

# CONFIDENTIAL

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

- IS DIVERSITY OF PRODUCTION BEING LOST? (PAGE 3)
- SIGA - INTEGRATED AUTOMATION SYSTEMS FOR COFFEE STORAGE AND MILLING (PAGE 4)

## COLOMBIA AND CHINA INCREASE COFFEE PURCHASES FROM BRAZIL IN 2021

Brazil today exports coffee to the 5 largest coffee producing countries except Ethiopia. Brazilian exports to Colombia are equivalent to over half of the total coffee consumed in the country. China consumes twice as much as Colombia and is already among the ten largest consumers in the world. While world consumption grew almost 10% in the last five years, Chinese consumption increased 45% in the same period. However, the scenario was not as favorable for the main destinations of Brazilian exports and the biggest reduction came from Germany. Arabica coffee exports totaled 32.65 million bags, corresponding to 80.9% of the total exports of 40.4 million bags. Soluble coffee exports totaled 4.09 million and Canephora coffee (Robusta and Conilon) 3.64 million, or 10.1 and 9% of the total, respectively.

IMPORTER	MILLION BAGS	%
United States	7.78	19.3
Germany	6.53	16.2
Italy	2.94	7.3
Belgium	2.83	7
Japan	2.50	6.2

Source: Embrapa Café

## RECORD SOLUBLE COFFEE EXPORTS AND DOMESTIC CONSUMPTION

The Brazilian soluble coffee industry exported 4.09 million bags to 98 countries in 2021. This new record is slightly above the 4.07 million bags registered in 2020, the highest volume until then. Revenues reached US\$ 566.2 million, 6.1% higher than in 2020. Domestic consumption of soluble coffee had a greater expansion, 5.9% compared to 2020, reaching 985.3 thousand bags. This is the best performance in the historical statistical series of the Brazilian Soluble Coffee Industry Association (ABICS).

Source: Agência P1

## BIG-BAG SHIPMENTS HELP MINASUL BREAK EXPORT RECORD

Minasul cooperative registered a record in coffee exports last January, with more than 40 thousand bags shipped, the best performance since Minasul started to export in 2015. The positive result was due to the breakbulk system (in big-bags) as an alternative to circumvent the logistics crisis that is still affecting the sector. Container shipment has several advantages but big-bags are an efficient short-term solution for the current logistics situation. The final destination for the big-bag shipment was the United States, Brazil's main coffee destination.

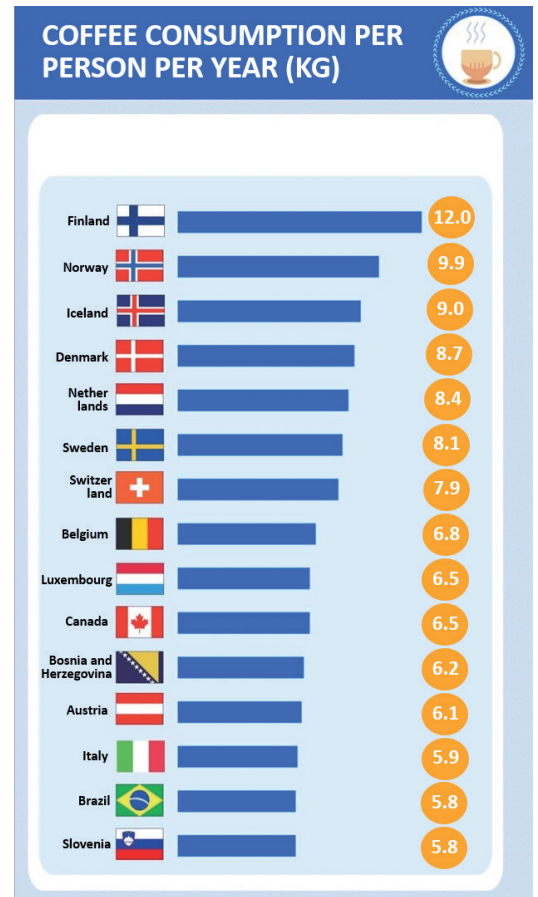
Source: Minasul



**☉ COFFEE IS SECOND MOST CONSUMED BEVERAGE IN BRAZIL IN SPITE OF HIGHEST PRICES THIS CENTURY**

Coffee is the second most consumed beverage in Brazil after water with an average consumption of 3 to 4 cups of coffee per person per day, i.e., 5.8 kg per person per year. Brazil is the second largest coffee consuming country in the world but there is still a lot of room for further growth because it is only in 14th place in the rank of world per capita consumption. Finland is in the 1st place, with a per capita consumption of 12kg per year, more than double that of Brazil. Espresso is the favorite coffee preparation followed by “Pingado” (Café au Lait), Cappuccino, Macchiato and Café Latte. Coffee prices for Brazilian consumers increased 40% in the last 12 months and are the highest in the last 25 years.

