

# CONFIDENTIAL

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

- **CONCENTRATION OF COFFEE PRODUCTION: A MACRO VIEW ON WHY AND HOW TO REVERT IT (PAGE 3)**
- **TRACEABILITY IN DRY COFFEE MILLING (PAGE 4)**

## **COFFEE GROWERS' OPINION: COMPLIANCE WITH EUDR TO DECREASE GROWERS' INCOME**

As both the need to comply with the European Union Deforestation Regulation (EUDR) and what compliance entails become more evident, growers state that there will be additional costs for them without any expectation of corresponding rewards. Growers' income will fall as a result of EUDR implementation.

### **CANEPHORA EXPORTS GROW 5 TIMES AND CHINA IS 9TH BRAZILIAN COFFEE IMPORTER**

Brazilian exports of Canephoras (Conillons and Robustas) grew 443% in August in relation to July. Brazilian Canephoras remain more competitive and extremely demanded since other countries that produce these coffees, mainly Vietnam and Indonesia, have faced climate problems and a drop in production. With a significant recovery of Arabica production in Brazil in 2023, there is a reduction in internal demand for Canephoras, that become available for exports. From January to August there was also an important advance in coffee exports to China that increased 146.5% and made it the 9th largest Brazilian importer.

Source: Notícias Agrícolas

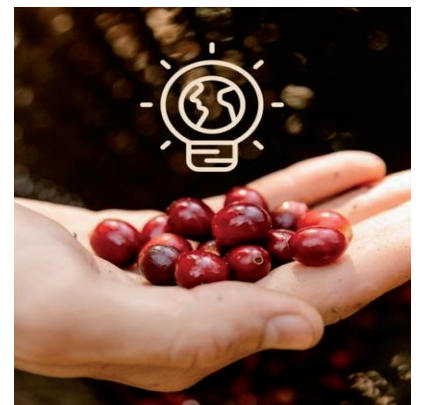
### **COMPARATIVE ADVANTAGES FOR BRAZIL TO COMPLY WITH EUDR**

One of the most important subjects addressed at the 14th Swiss Coffee Dinner & Forum, held in Basel, Switzerland, in September, was the new European Union Deforestation Regulation (EUDR) and how companies, governments and organizations are developing actions to get ready for the new rules. The Director of the Brazilian Coffee Exporters' Association (Cecafé), Marcos Matos, presented on how the Traceability Platform "Brazilian Coffees" will show how coffee sustainability has been evolving, how the country's environmental legislation will be used to define geolocation and the level of preservation of the country's forests.

Source: Cecafé

### **YOUNGSTERS TO CREATE COFFEE STARTUPS UNDER GUIDANCE OF EMBRAPA**

The Brazilian Agricultural Research Corporation (Embrapa) released the 5th edition of "Avança Café", a program to orient university students to create startups that promote innovative solutions for coffee production. According to Embrapa, the project relies on different methodologies for finding solutions for the coffee segment. The previous editions reported over 10,000 people impacted, 900 hours of training and most importantly, 65 projects of new startups. Twelve new startups resulting from the program are currently in operation in the Brazilian market. This year the three best proposals will get resources for startup development and business acceleration.



Source: Revista Cafeicultura

**ROBUSTA IN THE VAST BRAZILIAN CERRADO?**

The Brazilian Agricultural Research Corporation (Embrapa) is carrying out studies about the possibility of growing Robusta in the vast savannah area of Brazil known as “Cerrado”, that covers several states. Breeding, adaptation of Coffee Canephora to Cerrado conditions, and other trials have been taking place at Embrapa Cerrados, near Brasília for the last three decades, using plants from both Espírito Santo and Rondônia. Launching of the clones developed for higher altitudes is expected for next year.

