

CONFIDENTIAL

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

- MICRO-LOTS ARE HERE TO STAY: OPPORTUNITIES? (PG. 3)
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COFFEE GROWER’S OPINION: EU REGULATION - FROM RISK TO OPPORTUNITY?

There will be costs to comply but the EU regulation is being progressively perceived as an opportunity rather than a risk for Brazilian coffee producers. This change of perception results from a better understanding and discussion of requirements and a comparative analysis of the ability and difficulties of different producing countries to comply. But who will absorb these costs? Responsibility and costs should be shared along the supply chain.

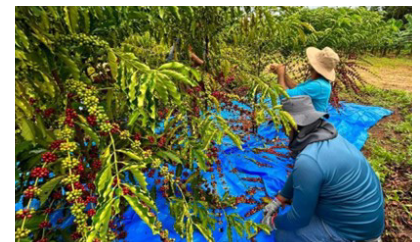
☉ BRAZIL EXPORTS ALMOST 90% OF THE SPECIALTY COFFEE IT PRODUCES

South Minas is one of the main coffee producing regions in Brazil and has also gained prominence for the production of specialty coffees in recent years. Specialty has become an important segment in Brazilian coffee production, with an annual growth of more than 10% on average in the last five years. This is due mainly to the increase in the consumption of specialty coffee and world recognition of Brazil as a specialty coffee origin. According to the Brazilian Specialty Coffee Association (BSCA), the production of specialty coffee accounts for around 20% of total Brazilian Arábica production, or nearly 8 million bags. Almost 90% of this amount (7 million bags) are exported and the remaining coffee is consumed in Brazil.

Source: Revista Cafeicultura

☉ AGREEMENT FOR TEMPORARY WORK IN COFFEE GROWING RELEASED

The National Coffee Growers' Council (CNC, for its initials in Portuguese) and the Federal Government have reached a common solution to legalize the seasonal hiring of labor for coffee. This marks the end of a long and historic search for a solution for the lack of labor during coffee harvesting. The Agreement Terms are very clear and will leave no doubt about the legality of the temporary contracts. The effect of the agreement will be immediate after the signature between the parties, i.e., it will be possible to use the terms as a legal instrument in this 2023 harvesting season.



Source: Datagro

☉ NATIONAL MONETARY COUNCIL APPROVES US\$ 1.3 BILLION FOR FUNCAFÉ

The National Monetary Council (CMN, for its initials in Portuguese) approved the Brazilian Coffee Fund (Funcafé) budget of R\$ 6.4 billion (US\$ 1.3 bn) for 2023. Funcafé is again financing the acquisition, transport, and use of agricultural correctives (lime and others) and remineralizers under the Moderagro Program. It is now also offering small growers affected by recurrent adverse events the possibility to extend the repayment period of their debts and thus to obtain extra time to honor commitments with financial institutions.

Source: Datagro

☉ CURRENT OFF-YEAR CROP TO BE HIGHER THAN LAST ON-YEAR ONE

Brazilian coffee production may grow 7.5% in 2023 compared to the previous year and reach 54.74 million bags against 50.92 million in 2022, the on-year of the biennial cycle. If the estimate for 2023 is compared to 2021, that was also an off-year, the increase will be 14.7%. Arabica may reach 37.93 million bags and Conilon 16.81 million bags, representing an

increase of 15.9% and a reduction of 7.6%, respectively, over 2022. The expected Robusta production increases in Rondônia, Bahia and Mato Grosso will not compensate for the estimated losses in Espírito Santo, the largest producer of Conilon.

Source: Pensar Agro

COOXUPÉ'S SUSTAINABILITY PROTOCOL "GERAÇÕES" LAUNCHED

Cooxupé, the largest coffee cooperative in the world, presented its own sustainability protocol called "Gerações" (Generations in English) during the Coffee Dinner & Summit held in São Paulo last May. The adoption of sustainable practices and the ESG agenda are already part of Cooxupé's day-to-day activities aimed at guaranteeing a better future for its more than 18 thousand members and having the quality and origin of the coffee produced increasingly known. The Gerações Protocol defines guidelines for the cooperative and its members to demonstrate that the quality of their beans is deeply linked to an economically sustainable production system, in full harmony with the environment and the well-being of growers and their families and employees.

