

CONFIDENTIAL

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

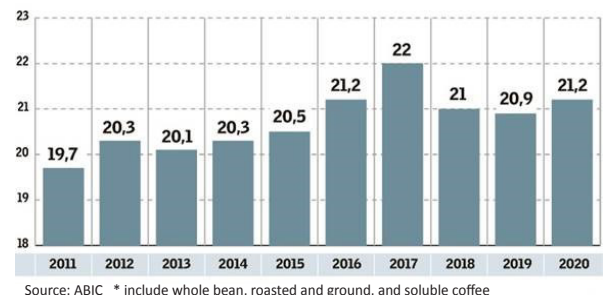
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COFFEE CONSUMPTION GROWS IN BRAZIL

In spite of the pandemic, coffee consumption in Brazil grew 1.34% and reached 21.2 million bags in 2020, the second largest in history, according to the Brazilian Coffee Roasters' Association (ABIC). This figure considers whole bean, roasted and ground, and soluble coffee. Although Brazil remains the second-largest coffee consuming country in the world, only behind the United States, further growth in 2021 will depend on multiple factors such as consumer purchasing power, which has decreased, and coffee prices to the final consumer, that will inevitably increase this year as a result of higher green coffee prices.

Source: Valor Econômico

Coffee Consumption
(million bags green coffee equivalent)*



QUALITY OF BRAZILIAN ARARA COMPARABLE TO ETHIOPIAN GEISHA



The Arara coffee cultivar, known in Brazil for its high productivity and top quality in the cup, is now gaining popularity in foreign markets. The Spanish Forum Café Magazine has recently released an article named “Café Arara, el Geisha Brasileño” (Arara coffee, the Brazilian Geisha) comparing this cultivar with the Ethiopian Geisha. The article stated that the Brazilian Arara can meet the most demanding markets for specialty coffees. It presents very pleasant, clean and sweet cupping features and constantly wins quality contests, scoring over 90 points on the SCA scale.

Source: Procafé

WEEDS ALSO COMPETE WITH COFFEE

Weeds that grow between lines of coffee trees must be properly controlled because they compete with them for water, nutrients and light, and cause production losses that range from 25 to 65%. Weed control can be made manually, with a hoe, mechanically, with tractor weeding equipment, or chemically, using herbicides. Fertilizer application must also be properly done as weeds can take advantage of the nutrients before they reach the roots of the coffee trees.

Fonte: Procafé



DEALING WITH UNEVEN COFFEE MATURATION: ACCELERATE OR SLOWDOWN?

Uneven coffee maturation has always been an issue in Brazil due to multiple flowering. The CEPA product, composed of 2-chloro-ethyl-phosphonic acid, can be used to avoid such issue. After the bean absorbs the product, it decomposes releasing ethylene, which accelerates maturation. However, the application of the product can only be carried out when 90% of coffee beans in the lower part of the tree have developed. A very efficient alternative, that goes in the opposite direction, has been developed to delay the beginning of bean maturation. Potassium acetate and cobalt-based products inhibit ethylene action and, consequently, slow coffee ripening, avoid the fall of over-ripe cherries and decrease the need for a second harvesting round.



Source: Peabirus

DONA IVONE, BRAZILIAN WOMAN THAT HELPED IAC DEVELOP GREAT COFFEE VARIETIES



Ivone Botone Bazioli, an 88-year-old Brazilian lady, has joined the Campinas Agronomy Institute (IAC) in 1949 when she was 16 years old. Although Ivone’s formal education is limited to elementary school, it was enough to open the doors to work at IAC at that time. During her 65-year-long journey at the institute, she worked with the main coffee geneticists in Brazil, such as Carlos Arnaldo Krug and Alcides Carvalho, being responsible for fieldwork. Her contribution to coffee research has been recognized in many ways in Brazil and now abroad with the “Dona Ivone Scholarship” created by the “Coffee Coalition for Racial Equity”. This scholarship will support university students and professionals working in the coffee sector.

