

# CONFIDENTIAL

ISSUES NOS. 1 TO 25 OF COFFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

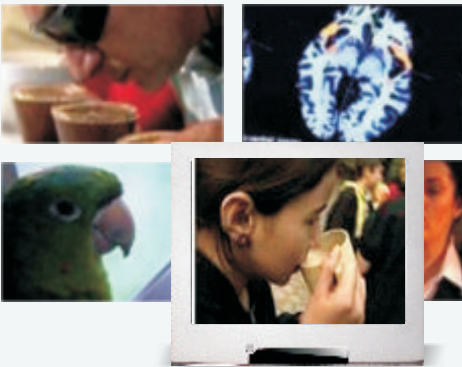
## 20TH ANNI VERSARY OF COFFEE PURITY PROGRAM

On August 19th, the Brazilian Coffee Roasters' Association (ABIC) celebrated the 20th anniversary of the "Purity Seal", a pioneer program that helped to change the credibility of coffee consumed in Brazil and reshaped the country's coffee roasting industry. The Purity Program was created to guarantee that brands bearing the Purity Seal on their packages offered coffee that was 100% pure at a time when coffee consumption in Brazil was declining due to the presence of impurities such as corn and even coffee husk. The program started in 1989 with 220 roasters out of a total of about 1,500 industries. In only 2 years, over 50% of the roasters joined the program that today covers 70% of the coffee sold in Brazil. Along these 20 years, ABIC invested around US\$ 30 million in sample collection, laboratory analyses and marketing campaigns to support the program. Brazil is today one of the biggest coffee consumers in the world thanks to this program started 20 years ago.

Sources: Cafés do Brasil Network and ABIC



## COFFEE AND ITS BENEFITS IN PRIME-TIME TV PROGRAM AT NATIONAL NETWORK



One of the most important weekly news shows in Brazil, the one-hour-long "Globo Reporter", featured coffee as its main theme. The program presented latest research results on coffee and health, including a study by the São Paulo's Heart Institute that shows that coffee does not increase heart stroke risks and another study that shows that coffee aroma stimulates brain areas related with pleasure. The program "Coffee in School Meals, Health in Schools", sponsored by the Brazilian Coffee Roasters' Association (ABIC), was presented. The coverage also included a group of visually impaired persons that are being trained to become coffee cuppers, a naturally decaffeinated coffee variety developed by the Campinas Agronomy Institute (IAC) and a small Brazilian parrot ("Maritaca") that drinks coffee.

Source: Globo Rural

## 10 MILLION COFFEE BAGS TO BE TAKEN OUT OF THE MARKET

The Brazilian Ministries of Finance and Agriculture, Livestock and Food Supply are studying new measures to support the coffee sector. One of the initiatives aims at withdrawing 10 million coffee bags from the market - roughly 25% of the average annual production - in an attempt to increase coffee prices and to support growers' income by increasing public coffee stocks. This measure, that is part of a package that will cost the Brazilian government approximately US\$ 1 billion, is opposed by roasters and exporters who claim that it affects the flow of coffee to industry and consumer.

Sources: MAPA and Valor Econômico

## BRAZIL AND RUSSIA TO CREATE PARTNERSHIP TO PRODUCE FERTILIZERS

The Brazilian government plans to create a state-owned company to produce fertilizers in partnership with Russia. According to the government, the fertilizer segment in Brazil is controlled by only a few private industries, which causes prices not to be competitive for growers and prevents the fast expansion of agriculture. The partnership would include long term contracts to transfer Russian fertilizer production technology to Brazil and the supply of Brazilian agricultural products to Russia. In 2008 Brazil imported a total of 17 million tons of raw materials for the fertilizer industry, a business worth US\$ 10 billion.

Source: Valor Econômico

## BRAZILIAN SHIPMENTS TO JAPAN BACK TO NORMALITY

Representatives of the Ministry of Agriculture, the Brazilian Coffee Exporters' Association (CeCafé), growers and the pesticide industry met to discuss measures to ensure the normal flow of coffee to Japan. The objective was to avoid the repetition of problems, like the ones that happened this year, with contamination with the substance "Pyraclostrobin". In August, the Brazilian Ministry of Agriculture received a formal communication from Japan changing the tolerance limit of the agrochemical "Pyraclostrobin", which brought Brazilian shipments to the country back to normality.