Source: DATAGRO

**AMAZONIAN ROBUSTAS PRODUCED BY WOMEN AND INDIGENOUS PEOPLE CONQUER NEW MARKETS**

An international group of buyers from eleven foreign countries – Greece, Belgium, the United Kingdom, China, the United Emirates Arab, Jordan, Armenia, Paraguay, Canada, the United States and South Africa – was in Rondônia to learn more about Amazonian Robustas. The event included a presentation of Amazon biodiversity and cultural treasures and why these coffees have unique tastes. Around 3,000 coffee bags were sold by fifteen medium and smallholders including women and indigenous people adding up to R\$ 4 million in business. Rondônia state is responsible for over 90% of coffee production in the Amazon region, is the 5th largest coffee producer in the country, and the second largest producer of Canephoras after Espírito Santo state. According to the Ministry of Agriculture Agency in charge of warehousing and crop estimates (Conab), in 2022 Rondônia produced 2.8 million 60-kg bags of coffee in an area of 65,000 hectares, with an average productivity of 43 bags per hectare.

Source: Peabirus

**DENOMINATION OF ORIGIN (DO) FOR CANASTRA COFFEES**

The National Institute of Industrial Property (INPI) granted a Geographical Indication (GI), in the form of Denomination of Origin (DO), to raw, processed, roasted and ground coffee beans from the Canastra region, in Minas Gerais. Farmers from ten municipalities in the region will benefit from the new IG. The average temperature in the region is 20.8°C and average rainfall is 1,461 mm. The region’s terroir is responsible for its coffee unique aromas and flavors of honey, yellow fruits, tropical and citrus fruits. The drink has notes of milk, chocolate with nuances of chestnut, clove lemon and orange. Sweetness is high with notes of brown sugar and sugar cane in good balance with acidity.

Source: CaféPoint

**GUIDE ABOUT MITIGATION MEASURES TO REDUCE IMPACT OF CLIMATE CHANGE**

The heat wave that hit several states in Brazil at the end of the winter may cause productivity losses in coffee currently in its flowering season. Severe climate events like this may harm plant physiology to the point of preventing pollination and the development of the cherries. As part of their job of orienting producers, the Technical Assistance and Rural Extension Institute of Minas Gerais (Emater-MG) gathered several experts to develop a document called “Mitigation of the Climate Change Effects in Agriculture and Livestock: Rainwater”.

Source: Revista Cafeicultura

**RETAIL COFFEE SALES INCREASE**

Retail coffee sales increased 0.9% from January to August in relation to the same period in 2022. This percentage reflects a recovery in revenues after the average coffee price to consumers increased 35.4% in 2022, according to the Brazilian Coffee Roasters' Association (ABIC).

Source: Valor Econômico

**Brazilian Prices**

Main Producing Regions / Farm Gate

September 29, 2023

**Arabica Naturals (R\$/ 60 kg bag)**

Cerrado MG	805.00 ↓
Mogiana	800.00 ↓
South Minas	800.00 ↓

**Arabica Pulped Naturals (R\$/ 60 kg bag)**

Cerrado MG	845.00 ↓
South Minas	840.00 ↓

+ 5.62%

**Conilon / Robusta (R\$/ 60 kg bag)**

Colatina-ES fair average price	672.00 ↑
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**BM&F (US\$/60kg Arabica bag)**

Dec 2023	177.05 ↓
Mar 2024	178.25 ↓
May 2024	176.10 ↓

**Real R\$ / Dollar US\$**

Sept 29, 2023	5.02 ↑
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Source: [www.qualicafex.com.br](http://www.qualicafex.com.br)

## CONCENTRATION OF COFFEE PRODUCTION: A MACRO VIEW ON WHY AND HOW TO REVERT IT

A recurring comment at both the SCTA Coffee Forum & Dinner and the ICO World Coffee Conference was the concentration of coffee production in Brazil and Vietnam. Not good for anyone, this concentration should be understood and ways to revert it should be explored.

This concentration can be explained by at least two major factors that are common to the two countries: high productivity and high percentage of the FOB export price received by growers. There is a common concept behind the two factors – favorable enabling environment – that should be pursued by the countries that want to increase their market share to revert this process. Since the mid-term tendency is for consumption to increase, there will be a market for additional production.

