P&A international marketing COFFEE NEWSLETTER
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COFFIDENTIAL

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ENCAFÉ 2008 - COFFEE SECTOR DOES NOT FEAR GLOBAL CRISIS

The Brazilian coffee industry gathered from November 19 to 23 for the ENCAFÉ 2008 (16th Annual Coffee Roasters Conference), in Porto de Galinhas, state of Pernambuco. The event's central theme was "The New Brazilian Consumer" - meaning the millions of people who have ascended to the middle class and gained consumer power recently - and focused on marketing perspectives and opportunities for the national coffee industry in 2009. According to a study presented during the conference, Brazilian out-of-home consumption (which already accounts for 30% of the total and includes coffee shops, bakeries, offices, universities, hospitals and other stores) will continue to grow next year, as well as home consumption, with new marketing opportunities arising from lower-cost coffee machines, pods and new packages. Brazilian domestic consumption is estimated to grow 5% in 2008, reaching 18 million bags.

Source: Gazeta Mercantil and Valor Econômico

ENCAFÉ 2008 - INDUSTRY TO TARGET YOUNG CONSUMERS

Research data released during ENCAFÉ 2008 reveals that coffee consumption by consumers under 15 years old remains low. This age-group represents about 15% of the total market. The Industry concern is that those youngsters will not become consumers in the future and it is important to introduce the coffee habit as soon as possible. The way to reach them is to use coffee and milk beverages, blending coffee's natural stimulus with milk's nutritional value. The most important coffee competitor in this age-group is chocolate beverages.

Source: Revista Cafeicultura

ENCAFÉ 2008 - NEW WAYS TO RAISE CONSUMPTION

The same research revealed that 97% of all Brazilians consume coffee on a regular basis. The average per capita consumption is above 4.5 kg / year. The data suggest that industry will have to find innovative ways to introduce coffee in Brazilians' everyday life. Some suggestions were coffee shakes sold in yogurt bottles, therapeutic coffee, natural energetics, canned beverages, coffee with soy or soda and special beverages for kids. A beer with coffee taste, that was already presented in our Coffidential number 14, was also presented.

Source: Revista Cafeicultura, Gazeta Mercantil and Valor Econômico

ENCAFÉ 2008 - BRAZIL'S COFFEE CONSUMPTION PROGRAM IS AN EXAMPLE FOR OTHER PRODUCING COUNTRIES

According to the ICO Executive Director Mr. Nestor Osorio's opening address, Brazil continues to be an example for other coffee producing countries because of its continuous efforts toward increasing consumption. During his speech at the ENCAFÉ 2008, he also mentioned that Mexico, Colombia and El Salvador are good examples of countries that decided to organize consumption programs based on the ICO's Step-by-Step Guide created by P&A Marketing International.

Source: Agência Safras

ENCAFÉ 2008 - PARTNERSHIP TO STRENGTHEN COFFEE EXPORTS

The Brazilian Coffee Roasters Association (ABIC) and the Brazilian Trade and Investment Promotion Agency (APEX) will start a new program for the 2009-2010 period. With a total investment of R$ 24 million (US$ 10.1 million) the plan is to promote the exports of roasted coffee. New strategies are being drawn to reach countries that are export platforms, such as Chile, Panama, Turkey and Singapore. The new initiatives include partnerships with local “chefs de cuisine” associations and the formation of a Brazilian Barista Coffee Team that will go abroad and present coffee drinks made with “Cafés do Brasil”.

Source: Cafépoint

ENCAFÉ 2008 - GREEN COFFEE IMPORTS STILL CONTROVERSIAL IN BRAZIL

Green coffee imports have always been a controversial subject in Brazil. During ENCAFÉ 2008 it was again discussed by the sector. The industry claims that the country is not gaining the participation it could in the international market because it is not feasible to import coffee to create multi-origin blends of industrialized coffee that suit consumers' tastes. Growers, on the other hand, fear that allowing imports of low quality coffees might bring pests and diseases into the country. Today, Brazilian industries that wish to successfully export multi-origin coffee blends need to either make their blends abroad or establish partnerships with foreign companies.

Sources: Valor Econômico, Agência Safras, Coffees of Brazil Network and Folha de São Paulo

TOTAL PRODUCTION COSTS UP BY 23% IN NINE MONTHS

Brazilian total cost of production for coffee has risen 23% between November 2007 and August 2008, mainly due to a 53% increase in fertilizer prices. Data released by the Federal University of Lavras (UFLA) points out that fertilizers account for 18% of total coffee production costs in Brazil.