Source: G1

NEW FUNCAFÉ BUDGET RECORD

The Brazilian Coffee Policy Council (CDPC) approved a record budget of R\$ 5.95 billion (US\$ 1.02 bn) for the Brazilian Coffee Fund (Funcafé) for the 2021/22 season and equalized interest rates on all lines of credit. The Sales by Growers line received the highest allocation of R\$ 2.2 billion (US\$ 390.7 m), followed by Coffee Cultivation, with R\$ 1.6 billion (US\$ 284.1 m), Financing for Coffee Acquisition by Industry 1.35 billion (US\$ 239.7 m), Working Capital R\$ 630,5 million (US\$ 112 m) and Recovery of Damaged Plantations R\$ 160 million (US\$ 28.4 m).

Source: CecaFé

CECAFÉ AND ANTAQ MEET TO DISCUSS UNDUE CHARGES ON COFFEE EXPORTS

The Brazilian Coffee Exporters' Association (Cecafé) met with the National Agency for Ports and Navigation (ANTAQ) to seek solutions for what it calls abusive undue costs imposed by shipping agencies. Lack of transparency in reimbursement of Terminal Handling Charge (THC) and abusive charges for Export Logistic Fee (ELF), container management, and Bills of Lading (B/Ls) are among the complaints against the shipping agencies that Cecafé presented to ANTAQ.

Source: CecaFé

NESPRESSO BRINGS NEW VERTUO SYSTEM TO BRAZIL

Brazil will be the first country in Latin America to receive the “centrifusion” Nespresso system Vertuo currently available only in North America and in some countries in Europe. The Vertuo system can prepare a larger mug-size dose of 230 ml besides the 40ml version. Nespresso is releasing 18 versions of capsules that will be exclusive to the new system and plans to launch an even larger dose of 535 ml of coffee to be shared by several people. The capsules will have bar codes so that the machine can identify what is the type of coffee, the amount of water needed, ideal temperature and centrifugation rate since the pressure system will no longer be used. The new system will be first sold in the states of São Paulo and Rio de Janeiro.

Source: Valor Econômico

IS THE FUTURE OF COFFEE PRODUCTION GROWTH IN BRAZIL AT RISK?

Estimates that project a smaller-than-usual on-year crop in 2022 because of adverse climate last year may point to the stabilization of Brazilian production with resulting losses in world market share.

There seems to be a “bad mood” about expansion of coffee production in Brazil, specially in Arabica, in spite of higher coffee prices. This includes mainly new planting but also renovation. Comparatively high coffee prices in the local Brazilian currency may be misleading because production costs have also gone up because of higher costs of fertilizers and agrochemicals, that use imported components, not to mention oil, i.e., diesel and gasoline. This may not have been felt as much now because of barter deals with inputs but its impact will come.

Mid-size growers are said to be again at a stage where coffee prices and production costs do not leave relevant margins, if any. This will be worsened by higher coffee picking costs due to the sanitary measures to be required because harvesting will occur at a bad moment of the Covid-19 pandemic in most producing areas of Brazil. The total production of mid-size coffee holders is much smaller than that of small ones, who may be still making money. Small coffee producers account for the majority of Brazilian production but their share has been falling in each agri-census. Worse yet is that small holders are more sensitive to higher input prices and this in turn reflects on reduced use and lower productivity, that tends to be already below average in this segment.

The missing group of growers, the large ones, who usually sell their coffees for higher prices than others, may be suffering from a new wave of lockdowns and its impact on specialty coffee consumption. Large plantations are also the ones most likely to replace the coffee they grow on flat mechanized areas for grains, especially soybeans and corn, or cotton, whose prices have gone up 4 or 5 times more than coffee.

Arabica coffee may not be the culture of choice to open up new production areas today because its current prices, that look apparently good, may not generate the greatest possible returns for the land used. This may be also the case for larger coffee areas that need to be renovated. Can this represent a new round of replacement of coffee with other cultures as it happened in mechanizable areas of the state of São Paulo with sugar-cane and oranges a few decades ago?

The arguments above challenge the continuation of the process whereas average coffee productivity has been growing consistently and total average production has been increasing for many years in Brazil in spite of the fall in planted area. It is worth mentioning that the high productivity of many Arabica areas is reaching a limit beyond which it may not be economically feasible to expand. This limit may even fall as a result of higher input prices. This is different from small growers not being able to use as much inputs but the overall result is the same.

Lower average productivity increases, smaller renovation and modest expansion coupled with highly profitable competing crops may bring down the recent average growth rate of Brazilian Arabica coffee production and create opportunities elsewhere in the world.