Source: Paranashop



**☉ RURAL INSURANCE INCREASED 45% IN 2021**

Losses caused by adverse weather in coffee producing regions of Brazil increased growers' interest in rural insurance. The number of contracts issued increased 45% in 2021. A total of 12,596 policies were negotiated to be compared to 8,691 policies in 2020. The total coffee area insured increased from 165,100 hectares in 2020 to 272,000 hectares in 2021. However, growers claim that the most common and affordable insurance covers coffee trees and not production. This discourages a more intense use of insurance. Bearing this in mind, the Copepec coffee cooperative, located in Franca, Mogiana region, held meetings with financial agents suggesting that a coverage limit be set for the coffee price. This way, the insurance policies may be able to cover at least part of coffee production.

Source: Valor Econômico

**☉ STATE OF RIO DE JANEIRO COFFEE SEAL TO STIMULATE QUALITY AND SUSTAINABILITY**

The creation of the seal by the Secretariat of Agriculture, Livestock, Fishing and Food Supply with the support of Emater-Rio, Pesagro-Rio and the Association of Coffee Growers of Rio de Janeiro State (Ascarj) is a tool to encourage coffee growers to continue investing in sustainability and quality. Coffee quality contests, such as the Rio Coffee Nation international contest for specialty and organic coffee and the Rio de Janeiro Specialty Coffee Contest are a reality today in the state and reveal quality coffees that are among the best in Brazil.

Source: G1

**Brazilian Prices**

Main Producing Regions / Farm Gate

January 31, 2022

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	1535,00 ↑	Colatina-ES fair average price	838,00 ↓
Mogiana	1530,00 ↑		
South Minas	1530,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	1605,00 ↑	Mar 2022	288,25 ↑
South Minas	1600,00 ↑	May 2022	286,10 ↑
		Jul 2022	289,50 ↑
		Real R\$ / Dolar US\$	
		Jan 31, 2022	5,31 ↓

+ 4.9%

Source: www.qualicafex.com.br

## IS DIVERSITY OF PRODUCTION BEING LOST?

The table below includes the 14 countries that produced more than 1 million bags of coffee in 2019/20. The countries are grouped using ranges of sizes of production.

