGLY ADOPTED BY BRAZILIAN GROWERS

A survey with a sample of 296 coffee growers from the main Brazilian producing regions – Minas Gerais, Espírito Santo, São Paulo, Bahia and Rondônia – conducted by the National Agricultural Confederation (CNA) and the CaféPoint web portal during last year’s International Coffee Week event, in Belo Horizonte, analyzed the 2019 coffee crop based on criteria related to performance and quality, harvesting and post-harvesting technologies, and commercialization. Results show that 42% of the farmers interviewed use manual labor/stripping during harvesting, 25% of them use large mechanical harvesters, 23% use hand-held harvesting machines and 10% of the growers do selective harvesting. The complete results of the survey can be found here, in Portuguese: <https://bit.ly/3dDzC9h>.

Source: CNA

MANUAL PUBLISHED ABOUT WEED CONTROL AND GLYPHOSATE IN COFFEE

GCP Brazil has released a Manual on Good Agricultural Practices for Weed Control in coffee that includes orientation about the use of glyphosate-based herbicides. The illustrated material also warns about Maximum Residue Limits (MRL) accepted for coffee in importing countries, specially the MRL established for glyphosate in coffee by the European Union in 2013. The manual was a collective construction and is part of GCP’s “Responsible Use of Agrochemicals” initiative that promotes good agricultural practices related to the use of agrochemicals in Brazil. For the complete manual in Portuguese, click on the following link: <https://bit.ly/2YS4qz5>.

Source: Global Coffee Platform (GCP) Brazil



COVID-19 GUIDELINES FOR HARVESTING AMAZON ROBUSTAS RELEASED

The Secretary of Agriculture, Livestock, Irrigation, Fishing and Aquaculture of Rondônia in partnership with Embrapa distributed booklets with health and safety recommendations for harvesting of “Robustas Amazônicas” at COVID-19 times as well as strategies to improve yields and cupping quality. The material provides guidance on coffee harvesting, post-harvesting, drying, and storage. According to the booklet, harvesting should only begin this month when ripe cherries will account for at least 80% of the total in order to obtain superior cup quality. Such delay will not affect growers due to the fact that Amazon Robusta coffee beans do not fall to the ground after maturation. The booklet also brings information about the Concafé event, the largest Robusta quality and sustainability contest in Brazil, whose 5th edition will take place in Cacoal municipality, Rondônia state, in October.

Source: Embrapa Café

HIGHEST EVER YIELDS WITH 60-MILLION-BAG CROP IN 1.8 MILLION HECTARES

Brazilian productivity is expected to reach a record country average of 31.6 bags/ha (1.9 tons/ha), with production estimated at 60 million bags in 2020. Average Arabica coffee productivity is expected to reach 29.5 bags/ha (1.8 tons/ha) with production estimated at 45 million bags in an area of 1.5 million hectares. These figures represent an increase of 4.5% in area and 24% in productivity compared to the previous year. The Robusta area under production, estimated at 371 thousand hectares, is expected to produce 15 million bags, with average productivity of 40.4 bags/ha (2.4 tons/ha).

Source: Embrapa

ZERO-CROP SYSTEM IMPROVES COFFEE YIELDS

Pruning that causes production to be zero every third year and high in the other two, has been widely accepted by growers in different regions, especially in mountain coffee areas, as it allows great savings in labor and improves average yields. Two such trials carried out in Espírito Santo and Minas Gerais states resulted in productivity increases of 44 bags/ha (2.6 tons/ha) and 24 bags/ha (1.4 tons/ha), respectively.

Source: Portal do Agronegócio

ROASTERS ANTICIPATE SHIPMENTS TO AVOID SUPPLY BOTTLENECKS

The world’s largest coffee roasters have anticipated the shipment of orders from Brazil for fear of difficulties in ports due to COVID-19 restrictions. Shipments that were supposed to happen in June took place in April albeit Brazilian ports have been operating normally. Traders mentioned that roasters were preparing for larger orders from retail outlets in Europe; Brazil did notice an increase in coffee shipments in the first quarter of 2020 compared to previous years.

Source: Bloomberg

ROASTERS CHANGE STRATEGY TO COPE WITH PANDEMIC EFFECTS ON CONSUMPTION

The current situation, with millions of coffee houses, restaurants and other food outlets closed in Brazil, Italy and other countries, has caused the coffee industry to adapt. Specialty roasters like illycaffè have shifted production efforts from out-of-home to in-home consumption to minimize financial impacts. Demand has grown in both e-commerce and supermarket channels in Europe and Brazil, since the majority of people are isolated and/or working from home. The Brazilian Coffee Roasters’ Association (ABIC) estimated that in-home coffee consumption increased 35% in March and expects numbers to rise even more in April with the majority of coffee outlets still closed due to the pandemic throughout the country.