Brazilian Prices

Main Producing Regions / Farm Gate

March 31, 2020

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	715,00 ↑	Colatina-ES fair average price 460,00 ↓	
Mogiana	710,00 ↑		
South Minas	710,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	775,00 ↓	May 2021	142,85 ↓
South Minas	770,00 ↓	Jul 2021	143,50 ↓
		Set 2021	148,90 ↓
		Real R\$ / Dolar US\$	
		Mar 31, 2021	5,63 ↑

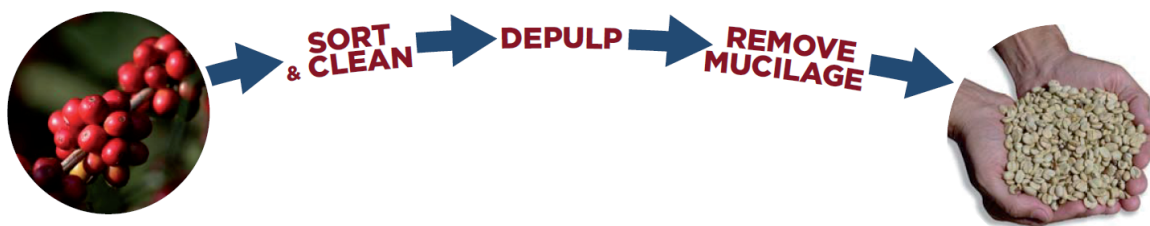
+ 9.2%

Source:
www.qualicafex.com.br



Simply put, coffee wet milling is the set of processing steps that are used to:

- (i) sort/clean coffee cherries,
- (ii) depulp the coffee, and
- (iii) remove the mucilage of the beans.



The machines employed for the steps above are many and they can be set together in many more ways to achieve the desired processing goals. The choice of the right machine and the right setup (or processing flow) usually depends on factors such as:

- market conditions
- environmental concerns
- coffee quality concerns
- size of the operation
- harvesting conditions

CASE 1: KEEPING QUALITY WHILE REDUCING COSTS AND NEGATIVE ENVIRONMENTAL IMPACTS

Discover how José reduced his harvesting costs while keeping coffee quality



Jose, a coffee grower in Huila, Colombia, is today being squeezed between two different sets of demands. On one side, he faces labor scarcity during harvesting, rising wages and environmental pressures, not to mention the need to be competitive. On the other side, his coffee clients require less astringency, more body and a sweeter cup. Some of these demands are obviously conflicting: labor problems imply less selectivity which causes unripe and partially ripe cherries to be harvested which in turn causes astringency and a harsh cup. Other demands go in the same direction: adjustable mechanical removal of mucilage is both environmentally friendly and may produce a sweeter cup with a stronger body.

Pinhalense's response to this wide set of demands faced by José is the line of ecological and flexible wet milling equipment. This new approach offers water and energy savings and damage free pulping; the ability to set apart fully

ripe, partially ripe and unripe cherries that may be pulped separately; a system to pulp under-ripe and over-ripe cherries to maximize their value; and a unique approach to gradual removal of mucilage to control body and sweetness.

CASE 2: SOLVING ASTRINGENCY ISSUES

Learn how Julio solved astringency issues in his coffee lots

Once Yellow Bourbons started to catch the attention of specialty coffee cuppers Julio decided to try planting this variety in a small area of his farm in Guatemala. When time came to collect his first lots of Yellow Bourbon, Julio became extremely disappointed because his fully washed yellow bourbons were being rejected due to astringency in the cup.



An astringent cup may be caused by unripe or only partially ripe cherries that are pulped together with fully ripe cherries. Whereas unripe cherries can be visually separated at harvesting or after, cherries that are already partially ripe cannot, specially those of yellow varietals. Hence they are pulped together with the fully ripe cherries and impart astringency to the beverage.



Julio's problem has been solved by new technology that pulps only fully ripe cherries and sorts all other cherries, whose degree of maturation is less than optimal. He started adopting an unripe cherry separator before his pulper. The quest for an ever higher cup quality has shown that the visual criterion used in selective picking is not enough to ensure that cherries are fully ripe. This can only be ensured by mechanical means that introduce criteria other than the visual identification of the color of the coffee cherry.