Source: Hub do Café

HIGH-LEVEL INTERNATIONAL DELEGATION VISITS ESPÍRITO SANTO

Directors of international entities and executives from large coffee industries in the United States and Europe were in Espírito Santo state last month visiting the coffee producing regions to learn about the environmental, social and governance practices used in coffee growing. The visit was organized by the State Government through the Secretariat of Agriculture, Livestock, Fishing and Aquaculture (Seag) in partnership with the Brazilian Coffee Exporters' Association (Cecafé). Hosted by a team led by Secretary of Agriculture Enio Bergoli, members of the delegation included Vanusia Nogueira, Executive Director of the International Coffee Organization (ICO), Bill Murray, President of the National Coffee Association (NCA) in the US, Hannelore Beerlandt, Coffee Advisor to the European Commission, Joseph Degreenia, USDA representative, Márcio Cândido Ferreira and Marcos Matos, Chair of the Board and CEO of Cecafé, respectively.



Source: Seag ES

IMPLEMENTATION MANUAL ENABLES IMPROVEMENT IN COCOA PRODUCTION

The Institute of Forestry and Agricultural Management and Certification (Imaflora) and CocoaAction Brasil launched the Cocoa Sustainability Curriculum Implementation Manual, that provides information for growers to use the good agricultural practices prescribed by the Cocoa Sustainability Curriculum. The document, prepared in 2021, resulted from a process that brought together different actors in the supply chain, including government, industries, cooperatives, institutes, and technical assistance and rural extension services. The manual, which will be distributed to field technicians and producers, is a reference towards continuous production improvement. It is possible to access the material, in Portuguese, through the link: www.bit.ly/ManualCacau_MAI23.

Source: Notícias Agrícolas

Brazilian Prices

Main Producing Regions / Farm Gate

May 31, 2023

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	1025,00 ↓	Colatina-ES fair average price	728,00 ↑
Mogiana	1020,00 ↓		
South Minas	1020,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	1065,00 ↓	Jul 2023	214,55 ↓
South Minas	1060,00 ↓	Sept 2023	209,60 ↓
		Dec 2023	210,00 ↓
		Real R\$ / Dolar US\$	
		May 31, 2023	5,07 ↑

+ 4.4%

Source: www.qualicafex.com.br

MICRO-LOTS ARE HERE TO STAY: OPPORTUNITIES?

There are many definitions of what a coffee micro-lot is and no consensus or agreement about one or a combination of these definitions. There is no association either between the size of the lot and the total area of the farm where it is produced. In other words, there are micro-lots coming from both large farms and small growers. The opportunities are there for all but they may not have been fully explored by small coffee growers, who are the majority around the world.

Although it would make sense to assume that small coffee farmers are ideally positioned to produce micro-lots this may not necessarily be the case. They may have the labor and the time to dedicate to produce top quality micro-lots but they may not have the access required to technology, inputs, equipment and the coffee market itself.

As it is usually the case with innovation in many fields, there is a tendency for new developments in coffee to start with larger producers who have full access to the items mentioned above let alone economies of scale. Paradoxically, although in theory small farmers can produce small lots of the highest quality, in practice they may have to come together to access technology to produce more efficiently – varieties, productivity, quality, etc - , to process their micro-lots using latest sustainable technology, to evaluate the quality of their coffees, and to improve their access to markets.

Even in countries where governments or players in the coffee supply chain provide technical assistance, there may be gains for small farmers to come together in associations or cooperatives to process, promote and market their coffees and specially their micro-lots. Sustainability and quality are key parameters of micro-lots in almost all definitions. Modern technology, that includes regenerative agriculture, is required to produce sustainably as is modern equipment to process sustainably and to retain the intrinsic quality of the micro-lots. Trained cuppers are required to identify and characterize the quality of micro-lots to be associated with their terroirs. Together small growers can better produce and position micro-lots in what is a very competitive market.