Source: Agência Estado

## BRAZILIAN COFFEE RETURNS TO VENEZUELAN MARKET AFTER 5 YEARS

Brazil shipped 25 thousand bags of 60 kg (1,500 tons) of green coffee to Venezuela in August, the first such shipment since 2004. Growers belonging to 3 cooperatives located in Minas Gerais, São Paulo and Espírito Santo earned US\$ 4.1 million in this transaction, that was mediated by the Brazilian Ministry of Rural Development (MDA). The average price obtained was 15% above the current local prices and the buyer was Venezuela's state company "Café Venezuela".

Sources: MDA and Cafépoint



## GROWERS HARVEST COFFEE AT NIGHT

Coffee farmers in Minas Gerais are picking coffee during the night in order to get the most out of their harvesting equipment. Growers who have invested on mechanical harvesters are using them on their farms and renting them to their neighbors too. The machines are being put to work during the whole day and also at night to shorten the pay-back period and to recover the investment sooner. Self-propelled harvesters cost approximately R\$ 500,000 (US\$ 250,000) and are rented for roughly R\$ 200 (US\$ 100) per hour. A large-sized self-propelled machine may substitute as many as 90 coffee pickers.

Sources: Cafépoint and P&A

## IRRIGATED OBATÃ VARIETY: HIGH YIELDS WITH UNIQUE QUALITY

The Campinas Agronomy Institute (IAC) Arabica variety "Obatã" is a cross between the varieties Villa Sarchí and Timor Hybrid. It is a low stature variety, resistant to leaf rust, with big beans and high yield potential. Because this variety requires a good supply of water and nutrients, it does extremely well under irrigation, achieving an average yield of 65 bags/hectare (9.63 tons/acre). The variety scored well in Brazil's Cup of Excellence. According to QualicafeX, a Brazilian specialty coffee exporter, "Obatã has a great potential, especially in warmer regions; its cup has unique quality characteristics".

Sources: Informativo Café IAC and P&A

## COLOMBIA TO EXPORT COFFEE TO BRAZIL VIA JUAN VALDEZ SHOPS

Colombia's Juan Valdez coffee shop chain may come to Brazil in 2010, according to the former general manager of the Colombian Coffee Growers Federation (FNC). The idea is to take advantage of the growing demand for coffee in the Brazilian domestic market. Brazil already consumes 18 million bags of coffee annually and may soon reach 22 million and become the world's largest consuming country.

Sources: Bloomberg and Efe

## ILLYCAFFÈ AND CAMPARI LAUNCH COFFEE LIQUEUR

Beverage company Campari do Brasil and illycaffè are launching Illyquore, a coffee liqueur made with the authentic illy coffee blend. The sophisticated new product, manufactured without any color or aroma additives, will be available at Brazilian supermarkets, upper-end grocery stores and also at espressamente, illy's coffee shop, in September.

Source: Cafés do Brasil Network



## Picture of the month

### Quauhtlemallan

"FROM THE PLACE OF MANY TREES"



"...Quauhtlemallan, a "nahuatl" word the Toltecas used to name Guatemala..."

Photo from an article by Gabriela Cordon, Guatemala.

Source: [www.coffeeclubnetwork.com](http://www.coffeeclubnetwork.com)

## Brazilian Prices

August 31, 2009

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	250,00
Mogiana-SP fair average quality T.6	255,00
South Minas fair average quality T.6	255,00
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	300,00
South Minas	300,00
Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	183,00
BM&F (US\$/ 60 kg)	
Sep 2009	139,50
Dec 2009	142,80
Mar 2010	146,55
Real R\$/ Dolar US\$	
August 31	1,89

## FORGING LASTING RELATIONSHIPS WITH THE HELP OF "DIFFERENTIATED" COFFEES

With so many market models based on "durable" geometric pyramids, I propose a more ephemeral, reshapable, not-so-uniform snowman to represent the ever-changing dynamic coffee market. With the snowman model I propose the concept of differentiated coffees.

