

# CONFIDENTIAL

ISSUES NOS. 1 TO 15 OF COFFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

## PRIVATE STOCKS AND PEPRO PROGRAMS FOR 18 MILLION BAGS OF COFFEE

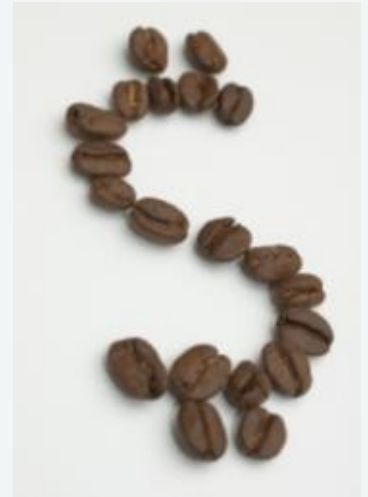
The Coffee Policy Development Council (CDPC) approved a new program for the private stocking of up to 6 million bags of coffee. This new program, financed by the Brazilian Coffee Fund (Funcafé), will provide R\$ 200,00 (US\$ 92.59) per bag stocked, with a trigger price of R\$ 306,34 (US\$ 141.82) per bag to release the stocks to the market. The every-second-year target is 6 million bags stocked in the beginning of July of the higher production "on-year" of the Brazilian biennial crop cycle. Another measure approved by the CDPC was the financing of 12 million bags through the Price Equalization Premium Paid to the Producer Program (PEPRO), with a reference price of R\$ 275,00 (US\$ 127.31) per bag and a premium of up to R\$ 25,00 (US\$ 11.57) per bag. Both programs will have to be ratified by the National Monetary Council before they go into effect.

Sources: Agência Safras, Coffee Intelligence Center and Cafés do Brasil Network

## GOVERNMENT ACTS TO HELP COFFEE SECTOR WEATHER WORLD CRISIS

The Brazilian agribusiness faces uncertain times as the global crisis unravels. Coffee is not an exception. Credit lines for exports have dried up in spite of a hike in interest rates from 5 to over 15% per year. Coffee crop fertilization and plague and disease control, that should take place this time of the year, are being neglected for lack of credit and the oil-induced increase in the prices of the products required. Government has so far reacted with a range of actions directed at the sector (less strict requirements to access credit, refinancing of short-term debt, etc), the agribusiness in general (short term credit) and exporters (export financing lines).

Sources: Valor Econômico, Folha de São Paulo and Canal Rural



## STRATEGIC AGENDA FOR BRAZILIAN COFFEE BUSINESS APPROVED

The Coffee Policy Development Council (CDPC) approved and recommended immediate implementation of the Agenda proposed by a high level working group appointed by the Minister of Agriculture. The Agenda defines priorities and proposes a road map for the development, in the next six months, of a comprehensive strategic plan for the Brazilian coffee business. The working group, composed of representatives of all sectors of the coffee business and departments of the Ministry of Agriculture, met frequently during the last three months with the support of the Coffee Intelligence Center (CIC). The appointment of the working group and the idea to create the Agenda resulted from the workshop Rethinking the Brazilian Coffee Business organized by the Coffee Intelligence Center last April. P&A Marketing International, that is today the chief consultant to the CIC, developed the strategic planning framework and the methodology used to create the Agenda and facilitated the process throughout.

Sources: Agência Safras, CNA, Cafépoint and P&A.

## RELIEF FOR GROWERS AFFECTED BY HAIL

Producers are calling for special hail relief while losses are being estimated. Serious hail damage to many thousand hectares of coffee - some sources claim up to 40 thousand - in South Minas Gerais last September caused the loss of the crop that was yet to be harvested and rendered the trees unable to produce next year. The National Coffee Growers' Council (CNC) is working on a program to recover hail affected areas.

Sources: Conselho Nacional do Café (CNC), Coffee Intelligence Center (CIC) and P&A.



## “ZERO CROP” HARVESTING TECHNIQUE EXPANDS IN MINAS GERAIS

Growers in the hilly South Minas and Matas de Minas regions are adopting this technique in response to high labor costs. The “zero crop” technique entails pruning all branches at a short distance from the trunk immediately after harvesting in the “on-year” of a given plot’s biennial crop cycle. Those trees will not produce in what would be their “off-year”, whose small crop would cause harvesting costs to be high. The pruned trees “rest” for one year, develop new long and vigorous productive branches and provide another large crop two years after pruning. The idea behind the technique is to have a large crop every two years, to eliminate harvesting costs in the intermediate year, and to lower labor costs without jeopardizing average yields. Meticulous users of the technique have not only lowered their production costs but also increased their yields.

