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COFFIDENTIAL

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CONAB ESTIMATES 2009/10 CROP AT 36.9 TO 38.8 MILLION BAGS

The Brazilian agency in charge of collecting data on agricultural production, CONAB, first estimate of the 2009/10 coffee crop points to a drop of about 8 million bags in relation to the previous crop. The estimate is 19.8% to 15.6% below the official estimate for the 2008/09 "on-year" crop of about 46 million bags. Arabica output is expected to drop as much as 24%. Arabica growers will harvest between 26.9 and 28.3 million bags, down from 35.5 million last year. Growers of Robusta will harvest between 10 and 10.5 million bags, the same figure as last crop's. This year's drop in production, caused primarily by the Arabica biennial crop cycle, was worsened by irregular rainfall and high temperatures in some growing regions and lower investments in husbandry. The state of Minas Gerais remains the country's largest producer, responsible for 48.6% of the total crop, followed by mainly Conilon (Robusta) growing Espírito Santo, with 25% of the crop.

Sources: Conab and Cafépoint

INTER-MINISTERIAL TASK FORCE TO ADDRESS COFFEE DEBT

The Minister of Agriculture announced in January the creation of an inter-ministerial coffee debt task force. Technicians from the Ministries of Agriculture, Finance and Planning along with growers' representatives will elaborate a diagnosis of outstanding debts, production costs and coffee profitability. Some measures were announced to alleviate growers' debt. The most important of them was the launching of a new put and call program to start in April with volumes and reference prices to be announced in February. Other measures include a short-term rescheduling of outstanding debt while the diagnosis is performed.

Sources: MAPA and P&A

STRATEGIC PLAN FOR BRAZILIAN COFFEE SECTOR

A working group composed of representatives of all sectors of the coffee business and government developed a Strategic Agenda for the Brazilian Coffee Business that was approved by the Coffee Policy Council (CDPC) in 2008. The agenda addresses competitiveness from seed to cup and deals with the most important issues relevant to the sector: crop forecasting and statistics, research and development, training and rural extension, certification and geographical indication, trading and marketing, exports of green, roasted and soluble coffee, legislation, and governance. The implementation of the agenda in 2009 will produce a mid-to-long term strategic plan for the Brazilian coffee business.

Sources: Agência Safras, MAPA e P&A

GREEN COFFEE EXPORTS BREAK HISTORICAL RECORD

Brazilian exports of all types of coffee – primarily green, but also soluble and roasted - reached 29,382,905 bags and set a historical record for volume and revenues (US$ 4.7 billion) in 2008. The total volume is 4.4% higher than 2007's while revenues increased 22.1%. Brazil's market share is now around 31.5%. Germany (5 million bags) is still Brazil's main export destination followed by the United States (4.6 million bags), Italy (2.9 million bags) and Belgium (2.4 million bags). Smaller green coffee exports are expected in 2009 – around 25 million bags - but there is optimism regarding price and revenues.

Source: Cecafé

REVENUES FROM ROASTED COFFEE EXPORTS GROW 33.4%

Sales in 2008 reached US$ 35.627 million compared with US$ 26.701 million in 2007 according to the Secretariat of Foreign Trade (SECEX). The country exported 6,659 tons of roasted coffee in 2008, an increase of 21% compared with the previous year. The average price per ton increased 10.30%, from US$ 4,850 to US$ 5,350. The United States was the main destination, with growth of 30% in the period. The second market was Italy, with an increase of 13%, followed by Argentina (78% increase) and Japan (80% increase).

Source: Agência Estado

REUSE OF WASTE WATER FROM WET MILLING

Waste water from wet milling, rich in nutrients such as nitrogen, phosphorus, potassium, calcium and magnesium, can be recycled and reused to irrigate coffee and other cultures. These nutrients are important for plant growth and may partially replace costly imported fertilizers. The low-cost system, developed by the Agriculture Research Institute of Minas Gerais (EPAMIG), uses a series of settling tanks coupled with a pump.

Sources: SEAPA – MG and EPAMIG

CONSUMPTION GROWS IN "C" INCOME GROUP

The 2008 annual Brazilian coffee consumers survey shows that consumption doubled in income segment C in the last five years. This segment, that includes over 42% of the Brazilian population, is largely responsible for the increase in consumption of instant coffee and cappuccino whereas the A segment responds for the increase in espresso intake. Other trends revealed by the consumer survey are the need for innovation in coffee products, including new coffee and milk beverages for adults *and* children, an increased market share for "modern" products like espresso, cappuccino and specialty coffees and the continued growth of out-of-home consumption.