Sources: CNA and Café e Mercado

FERTILIZER INDUSTRY STUCK WITH 6 MILLION TONS IN STOCK

The Brazilian fertilizer industry is going through peak demand time with stocks estimated at around 6 million tons. The global financial crisis affected the sector which expected record sales in 2008. The lower demand has already caused prices to drop, but the biggest problem for the industry is that there are no buyers.

Source: Canal Rural

GREEN COFFEE EXPORTS REACH HIGHEST PEAK SINCE 2002

Brazil's green coffee exports reached 2.96 million bags of 60kg in October 2008, the highest level since 2002, a figure that is close to the historical monthly record, according to the Secretariat of Foreign Trade (SECEX). High exports like this are a reflection of the large “on-year” 2008/09 crop estimated by CONAB at 45.8 million bags.

Source: Reuters

LOWEST PUBLIC STOCKS SINCE 2003

Brazilian public coffee stocks have reached the lowest level in five years, summing 168,400 bags, a volume 37% smaller than in 2003. This is not an isolated fact: worldwide stocks have followed a downward trend since 2006 due to a stable production over recent years together with a gradual increase in coffee consumption worldwide, analysts say.

Source: Gazeta Mercantil

PARANÁ'S NORTH PIONEER REGION LAUNCHES NEW GREEN COFFEE BRAND

The brand "Café do Norte Pioneiro do Paraná" was launched during the 1st International Coffee Fair (Ficafé) in Jacarezinho, in November 2008. The initiative comes from the North Pioneer of Paraná Specialty Coffee Association and aims to add value to the local production, associating the new brand with the region's high quality coffees. The North Pioneer region represents 40% of the state of Paraná's total production, with an annual output of 1 million bags.

Source: Folha de Londrina

STARBUCKS TO OPEN IN RIO DE JANEIRO

With 13 coffee shops in São Paulo and 1 in Campinas, Starbucks will now open its first store in Rio de Janeiro. Despite the company's problems elsewhere, business in Brazil is doing well. Starbucks plans to open 3 more stores until the end of 2008, adding up to 17 stores in the country. For local coffee shop owners in Rio, the arrival of the coffee giant will be an opportunity to create both greater awareness about coffee and new consumers, such as youngsters and tourists that visit the city.

Source: Jornal do Comércio / RJ

Picture of the month

ENCAFÉ 2008:Nathan Herszkowicz presenting the "Super Coffee" and Carlos Brando talking about the "new consumer" around the world

Photos sent by GSB2 (www.gsb2.com.br) from Espírito Santo do Pinhal - Brazil THANKS!

Send us your photo: coffidential@peamarketing.com.br

WILL THE GLOBAL CRISIS UNRAVEL THE SPECIALTY COFFEE PARADOX AND BRING NEW OPPORTUNITIES TO GROWERS?

In recent years growers have suffered from what I call the “specialty coffee paradox”. The volume of specialty coffee sold by producers to importers is growing slowly but the volume of specialty coffee purchased by consumers in importing countries is growing fast. How is this possible? What is the reason for this paradox? The explanation lies on different definitions of specialty coffee.

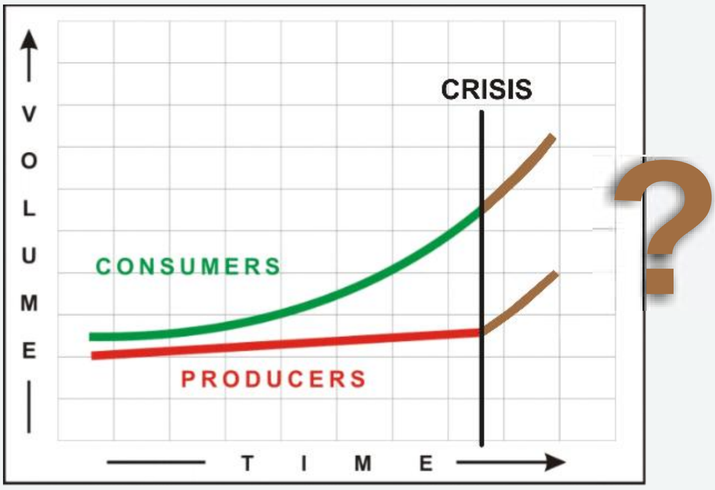
Producers are told by buyers, traders and importers that specialty coffees are defined according to cup quality, e.g., coffees that reach 80 points or above at SCAA's cupping scale. However, for consumers the definition of specialty coffee is associated with the way coffee is sold or presented. To many consumers all espresso beverages, all coffee sold in coffee shops and new coffee drinks are all considered specialty coffees and these consumers are prepared to pay more for them, even if their quality is not above SCAA 80, as it is often the case. The problem caused by the paradox is that value addition is concentrated at the consumers' end, at the expense of the grower.