Sources: Valor Econômico and P&A.

## STOPPING IRRIGATION TO STRESS CERRADO COFFEE TREES INCREASES PERCENTAGE OF RIPE CHERRIES

Embrapa research results show that growers who irrigate in the Cerrado region of Minas Gerais should stop irrigation in July and August to provoke intense water stress and to cause flowering to be more concentrated. The ultimate aim is to maximize the percentage of ripe cherries - 80% seems possible - that may be harvested in one single picking round in order to increase production of high quality pulped natural (semi-washed) and specialty coffees without undue labor costs.

Sources: Embrapa Cerrados and Cafés do Brasil Network

## RESEARCHERS DISCUSS ROBUSTA CULTIVATION IN STATES OF MINAS GERAIS AND SÃO PAULO

These two traditional Arabica growing states are evaluating whether to plant Robusta coffee in response to higher profit margins, climate change and projections of firm demand in coming years. The Federal University of Viçosa (UFV) in Minas Gerais and the Campinas Agronomy Institute (IAC) in São Paulo brought together coffee researchers in two different events that discussed a broad range of issues, from climate to varieties (Conilon and Robusta), plagues and diseases, husbandry, and quality. Both states have a series of experimental plots in geographical areas with good potential to produce *Coffea Canephora*.

Sources: Cafépoint, IAC and Embrapa



## LEADING ROBUSTA PRODUCER ESPÍRITO SANTO LAUNCHES ARABICA PROGRAM

The government of the state of Espírito Santo launched the program “Renew Arabica” whose objectives are to plant new varieties, to increase yields and to improve cup quality. The target is to double the state’s production from the current average of 2 million bags per year. Arabica plantations are concentrated in the southern part of the state where most municipalities also grow Conilon although not as intensely as in north Espírito Santo.

Sources: Incaper, Maxnet, Cafés do Brasil Network and P&A

## CAFÉ DO CERRADO AND RAINFOREST ALLIANCE ENTER INTO PARTNERSHIP

The Association of Cerrado Coffee Growers (CACCER) and Rainforest Alliance’s Brazilian representative Imaflores signed an agreement whereby RA will certify coffee farms and CACCER will guarantee the origin and the quality of the product. The Cerrado region of Minas Gerais is a Geographical Indication for coffee registered with the Brazilian Patent Office (INPI). CACCER expects to offer up to 1 million bags of RA certified, origin and quality guaranteed Café do Cerrado by 2010.

Source: Coffee Intelligence Center (CIC)

**SURVEYS CONFIRM RECENT GROWTH IN CONSUMPTION AND INDUSTRY CONCENTRATION IN BRAZIL**

A mid-year consumer survey indicates that the consumption target of 18.1 million bags in 2008 may still be reached in spite of slower than expected growth in the first semester. Sales of all foodstuffs failed to meet projections as the expanding market segments C and D benefited from cheap credit to buy durable goods. End-of-semester trends indicate that this phenomenon is very likely to be reverted in the second semester. Per capita consumption for the period has been estimated at 5.64 kg per person per year which places Brazil in the same league as Italy, France and Germany, with the latter only slightly ahead. A different survey showed that industry concentration continues to take place, with large roasters growing faster than small ones. Industries of all sizes that belong to the Brazilian Coffee Roasters' Association (ABIC) and participate in its promotion programs grow faster than non-members of similar size.

Sources: Tempo de Comunicação and Cafépoint

**IS JACU COFFEE A SUBSTITUTE FOR KOPI LWAK?**

Brazil now has its own version of the coffee that is pulped by the digestive system of the Indonesian civet cat. It is called Jacu Coffee and the live organic "pulper" is not a mammal but a bird called jacu. These chicken-size, non-flying birds visit coffee plantations early in the morning and eat ripe cherries only. Coffee pickers working in the area where the jacus thrive are instructed to collect their droppings. Left to rotten on the ground until recently, these beans are now attracting attention and good prices.