TOTAL PRODUCTION IN LARGEST COFFEE PRODUCING COUNTRIES (thousand 60kg bags)											Average 1	World	Average 2	World	Change	Growth	
Crop year		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2010/11-2014/15	(%)	2015/16-2019/20	(%)	1 - 2	2 vs. 1
1	Brazil (A/R)	55.428	48.592	55.418	54.689	53.305	52.871	56.788	52.740	65.131	58.211	53.486	36%	57.148	35%	3.662	7%
2	Viet Nam (R/A)	20.000	26.500	23.402	27.610	27.241	31.090	27.819	33.432	30.283	30.487	24.950	17%	30.622	19%	5.672	23%
<b>Total A (1-2)</b>		<b>75.428</b>	<b>75.091</b>	<b>78.820</b>	<b>82.299</b>	<b>80.545</b>	<b>83.961</b>	<b>84.607</b>	<b>86.172</b>	<b>95.414</b>	<b>88.698</b>	<b>78.437</b>	<b>53%</b>	<b>87.770</b>	<b>54%</b>	<b>9.334</b>	<b>12%</b>
3	Colombia (A)	8.523	7.653	9.927	12.124	13.333	14.009	14.634	13.824	13.866	14.100	10.312	7%	14.087	9%	3.775	37%
4	Indonesia (R/A)	9.129	6.889	13.070	12.901	10.946	12.585	11.541	10.852	9.618	11.433	10.587	7%	11.206	7%	619	6%
<b>Total B (3-4)</b>		<b>17.651</b>	<b>14.542</b>	<b>22.997</b>	<b>25.025</b>	<b>24.280</b>	<b>26.594</b>	<b>26.175</b>	<b>24.676</b>	<b>23.484</b>	<b>25.533</b>	<b>20.899</b>	<b>14%</b>	<b>25.293</b>	<b>15%</b>	<b>4.394</b>	<b>21%</b>
5	Ethiopia (A)	5.560	5.650	6.132	6.242	6.383	6.515	7.143	7.347	7.511	7.343	5.994	4%	7.172	4%	1.178	20%
6	Honduras (A)	4.331	5.882	4.686	4.583	5.268	5.786	7.457	7.560	7.153	5.931	4.950	3%	6.777	4%	1.827	37%
7	India (R/A)	5.600	5.334	5.403	5.075	5.450	5.830	6.161	5.813	5.325	4.988	5.372	4%	5.624	3%	251	5%
8	Uganda (R/A)	3.267	3.115	3.914	3.633	3.744	3.650	4.962	4.597	4.704	5.509	3.535	2%	4.684	3%	1.150	33%
<b>Total C (5-8)</b>		<b>18.758</b>	<b>19.981</b>	<b>20.135</b>	<b>19.534</b>	<b>20.846</b>	<b>21.781</b>	<b>25.723</b>	<b>25.317</b>	<b>24.693</b>	<b>23.771</b>	<b>19.851</b>	<b>13%</b>	<b>24.257</b>	<b>15%</b>	<b>4.406</b>	<b>22%</b>
9	Mexico (A/R)	4.001	4.561	4.327	3.916	3.636	2.772	3.635	4.485	4.351	3.985	4.088	3%	3.845	2%	-243	-6%
10	Peru (A)	4.069	5.373	4.450	4.106	2.883	3.304	4.223	4.279	4.263	3.836	4.176	3%	3.981	2%	-195	-5%
11	Guatemala (A/R)	3.950	3.850	3.763	3.189	3.310	3.410	3.684	3.734	4.007	3.606	3.613	2%	3.688	2%	76	2%
<b>Total D (9-11)</b>		<b>12.020</b>	<b>13.784</b>	<b>12.540</b>	<b>11.212</b>	<b>9.830</b>	<b>9.485</b>	<b>11.542</b>	<b>12.497</b>	<b>12.621</b>	<b>11.427</b>	<b>11.877</b>	<b>8%</b>	<b>11.515</b>	<b>7%</b>	<b>-363</b>	<b>-3%</b>
12	Nicaragua (A)	1.638	2.193	1.873	2.060	1.898	2.130	2.555	2.642	2.879	2.882	1.932	1%	2.618	2%	685	35%
13	Côte d'Ivoire (R)	837	2.216	1.994	2.598	1.728	1.289	1.117	1.624	2.175	1.929	1.875	1%	1.627	1%	-248	-13%
14	Costa Rica (A)	1.614	1.831	1.823	1.552	1.475	1.440	1.372	1.561	1.427	1.472	1.659	1%	1.454	1%	-205	-12%
<b>Total E (12-14)</b>		<b>4.088</b>	<b>6.241</b>	<b>5.690</b>	<b>6.210</b>	<b>5.101</b>	<b>4.860</b>	<b>5.045</b>	<b>5.827</b>	<b>6.481</b>	<b>6.283</b>	<b>5.466</b>	<b>4%</b>	<b>5.699</b>	<b>3%</b>	<b>233</b>	<b>4%</b>
<b>Total (1-14)</b>		<b>127.946</b>	<b>129.639</b>	<b>140.182</b>	<b>144.279</b>	<b>140.601</b>	<b>146.681</b>	<b>153.093</b>	<b>154.489</b>	<b>162.693</b>	<b>155.712</b>	<b>136.530</b>	<b>93%</b>	<b>154.534</b>	<b>94%</b>	<b>18.004</b>	<b>13%</b>
<b>Total World</b>		<b>140.078</b>	<b>141.327</b>	<b>151.184</b>	<b>153.910</b>	<b>150.302</b>	<b>156.126</b>	<b>162.320</b>	<b>163.693</b>	<b>172.461</b>	<b>165.053</b>	<b>147.360</b>	<b>100%</b>	<b>163.931</b>	<b>100%</b>	<b>16.571</b>	<b>11%</b>

A = Arábica R = Robusta Source: International Coffee Organization (ICO)

The right-hand side of the table has columns with average production in 2010/11 to 2014/15 and 2015/16 to 2019/20, the world share of production of these average figures, and the growth of the averages between the two periods. The last column on the right-hand side, growth of the averages for the two periods, contains surprising figures.

Contrary to the usual perception, that Vietnam and Brazil together are gaining world market share in a major way, this last column shows that the second and third groups of countries had a much larger percentage growth of production than the two largest producers which made their volume of additional production to be in the same range of the top two. While Vietnam and Brazil added 9.3 million bags to average world production in the period covered, the next 6 countries – Groups B and C in the table – added 4.4 + 4.4 = 8.8 million bags. This shows that concentration of production is a process involving more countries than Vietnam and Brazil alone and this is welcome for the diversity of coffee supply.

On the other hand, it is not good that together the next two groups – D and E – have not grown and slightly lost share. With the exception of Nicaragua, that had one of the largest percentage growths in the table (37%), and Guatemala, that had very little growth (2%), all other countries saw their average production fall. This is not good for diversity.

The random choice of years to calculate the averages may be criticized. It may be argued, for example, that it addressed the periods during and after the Colombian renovation and that the country's production has been rather stable in the last 5 years. Vietnamese production has been also oscillating around an average of 30.5 million bags in the last 5 years after marked growth in relation to the previous period. In other words, these two leading producers have not themselves grown significantly in the last 5 years. Modest relative growth has also happened in Brazil between periods and within the second period in spite of the typical oscillations of the biennial production cycle.