Although a unanimous definition of specialty coffee is yet to be arrived at, we mostly know and understand what is meant by this coffee category that makes up the small head of the snowman. Very high coffee quality, top prices, strong loyalty links between grower and roaster-retailer and consistency of coffee features characterize this small-volume niche market that often links growers to consumers in what may be considered a B2C, business-to-consumer, model because grower identity may be preserved throughout the supply chain.

Differentiated coffees — the snowman's body — occupy the bulging space between specialty coffees and the base-line commercial coffees. The upper-level fine commercials act as the border line and launching platform for differentiated coffees.

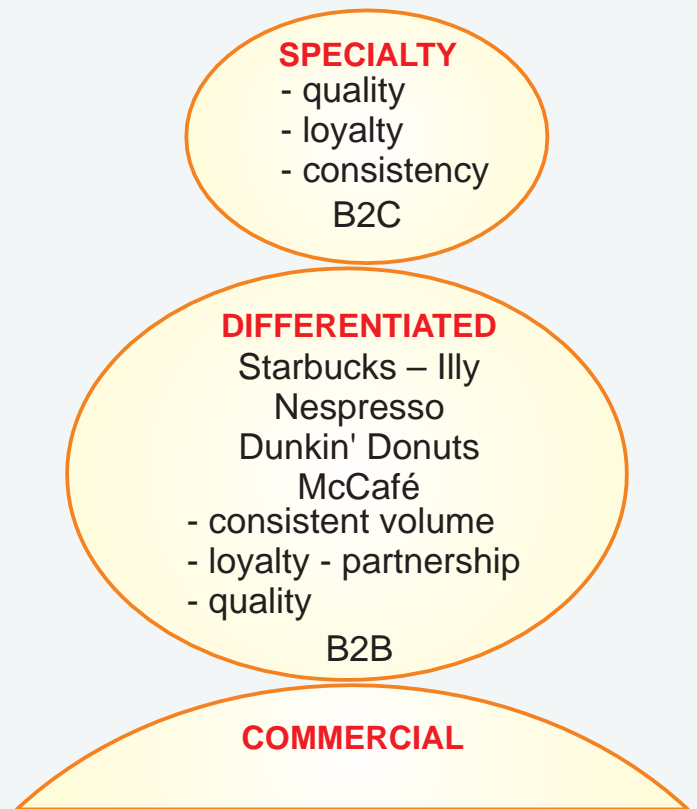
Differentiated coffees are an off-spring of the efforts made by mid-size and large coffee companies to ensure the supply of coffees that respond to their needs, from volumes and qualities to social and environmental responsibility. In order to guarantee the supply of traceable coffee that meet their requirements, companies like Starbucks and Nespresso have developed their own codes and standards — C.A.F.E Practices and AAA, respectively — that are progressively being applied to their suppliers in a process that creates a closer relationship and partnership involving coffee volumes that are much larger than those typical of the specialty coffee market.

Illycafé, although smaller in size and perhaps the pioneer in this segment, started with a coffee quality competition in Brazil, that was later expanded to other countries, and eventually created a Coffee University that focus on improving coffee quality and the sustainability of suppliers. Fairly large volumes of coffees are transacted according to a model that involves closer relationships and traceability.

Dunkin' Donuts and McCafé resort to established certifying concerns, e.g.: Fair Trade, Rainforest and Utz, to create the same type of relationship albeit with less direct company involvement but with the same objectives above. The difference may be a greater space to change and substitute suppliers. In all cases above, of what I call differentiated coffees, sizable consistent volumes — much larger than in specialty coffees — are required; the loyalty supplier-roaster must be developed into a lasting partnership because of the volumes, mutual dependence and common interests involved; quality features must be consistent due to the scale of operation; and the identity of the grower is important to the roaster/coffee chain but not necessarily to the final consumer because mostly blends and seldomly estate coffees are offered, in what should be considered a B2B, business-to-business, operation.

The impacts of differentiated coffees on the coffee growing community are much more intense and far reaching than those of specialty coffees for the sheer size of the operations alone. Likewise, the opportunities for growers are much larger, not only for estates but also for small and mid-size farmers who can organize themselves in supplier groups with consistent quality coffee or who can supply through "relationship agents", i.e., specialty and differentiated coffee exporters who are aligned with the companies above and other similar ones not mentioned here.