Vietnamese and Brazilian coffee growers have consistently been receiving the highest average percentage of the FOB export price of any coffee producing country. The two countries' average percentages are at least 30% above the world's average and only one or two other countries are close to them.

By receiving a higher percentage of the export price than their competitors, Brazilian and Vietnamese coffee growers have a much better chance to be profitable. They are likely to produce more in the same area and/or to plant more coffee and coffee growing attracts other people to the business. But, why do Brazilian and Vietnamese growers receive this highest average percentage of FOB export prices?

This is largely because the enabling environment between farm gate and harbor is more favorable in these two countries than in most others. I have described this enabling environment in previous Outlooks. It is a combination of efficient logistics, efficient coffee market, low transactions costs including taxes and fees, and other factors.

The average productivity of Vietnam and Brazil together is more than double the average for the rest of the coffee producing world. The comparative advantages of growing coffee in these two countries stem from a different enabling environment that includes: availability of technology, training and extension services, efficient markets for inputs and equipment, access to financing, and access to market.

It is the improvement of these enabling environment items above that will create the conditions for countries to produce coffee more efficiently and coffee growers to make more money. Easier said than done... but it is a good road map! The items above are a good check list to be used to find out where improvement is most needed and to define priorities.

Obvious as this all may seem, especially after one reads the paragraphs above, this explains why projects with growers that meet their targets, e.g., to increase productivity, may fail to retain their results after the project ends or to disseminate and incorporate them into the region or country. It is not unusual that these projects do assist with the enabling environment for the growers involved, e.g.: access to technology, training, equipment, inputs and/or markets. However, it is often the case that these improvements in the enabling environment do not remain after the project ends. In addition, the results of the project and its improvements in the enabling environment are neither disseminated nor incorporated in coffee growing elsewhere in the country. The results are therefore not durable and the impact is neither regional nor national because the improvement of the enabling environment was focused on the project and only for the time it lasted.

The improvement of the enabling environment items listed above depends greatly on government, e.g., logistics, fiscal system (taxes and fees), ensuring market competition, financing, and access to technology and training (public extension services). The private sector may do its share in items like access to inputs and equipment, training and financing, but this will depend on having in place a regulatory framework that allows it which again depends on government.

Unless the coffee sector in producing countries works together with the respective governments to improve the enabling environment, it will be hard to prevent that concentrations of production continues. Even though coffee is a private business, the cases of Brazil and Vietnam show that the role of government in the creation of a favorable enabling environment has been critical to ensure the competitiveness of their coffee business, let alone political will to support them at given periods. It may be worth learning how Brazil and Vietnam did it. Coffee production is very different in the two countries which widens the learning opportunities.