Source: Notícias Agrícolas

COOPEAVI BARTER SYSTEM NOW AVAILABLE

Coopeavi, a large cooperative located in Espírito Santo state, has created its own barter system that will be applied to the entire line of coffee products throughout the year. Such action will bring great benefits to the coop itself, that will increase its sales, as well as to growers, who will be able to access new opportunities and to produce more efficiently. Barter accounted for 40% of input sales in Brazil in the 2019/2020 season.

Source: Notícias Agrícolas

COFFEE AMONG THE TOP FIVE AGRIPRODUCTS IN BRAZIL


Brazilian total Gross Value of Agricultural Production (GVP) is expected to reach R\$ 453.3 bn (US\$ 77.6 bn) in 2020. Coffee ranked as the fifth top product, with expected revenue of R\$ 26.6 bn (US\$ 4.5 bn) that accounts for 5.9% of the total. Arabica may account for R\$ 21.8 bn (US\$ 3.7 bn) and Conilon is estimated at R\$ 4.8 bn (US\$ 821 m), 81.9% and 18.1% of total coffee GVP, respectively. The four best-performing commodities are soybeans, corn, sugar cane, and cotton.

Source: CaféPoint

| CROP | REVENUE (R\$) | REVENUE (US\$) | % |
|------------|---------------|----------------|----|
| Soybeans | 159.2 bn | 27.3 bn | 35 |
| Corn | 76.2 bn | 13.0 bn | 17 |
| Sugar cane | 62.0 bn | 10.6 bn | 14 |
| Cotton | 42.0 bn | 7.2 bn | 9 |
| Coffee | 26.6 bn | 4.5 bn | 6 |

Brazilian Prices: Main Producing Regions / Farm Gate

April 30, 2020

| | | | | |
|---|----------|---|---|----------|
| Arabica Naturals (R\$/ 60 kg bag) | |  | Conilon / Robusta (R\$/ 60 kg bag) | |
| Cerrado MG | 575,00 ↓ | | Colatina-ES fair average price | 365,00 ↑ |
| Mogiana | 570,00 ↓ | | | |
| South Minas | 570,00 ↓ | | | |
| Arabica Pulped Naturals (R\$/ 60 kg bag) | | | BM&F (US\$/60kg Arabica bag) | |
| Cerrado MG | 655,00 ↑ | | May 2020 | 112,25 ↓ |
| South Minas | 650,00 ↑ | | Jul 2020 | 123,35 ↓ |
| | | | Set 2020 | 118,30 ↓ |
| | | | Real R\$ / Dolar US\$ | |
| | | | Apr 30, 2020 | 5,44 ↑ |

Source: www.qualicafex.com.br

AN ALTERNATIVE FOR COFFEE GROWERS NOW AND AT “NEW NORMAL” TIMES

Plenty has been written lately about the impact of Covid-19 on coffee consumption trends. There seems to be consensus on two trends: consumers will seek lower cost coffees and the specialty coffee sector will be hurt the most. If this may be good news for producers of commercial coffees, it may be a problem for the growing number of growers focusing on the specialty coffee market.

What traditionally happens in Brazil at times of low coffee prices may hint at an alternative for coffee growers at both Covid-19 and the “new normal” times expected afterwards. When faced with a period of low coffee prices that is expected to last, a few growers in the large coffee towns start to roast their coffees and to sell them in the town itself if not in surrounding towns too. The prices that quality conscious growers may obtain are not very different from what they would get from exporting their coffee as specialty. When prices go up, most of these growers favor the easier alternative of going back to supplying foreign markets even though some remain and develop their own brands.

The first question here is whether growers in many countries who will face a shrinking demand for specialty coffees will have a thriving local domestic market in their own countries as Brazilian growers have had in the last two or three decades. It is interesting news that both Central America and the Caribbean and Africa, led by Promecafé and the Inter-African Coffee Organization respectively, are currently involved at an ICO-sponsored effort to start promoting coffee consumption in producing countries. On the other hand, it is known that coffee consumption is growing fast in coffee producing countries of Southeast Asia and Asia itself. Therefore, there may be a market for coffee growers to capture in their own countries.

An interesting side effect of the approach proposed above, again bearing in mind the example of what has happened in Brazil, is that the effort by growers to sell in their domestic market makes them better prepared to also supply the specialty market abroad. This happens because they learn more about consumers’ preferences, the importance of quality consistence and other consumer and market features that make them improve their production techniques not to say marketing ability. This will be very positive when the market for specialty coffee returns to the previous scale or even goes beyond it and importers, roasters and coffee shops can then count on a better pool of suppliers in different countries.