Differentiated coffees are the bridge between the niche/specialty and mainstream/commercial coffees. They hold excellent opportunities to add value, with premiums smaller than specialty's but volumes much larger. Let's hope the snowman is not so ephemeral and survives global warming! Perhaps the model should be changed into a *virtual* snowman, on the screen of our PCs, so that its body of differentiated coffees may bulge ever further, fed by everyone's dreams and hopes of an ever greater added-value market for growers...





## GREEN (UNRIPE AND SEMI-RIPE) SEPARATION: PAST, PRESENT AND FUTURE

More than 20 years ago, Pinhalense pioneered the development of pulpers that separate unripe cherries *before* pulping and pulp only the higher quality fully ripe cherries. Over the years, Pinhalense has improved greatly its system that now consumes very little water, is able to separate semi-ripe cherries too, if so desired, and offers features that add value to unripe cherries.

When Pinhalense started to promote its wet mills abroad many years ago, it met with initial fears that those machines would cause more unripe cherries to be harvested in areas where selective picking was the standard. These fears turned out to be unfounded because proper incentive systems can counter the tendency to lower the quality of harvesting. However even *with* incentives and *without* green separators, the percentage of unripe cherries kept increasing nearly elsewhere because of labor scarcity and its increasing costs. As a result, pulpers with green separators are progressively becoming a basic need everywhere, with few if any exceptions.

It is not surprising that when Pinhalense did a recent "intelligence work" about the competition, it found that competitors in other producing countries are trying to develop green separators, including in countries that use only selective harvesting for Arabica coffees. Pinhalense's routine checks of equipment offered by the competition shows that competitors located in producing countries that pride themselves for the quality of their *selective* harvesting now list green separation in the features of their pulpers! What does this mean?

First, it means that unripe cherries are indeed being picked everywhere and that the problem needs to be addressed properly. Second, it means that Pinhalense had the right concept from the outset, perhaps earlier than widely needed, but now fully developed, thoroughly tested and in full operation in over 40 countries, mostly Arabica producers but a few Robusta too. Third, Pinhalense's green separators are now in their third generation whereas competitors are only starting development. Fourth, and most importantly, Pinhalense is the *only* machinery maker whose wet milling equipment separates unripe and semi-ripe cherries *before* pulping, without damages or partial-pulping, thus rendering the unripe materials capable of further processing to produce good quality coffee with very interesting market value.

Now that unripe cherry harvesting seems to have become accepted as a problem everywhere, it should be noted that the solution is not simply to take apart these so called "unwanted" materials after they are damaged in the process. Since they are there and their percentages are increasing, unripe cherries should be gently separated so that, *undamaged*, they should be separately treated to get the most out of them, quality and price-wise, using the techniques that only Pinhalense fully dominates. The soluble and domestic coffee industries are good markets for well processed green cherries.

To push unripe cherries through the pulper together with the ripe ones, partially damaging or pulping the green cherries in the process, and to separate them after is nothing new at all and no solution to the problem either. In fact the old problems remain and new ones are created: semi-ripe cherries are pulped and mixed with good parchment, making separation later impossible and transmitting astringency to the cup; damaged green cherries lose their value because of bruises, cuts and breakage of parchment; and there is no actual control of the process, meaning, no ability to select the type of unripe material to be separated.

Pinhalense pulpers with green separators ensure *full* elimination of astringency in the cup, separation of undamaged semi-ripe *and* unripe cherries, mixed or not (that may be further processed to retain quality and to add value), and consume as little water as any pulping system in the market, with or without green separation.



It is for all reasons above that Pinhalense wet milling equipment with green separation processes some of the finest coffees in the world, including Jamaica Blue Mountain, Hawaiian Kona, Kenya AA and Guatemalan Antigua, to mention only a few. Pinhalense pulpers are today in full operation in *all* South, Central and North-American coffee producing countries, in the main African growers of Arabica (including its country of origin, Ethiopia), in India and throughout Asia. Washed coffee processed by Pinhalense machinery has a long history of winning quality competitions around the world. Do not let your coffee be processed using untried technology; use fully proven Pinhalense systems.