Sources: Vigor Econômico and Cafés do Brasil Network



**Picture of the month**



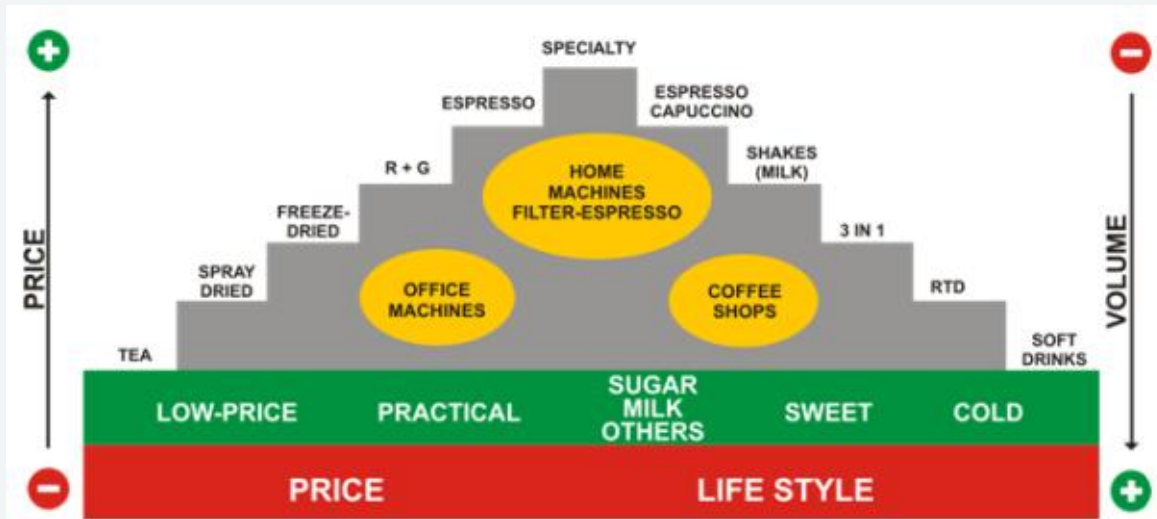
**Arabica coffee in full blossom in Brazil**



Photos sent by Mr. Pierre Marraccini from Cirad/Embrapa - Brazil  
**THANKS!**  
 Send us your photo:  
[confidential@peamarketing.com.br](mailto:confidential@peamarketing.com.br)

## OUTLOOK: THE COFFEE CONSUMPTION LADDER

The Coffee Consumption Ladder is a model to understand tendencies, to predict consumers' moves and to promote coffee consumption. Models are always a simplification of reality, often an over-simplification, but they help understand market reality better. P&A conceived and designed the ladder in order to explain how new consumers enter the coffee market and how new and existing consumers move inside it.



THE COFFEE CONSUMPTION LADDER

Consumers in emerging markets that are predominantly tea-drinking tend to enter the coffee market and to start climbing the ladder on its left-hand side. As practical to prepare as tea and low-cost, spray-dried soluble coffee is often the entry door into the coffee market for tea drinkers. After consumers acquire the habit of coffee drinking they may seek products with a more intense coffee flavor and start climbing the ladder, even switching from soluble to roast-and-ground coffee and eventually to espresso or specialty beverages. Low-price and practical preparation are strong consumption drivers in this market that also relies strongly on low-cost home brewing systems and machines that dispense coffee in offices.

Young consumers may prefer to enter the coffee market at the opposite side of the ladder and move from soft drinks, juices, natural or not, and isotonic beverages to ready-to-drink (RTD) coffee beverages or "3 in 1" (soluble coffee, non-dairy cream and sugar, flavored or not). After the taste for coffee is acquired, the tendency is again for them to climb the ladder and move to products with a more intense coffee flavor though often preserving milk as a base or mixer, for example in cappuccinos. The consumption drivers on this side of the ladder, in this market, are life styles and cold and sweet coffee and milk beverages, often sold in coffee shops but also prepared in more sophisticated home brewing equipment where pods and capsules progressively play a stronger role.

Consumers face higher prices as they climb the ladder and consume products with a higher coffee content. As a result, the volumes consumed tend to be smaller for coffee products at the top of the ladder. There is a strong temptation to say that coffee quality increases as one goes up the ladder. However, quality is a relative concept related to consumers' perceptions, product affordability and willingness to pay.

It is worth to repeat that although the ladder is a simplified version of reality, it is a good instrument to understand tendencies, to predict and anticipate market moves, to create and introduce new products, and to learn when, how and why to intervene with branding and institutional programs to help promote consumption.

## Brazilian prices

October 31, 2008

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	255,00
Mogiana-SP fair average quality T.6	247,00
South Minas fair average quality T.6	252,00
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	268,00
South Minas	270,00

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	218,00

BM&F (US\$/ 60 kg)	
Dec 2008	130,00
Mar 2009	136,40
May 2009	139,60

Real R\$/ Dolar US\$	
October 31	2,16

## STATE-OF-THE-ART IN COFFEE PULPING: SCREEN PULPERS

Screen pulper is the correct technical name of the machine that is better known as a green / unripe / immature cherry separator.