Micro-lots offer a multitude of opportunities for coffee farmers of all sizes to receive higher prices for their coffees but larger growers are usually better positioned to do it. Small coffee producers can compensate for their limitations by working together and sharing processing facilities and a quality evaluation lab. This can pave the way for small coffee producers to become more active in coffee quality competitions that may be a major instrument to promote their terroirs and their micro lots.

Mid-size and large growers can also increase their participation in the micro-lot market by identifying specific terroirs within their farms or by selecting the highest qualities out of larger lots. This can be done by a combination of frequent cupping and tailored post-harvest processing to emphasize specific sensory features.

Micro-lot supply lives up to the saying that “the devil is in the details”, from the choice of varieties to post-harvest processing, let alone the fact that climate itself may favor or hinder the production of specific quality micro-lots in the very same terroir from year to year. This raises the question of quality consistency in micro-lots over time. In order to catch and retain a specific market, it is expected that, minor changes apart, micro-lots retain a similar sensory profile that enables them to appeal to specific market segments and clients year after year. This is yet another reason why the devil is indeed in the details in micro-lot supply and in its market.

IS SPECIAL EQUIPMENT NEEDED TO PROCESS MICRO-LOTS?

Several readers have asked the question above after they learned about Pinhalense's Coffee Processing Solutions for Microlots (www.l1nq.com/67zay) in the May issue of the Confidential newsletter. The answer is that coffee processing equipment for Arabica and Robusta micro-lots has to have capacity compatible with the size of the lots and technology that ensures that coffee quality is preserved. This is addressed below considering the three phases of processing: wet milling, drying and dry milling.

Wet Milling

Is a hand or small pulper enough to process micro-lots? They may have the right capacity but more sophisticated technology is available today – shown below – to separate unwanted products and to retain and/or enhance the sensory features desired.



COMPACT
MECHANICAL SIPHON



ECO SUPER PULPER AND
MUCILAGE REMOVER

Impurities and under-ripe and over-ripe cherries should be separated and only ripe cherries be pulped to maximize quality. A mucilage remover can be used to ensure the consistency of quality day after day and to increase the weight of coffee as compared to fermentation. The use, full or partial, of a mucilage remover or the lack of mucilage removal can create different qualities in the cup and different micro-lots from the same coffee lot.

But how can all this be done by small farmers? By getting together and processing the micro-lots in small ecofriendly central wet mills supplied by Pinhalense, with the additional advantage of together being able to dry mill and even roast the other products for the local market.

Drying

Drying is the processing phase where adequate capacity is more critical: driers should handle a volume of coffee compatible with the size of the micro-lot. That is why Pinhalense offers state-of-the-art rotary driers with several small drum sizes available as well as larger driers with divided drums to accommodate micro-lots. This is the solution required to have weather-safe technology to dry micro-lots at a time when labor is becoming less available. Pinhalense CSP digital drying control system and drying curves can be used, also to simulate sun-drying if desired.



CSP



SRE-16 DRIER

Dry Milling

Dry milling of micro-lots can be performed by groups of small producers, regional traders, cooperatives, and large traders using small capacity Pinhalense equipment that offers the same type of technology as found in large machines.



COMPACTA
COMBINED HULLER



DBD-05 POLISHER



C2DPRC HULLER,
POLISHER AND GRADER



PFA SIZE GRADER



MVF GRAVITY SEPARATOR

Another question often asked is why coffee mills of average to high capacity cannot be used to process micro-lots and require a specific small-capacity side line to do so. The answer is that a micro-lot goes through the full high-capacity processing line so fast that there is no time to adjust properly the different pieces of equipment, e.g., destoners and gravity separators not to mention hullers and polishers themselves. The final result is that a micro-lot that is supposed to be very well processed to meet high market expectations ends up being poorly processed! That is why large coffee mills today have small-capacity specific lines to process micro-lots.