Sources: Canal Rural and Café e Mercado

BRAZIL'S CUP OF EXCELLENCE AUCTION

The Brazilian Specialty Coffee Association (BSCA) and the Alliance for Coffee Excelence (ACE) held an electronic auction on January 13th to offer the winning lots of the 2008 Brazil Coffee Quality Contest. The highest price paid was US$ 9.05 /lb for a lot from Carmo de Minas, Minas Gerais state. The average price for all lots auctioned was US$ 818 per bag of 60 kg, or around US$ 6.13 /lb. Japanese companies bought 18 out of 23 lots auctioned.

Source: Agência Estado

SÃO PAULO'S BEST COFFEES IN A SPECIAL EVENT

A special event is taking place in early February at 81-year-old specialty food store "Casa Santa Luzia". Called "São Paulo Specialty Coffee Crop", its objective is to promote the 2008 winning coffees to connoisseurs. The premium beans are part of the 6th Edition of São Paulo's Best Coffees, acquired by roasters to create a limited special edition in numbered packages. Consumers have the opportunity to taste the coffees in special sampling sessions from 10 am to 7 pm every day.

Source: Folha Online

BRAZILIAN COFFEE BARISTA ASSOCIATION (ACBB) LAUNCHES CERTIFICATION PROGRAM

The objectives of the new program go beyond certification alone and involve the training of baristas for coffee shops, bars, restaurants and hotels. The certification process will cover not only typical barista techniques to prepare a great espresso but also other coffee brewing systems, general coffee culture and other related subjects.

Source: Cafépoint

Picture of the month

What is it? Coffee beans with a wig? What's next after Kopi Luwak?

Send your guess to e-mail coffidential@peamarketing.com.br if you are not from Peru!

Photos sent by Miguel Paz and Vinicio Sucaticona from CECOVASA
Region of Tambopata (Puno forest) - Peru
THANKS! - Send us your photo: coffidential@peamarketing.com.br

ZERO-HARVESTING

Though the idea dates back to the 1950s, it was only in the last decade that the zero harvesting technique was further developed for Arabica coffee in Brazil. It has now gone beyond experiments and into commercial scale. Not much has been written about it yet and a comprehensive scientific, agronomic and cost-benefit analysis is yet to be undertaken. Most users have concentrated on costs and benefits and, anyway, it may be too early to look at mid to long term agronomic impacts (pros and cons).

The basic approach is to perform "parrot pruning" (pruning of the horizontal branches at about 20 cm (8 inches) away from the vertical stem) after harvesting, but not later than August in Brazilian conditions. This requires the use of early bearing Arabica varieties. The plot that has been pruned will not bear any coffee in the following season, that will be devoted to growing the branches that will produce the year after, i.e., on the second year after pruning.

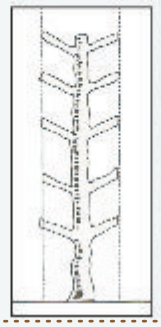
In order to make economic sense, the grower has to divide his coffee holdings into two parts with about the same area and to start zero harvesting on one half in year 1 and on the other half in year 2 so that he may have coffee production every year. If pruning only takes place after August, a four-year cycle, i.e., parrot pruning every four years, is recommended, with positive results too.

Under Brazilian conditions there is always an "on-year" and an "off-year" in the coffee production cycle. The higher the production in the "on-year", the lower it will be in the following "off-year" with the adverse impact that harvesting costs per bag of coffee become very high in the "off-year" (pickers have to walk more and to work on more branches and therefore pick less coffee per day). This biennial cycle, more typical of unshaded coffee, is also found in other countries, like Peru.

The rationale behind zero harvesting is to produce at least the equivalent to two years of production in the "on-year" in order to make up for the zero crop in the "off-year". In reality, the actual production required in the "on-year" may be even less than the one equivalent to two years of production because the average cost per bag will fall with the use of the technique. In the off-year, there is no harvesting cost at all and the use of fertilizers and pesticides can be greatly reduced.