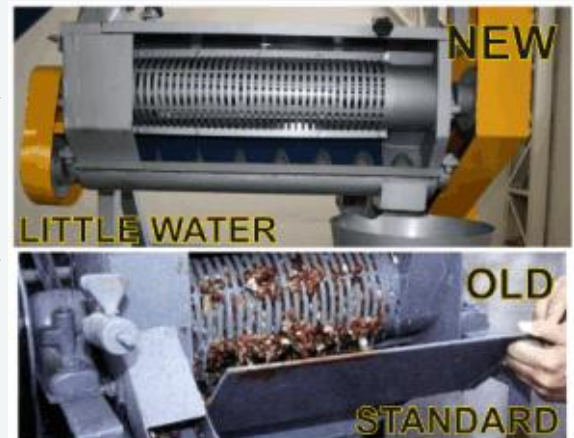
The screen pulpers developed by Pinhalense consist of a rotor mounted inside a metallic cage with long slots whose width (opening) is larger than the parchment beans but smaller than the coffee cherries. The soft ripe cherries are pulped as the spinning rotor forces them to pass through the screen. Pulp removal is very gentle in a process that is not very different from pressing each and every cherry with the fingers. Parchment produced by a screen pulper - the least aggressive pulper ever designed - causes less physical damage, if any, and preserves coffee quality better than any other pulper in the market today.

Since both parchment and the pulp that has just been removed from it pass together through the slots of the screen, they must be separated by a different device. Over the years Pinhalense used modified versions of conventional horizontal and vertical drum pulpers to separate pulp from parchment until it developed a machine specifically for this purpose, the double-drum pulp separator and repasser that became an integral part of its unique screen pulping system. The addition of the double-drum pulp separator and repasser was yet another landmark in coffee pulping technology because it greatly enhanced the separation of pulp from parchment and ensured that practically no parchment would be lost with the pulp.

A third development effort is currently under way to minimize water consumption in the slotted screen pulper. Several pulpers with a new rotor and screen and a screw conveyor for the transport of parchment and pulp were in actual operation for several months this year until the system was judged ready to be released to clients last September. Although the new reduced water consumption screen pulper is already a standard component of the new compact **ecoflex** wet mills for 500 to 1,000 kg cherry per hour, that were also in actual operation in several sites for several months this year, it will only be incorporated into the DC and ECO lines of pulpers in the second semester of 2009. Water consumption in the screen pulpers has been reduced by 75% to 0.20 to 0.25 liters of water per kilogram of cherry or about 1 liter of water per kilogram of dry parchment.

Last but not least, Pinhalense screen pulpers do not pulp unripe cherries, that are automatically discarded on the side(s) of the cage. Since recent findings show that top quality washed coffee results from the pulping of only 100% ripe cherries, free from both unripe and partially mature cherries, Pinhalense further developed its screen pulpers to also separate partially mature cherries that cannot be separated manually using a visual color criterion.

It is for all reasons above that screen pulpers have become the state-of-the-art in coffee pulping.



REDUCED WATER CONSUMPTION  
SCREEN PULPER



Pinhalense screen pulpers are already well-known worldwide for minimizing physical damage and preserving the intrinsic quality of coffee. The most recent evidence comes from East Africa, a region known for the outstanding quality of its washed Arabicas, where there are over 100 Pinhalense wet milling lines in operation. As reported in last month's Confidential No. 15, that may be accessed in P&A's site [www.peamarketing.com.br](http://www.peamarketing.com.br), farms using Pinhalense pulpers won 33% of the awards in Rwanda's 2008 Cup of Excellence competition, including first and third places. At the electronic auction held on October 23, the winning coffee was sold for US\$ 18.00 per pound (US\$ 2,370.00 per bag of 60 kg). The 8 lots pulped in Pinhalense equipment accounted for about 40% of the total proceeds of the auction as it may be checked in the site [www.cupofexcellence.org](http://www.cupofexcellence.org). A P&A team that visited East Africa last week had the opportunity to directly check the extent to which screen pulpers avoid damage to parchment in wet mills supplied to Kenyan clients. It was absolutely clear and evident that screen pulpers with double-drum pulp separators are much superior to both single-drum vertical pulpers and disc pulpers. The visitors also heard from clients that coffees processed in their Pinhalense mills scored better in cupping evaluations.