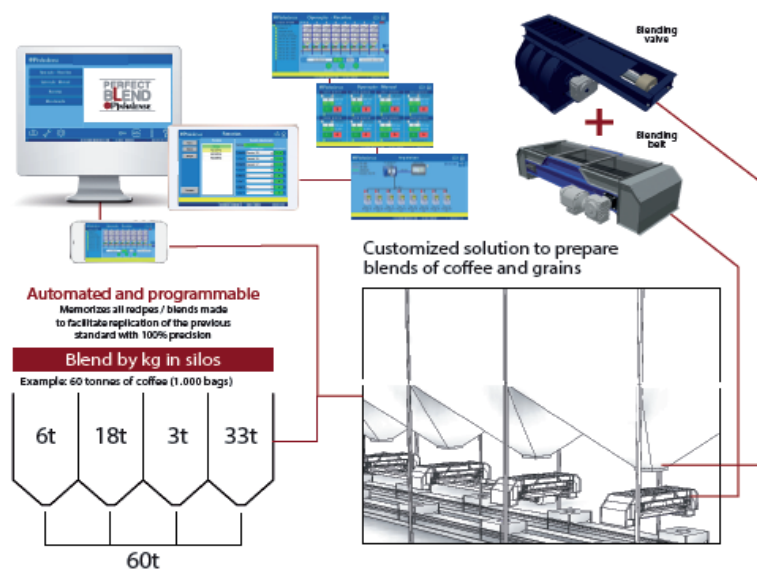
## TRACEABILITY IN DRY COFFEE MILLING

The European Union Deforestation Regulation (EUDR) was one of the main subjects if not the most mentioned one at both the Swiss Coffee Trade Association Coffee Forum & Dinner Event in Basel and the ICO's World Coffee Conference in Bangalore. In spite of the wealth of other subjects in both events, that attracted a record number of participants, compliance with the EUDR was the theme of panels, presentations and a lot of conversation.

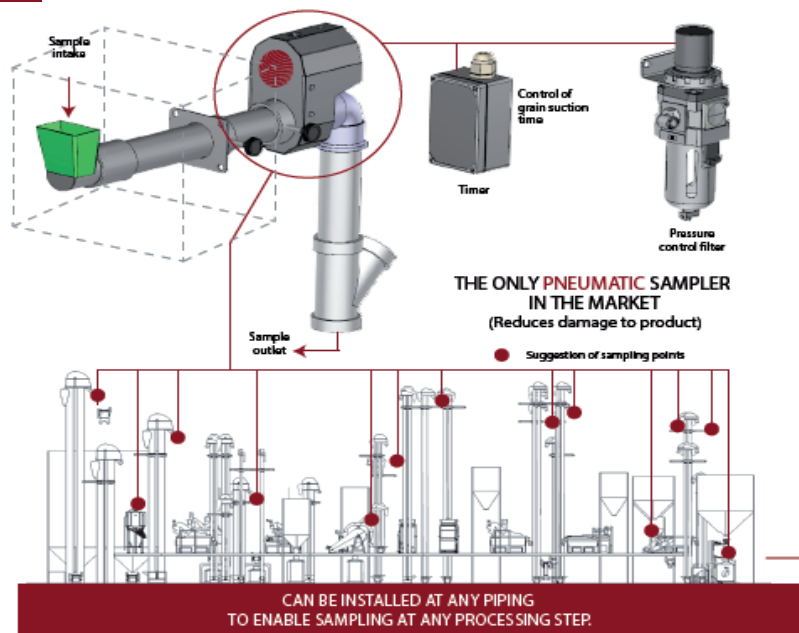
Traceability was mentioned frequently specially in what relates to identifying where coffee is grown. Pinhalense provides equipment and systems that help to ensure the traceability of incoming coffee as it is processed to be delivered to clients. Some of these are presented below.



### Pre- and Post-processing Blending System



### Pneumatic Sampling System



## Precision Weighing and Shipping Equipment



ELECTRONIC BAG SCALE



Automated LED control panel

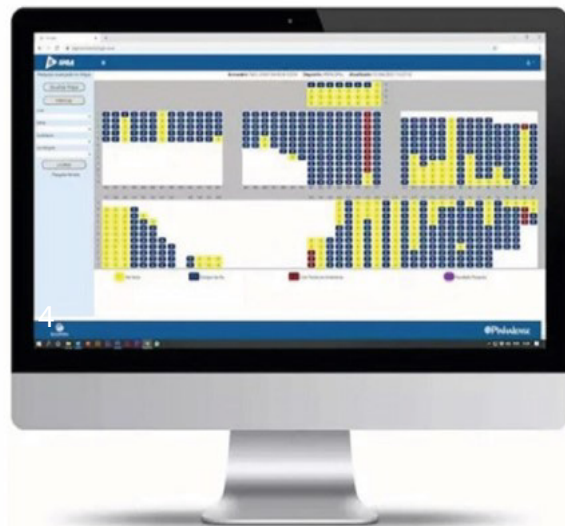


ELECTRONIC BIG-BAG SCALE



BULK CONTAINER LOADER

## Automation Systems: Software + Hardware



Contact the P&A/Pinhalense representative nearest to you or P&A itself to learn more about the equipment and systems above.