There is high value addition and big growth on the consumers' side of the market but low value addition and small growth on the producers' side. There is in fact a transformation of commercial coffees into “specialty” coffees. How can this problem be solved to help value addition to reach the grower and to make the coffee market more sustainable?

There is now interesting preliminary evidence that the global crisis may lessen the impacts of the paradox and improve the growers' lot. Although it may be too early to jump at conclusions, a trend already detected in the US indicates that consumers are drinking more lower-cost-per-cup coffee at home at the expense of the higher priced coffee beverages offered by coffees shops. At times of crises consumers become more cost conscious and it is not difficult to conclude that the savings obtained by shifting to home consumption make it possible to acquire an espresso machine and to consume high quality specialty coffee bought by the pound rather than by cup. This may lead to higher consumption of high quality specialty coffees by people and by the drain, meaning coffee that is brewed at home and discarded because it has not been drunk.

The increase in real specialty coffee consumption will have to be reflected in larger imports of specialty coffees, thus restraining the process of transformation of commercial coffees into pseudo-specialty coffees. This shift in consumption patterns will create interesting opportunities for growers of specialty coffees and render the specialty coffee paradox less prevalent as a result of the global crisis.

The shift from coffee shop to home consumption is also positive because it indicates that consumers are not looking for coffee substitutes or decreasing their coffee consumption but instead seeking ways to lower costs in order to retain their coffee intake. It may be too early to predict whether the global crisis will reduce the vigorous growth in worldwide coffee consumption of recent years. However the scenario is very different from past situations when consumption fell because frosts or droughts caused coffee prices to increase dramatically. The impacts of the current crisis will be spread over all beverages and coffee is now a much stronger acquired taste and habit than ever before.



Brazilian prices

November 28, 2008

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	267,00
Mogiana-SP fair average quality T.6	267,00
South Minas fair average quality T.6	265,00

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	275,00
South Minas	275,00

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	220,00

BM&F (US$/ 60 kg)	
Dec 2008	121,00
Mar 2009	130,00
May 2009	132,90

Real R$/ Dolar US$	
November 28	2,31

BUCKET ELEVATOR TECHNOLOGY AND RETURN ON INVESTMENT

Bucket elevators are often judged to be only minor components of coffee mills with most attention going to the selection of the machines themselves. Of course machinery is the heart of any coffee processing facility - wet milling, drying or dry milling - but without efficient elevators the whole operation of the mill can be impaired, with risks that range from physical damage to coffee beans to frequent stoppages to reduced output.

Bucket elevators are much more sophisticated pieces of equipment than they are usually thought to be. Considering the high price of coffee vis-à-vis other grains, it is paramount to avoid physical damage as it is transported from one machine to the other. This requires control of the speed of the elevator belt, proper design of the feed and discharge systems (i.e., the base and the head) and adequate choice of driving pulleys. The capacity and efficiency of an elevator are also related to the design parameters above, specially the shape of the bucket and the feeding system. Finally, different coffee products - cherry, parchment or green bean, wet or dry - call for different design criteria.

It is not surprising that Pinhalense has different lines of elevator bases and heads, a wide array of pulleys with different designs and materials, and different types of buckets. These elements are combined to create the elevators that are best suited to the different coffee products to be conveyed. It is not unusual to have two or even three types of elevators in the same coffee mill because coffee products often change as a result of milling, e.g., wet into dry parchment, unhulled into hulled coffee, etc.

The number of choices above and the need to customize the elevators to the coffee product(s) to be transported indicate how naïve it is to use in a coffee mill bucket elevators that have been designed for grains or other products. Likewise, it is naïve, not to say worrisome, to have elevators made by a non-specialized machine shop in order to save money. These types of attitude may render the investment in sophisticated machinery less rewarding and the pay off period much longer.

Another aspect of bucket elevator technology refers to how the elevators are coupled to the machines they feed or receive coffee from. Several parameters must be considered: type of coffee product, moisture level, degree of impurity, feed and discharge point(s) and respective heights, machine output, etc. If these parameters are not thoroughly taken into account there is a high risk that the machinery will not operate at full capacity or even jam and stop the full line.

Many coffee mills do exist that have silos that cannot be filled to their full capacity and machines that cannot deliver their full output due to problems related to the poor selection or design of bucket elevators. Maybe we should go into further detail in an next issue of Coffidential and explain why Pinhalense elevators are sometimes said to be too high when they are in fact the correct height in order to ensure that the most is gotten out of the machines they are linking.

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