A mid-size Minas Gerais grower who is going into his fifth year with the method (third full crop and pruning on one half and second zero crop on the other half) shows for one half a total of 140 bags of 60 kg per hectare for 4 years and for the other half slightly more, which is roughly equivalent to his average crop before he used the method but with much lower harvesting costs which, in Brazil, typically account for about 1/3 of production costs, besides the savings in husbandry mentioned above. Another grower in the same state reports a 4-year average of 50 bags per hectare with production costs that are 35 to 45% lower than the average for Brazilian Arabica.

The zero-harvesting technique has not been used in Conilons (Robustas), most probably because whereas Arabicas bear coffee only in branches that are over one year old, Conilons produce in branches that have grown in the same year.



Brazilian prices

January 30, 2008

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	277,00
Mogiana-SP fair average quality T.6	277,00
South Minas fair average quality T.6	280,00

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	290,00
South Minas	300,00

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	225,00

BM&F (US$/ 60 kg)	
Mar 2009	132,00
May 2009	135,60
Jul 2009	139,00

Real R$/ Dolar US$	
January 30	2,31

PRECLEANERS PRELI AND DESTONERS CPFBNR FOR PARCHMENT, CHERRY AND GREEN COFFEE

Precleaning and destoning are the first processing steps in a dry coffee mill. Their aim is, first, to protect the processing equipment from any damage that may be caused by stones and other impurities and, second, to provide the market with a product that is free from these extraneous materials.

Precleaning removes dust and light materials as well as other impurities that are larger or smaller than coffee. Destoning removes stones that are the same size as coffee and cannot be removed by precleaning. Whereas precleaning uses suction for light impurities and screening for oversized and undersized impurities, destoning is achieved by product flotation, i.e., separation by density, because stones are “heavier” than coffee.

MODEL	CAPACITY (tons/hour)
CPFBNR-1	3.2/4.5
CPFBNR-2	6.0/7.2
CPFBNR-3	8.0/10.0

If ferrous materials (e.g.: nuts, bolts, nails, etc) are found mixed with parchment, cherry or green coffee, they must be separated by plate or rotary magnets. Less costly plate magnets require periodic hand-cleaning. More sophisticated and costly self-cleaning rotary magnets are small independent machines. Magnets are usually combined with precleaners or destoners.

Although this is a major mistake, many coffee mills still do not have either precleaners or destoners, specially mills that receive mostly parchment rather than dry cherry or green coffee. It is often argued that parchment has gone through a pulper so it cannot contain impurities. This may be right in theory but, in practice, impurities are known to find their way into parchment during drying, handling and even through “unfair” trading, i.e., practices that aim at increasing the weight of coffee with the addition of heavy impurities, specially stones.

In the absence of precleaners and destoners, impurities may be removed at a later stage, for example by catadors and size graders. However, this means that impurities will go to the hullers, polishers and other machines, which reduces their useful life due to abrasion and damage caused by stones, pieces of metal and other undesirable elements. Dust and light impurities not removed early in the process can cause problems throughout the mill because they may be released into the air at other processing stages.

Pinhalense's line of precleaners PRELI has dust and light impurity suction at the product inlet and outlet for improved performance. The machines, available in 3 sizes, have interchangeable screens for parchment, cherry and green coffee and the optional ability to sort cherries out of parchment or cherries and/or parchment out of green coffee. The PRELIs present a high output in relation to the space they use. Their uniform motion guarantees excellent cleaning and separation and does not transmit vibration to the floor.

Pinhalense's line of fluid-bed destoners CPFBNR has become state-of-the-art for the industry as a result of continuous product development that, in recent years, included: low-noise fans, a dust-suction hood and, lately, an optional electronic speed variator to adjust the vibration of the deck and to fine tune stone separation. Available in 3 different capacities, the CPFBNR destoners with perforated metal decks consume less energy and produce less noise than competing machines.

The precleaners PRELI and the destoners CPFBNR may be supplied with magnets, dust suction cyclones and air filters of compatible capacities.

MODEL	CAPACITY (tons/hour)	
	DRY CHERRY / PARCH.	GREEN
PRELI - 1	4.8/7.2	8.0/12.0
PRELI - 2	8.0/12.0	14.0/20.0
PRELI - 3	12.0/18.0	20.0/30.0