It may be argued that this article assumes a short-term growth of coffee consumption in producing countries that is impossible to obtain. First, as the title says, it is one alternative. Second, the entrance of growers into the market in their own geographical region may create a virtuous cycle of educating consumers and increasing consumption in an area that is usually beyond the scope of programs to promote coffee consumption, that tend to focus on the larger urban areas. Third, growers learn about quality from the standpoint of consumers and are empowered to tailor their products to market requirements. Fourth and last, growers may start in an informal way, even with door-to-door sales, and eventually become formal actors in a process that helps them tap markets that are more difficult to reach.

One final comment is that a substantial part of this market to be tapped is low income, which may curtail returns to growers. Even though the price of coffee sold in the low income market segment is likely to be below average, returns to growers may still be larger than by selling green coffee for exports when international prices are low. This is exactly why many Brazilian growers who go into roasting abandon it when green coffee prices go up. The ones that usually remain are those who started to develop a brand or to specialize on a specific market.

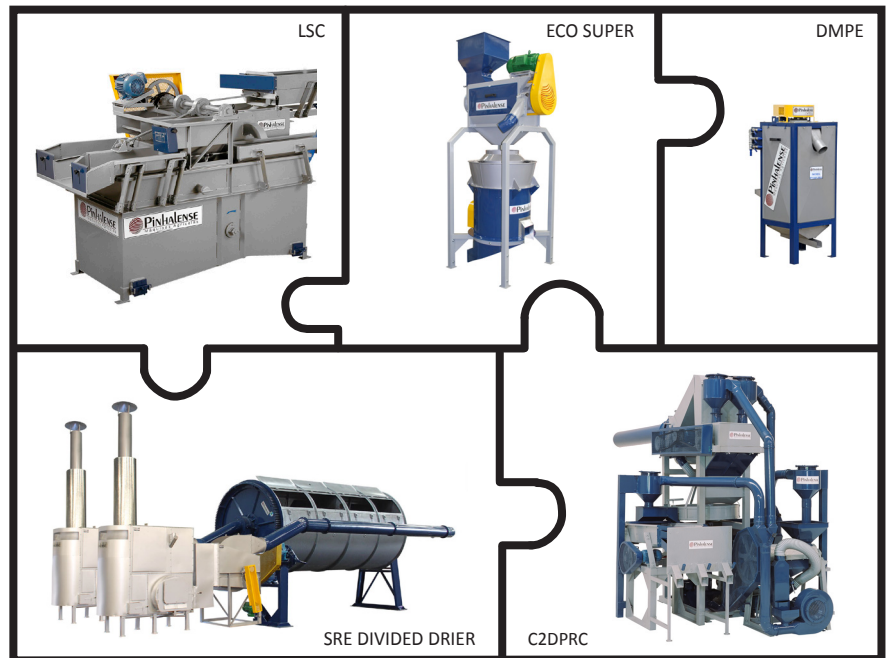


PROCESSING COFFEE FOR THE LOCAL MARKET

In order to supply coffee to the local and regional markets, growers have to be able to process the cherries harvested into green coffee, to be roasted and ground. Some growers already have the equipment to deliver green coffee and only need to add the roaster and the grinder. However, in most producing countries other than Brazil, growers supply either cherry or parchment coffee to be further processed by traders or cooperatives that deliver green coffee to the market.

Growers interested to tap the local market will have to equip themselves, which may not make sense if this will be a short-term reply to the conditions created by the pandemic. However no one knows how long the “new normal” times after Covid-19 will last and how long it will take for the specialty coffee market to return to pre-Covid-19 levels. The advantage of equipping themselves for local coffee supply is that growers who do it will also be in a position to export *directly* and *with value added* to the specialty market, at new normal times and whatever comes after!

The types of machines that growers need to process coffee from cherry to green beans are the same irrespectively of their size. What changes is the capacity of the machines and Pinhalense believes there is a minimum size or scale for this to be economically feasible. To be successful in this endeavor, small growers have to get together to reach coffee volumes that justify the implementation of a small central mill that is equivalent to the size of a micro-lot processing unit. Needless to say that these small facilities to supply the local market can also be used to process micro-lots for the specialty coffee sector and also commercial coffees if that is demanded.



The type of equipment needed, sizes and capacities to be decided depending on the scale of the operation, are:

- mechanical syphon LSC,
- pulper ECO SUPER,
- mucilage remover DMPE,
- single or divided-drum drier SRE, and
- huller, polisher and size grader C2DPRC or
- huller CON, polisher DBD, size grader PFA and gravity separator MVF for larger lots.

P&A’s experts and Pinhalense’s project engineers can help you select the ideal size of machines and sequence of equipment to meet your processing needs in order to respond to your local clients’ demands and to supply micro-lot as well. Pinhalense offers unique processing solutions for washed, pulped natural / honey and natural coffees, from cherry to green coffee. Options for roasting and grinding can also be included in the processing facility or be outsourced.

Contact our agent in your area or P&A itself to learn about special sales conditions created to help clients weather these difficult times.