Growth between averages apart, the analysis by country of the yearly production figures in the table shows a visible trend of expansion of production in countries like Ethiopia, Honduras, Uganda, Nicaragua and Ivory Coast. It is interesting to learn what these countries are doing to increase production in order to use this information as a basis to help other countries to do the same.

This exchange of experiences between mid-size and smaller producing countries is specially relevant considering the argument that Brazil and Vietnam have a so much larger scale of production and that their coffee sectors are so well developed that it is difficult to transfer what they are doing to other producing countries. Probably true in a macro perspective, this may not be the case at the farm level, at a micro perspective, where solutions may indeed be transferrable, specially those used by smallholder coffee growers. In reality, the well-functioning, well developed institutional and business enabling environments of Brazil and Vietnam should also be pursued in all producing countries but this is a much more complex and long-term task.

The other piece of good news is that only 4 of the 14 countries depicted in the table lost production between the averages of the periods concerned and these losses have occurred at the tail end of a rather long period of low coffee prices. The average growth for all 14 countries (13%) was greater than that of Brazil and Vietnam together (12%) and total world production grew only slightly less (11%). Diversity of production is not being lost... but it should be further pursued!

It is a good challenge to devote more time to the analysis of the numbers in the table above and, specially, what is behind them in order to come up with additional conclusions. Has the increase in production in the mid-size producing countries resulted from political will, improvement of the enabling environment or else? One sure reason for the increase of production anywhere is coffee growers to earn more money. Has it been the case in these countries?





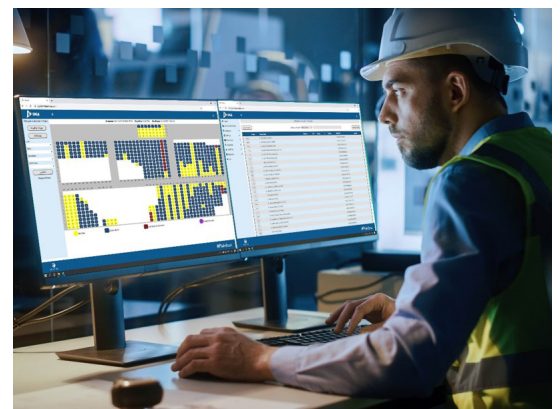
## INTEGRATED AUTOMATION SYSTEMS FOR COFFEE STORAGE AND MILLING

Pinhalense has expanded its team of engineers and its manufacturing facilities to add automation systems to its supply of electric panels for complete milling lines, sectors of the mill and individual machines.

The SIGA – Integrated Automation Systems for Coffee Storage and Milling –, that has been supplied to coffee processing facilities in Brazil for several years, will now be offered to clients abroad to improve the control and efficiency of their Pinhalense coffee mills.

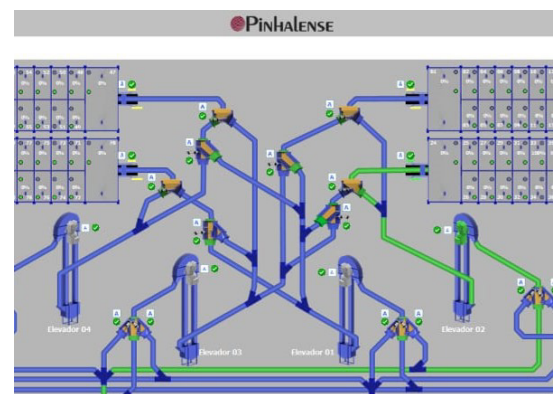
The main features of SIGA are:

- location and traceability of inventories
  - raw materials (incoming coffee)
  - in-process products
  - finished products
- management and control of operations
  - full mill
  - key sectors (e.g.: intake and blending)
- issuance of reports
- full integration with other Pinhalense systems (e.g.: weighing and electric controls)
- possibility of connection with digital management systems.



The main idea behind SIGA automation is to increase profits as a result of

- smart use of coffee inventories, e.g.: detailed knowledge of coffees available
- better control of processes, e.g.: the delivery of blends with the features clients want
- greater processing efficiency, e.g.: full use of machinery capacity
- greater income, e.g.: minimize loss of products and optimize use of all types of coffee
- improved accountability to clients, certification systems and senior management.



How does SIGA work? Sensors installed in silos and machines, e.g.: elevators and scales, make them “smart”. The connection of these sensors to a digital processing system enables control, online management and accounting of operations. These are all reported in digital screens installed in the control center(s) from where operators manage the processing operations and flows.

SIGA is a great complement to the Pinhalense panels and electric control systems that have been already exported to clients in several countries along with Pinhalense mills and equipment. Learn about control panels in Confidential No. 122 (September 2017), <https://bit.ly/3J7PII7>.

Please contact your local Pinhalense/P&A representative to learn how SIGA can help you maximize your profits.