

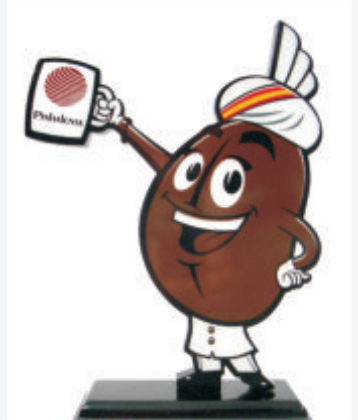
# CONFIDENTIAL

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## FIRST AND THIRD BEST COFFEE MILLS IN INDIA USE PINHALENSE EQUIPMENT

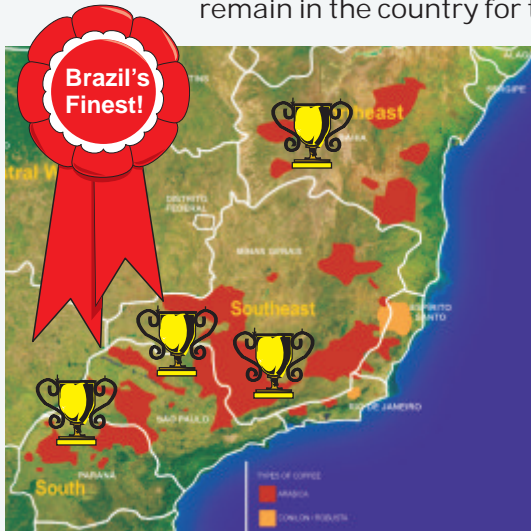
In the Awards Session of the India International Coffee Festival (IICF), held in Bangalore in early October, the "Awards for Best Coffee Curing Works", as the Indian call their dry coffee mills, went to Nedcommodities (first) and Tata Coffee (third). The two state-of-the-art mills were designed, supplied and assembled by Pinhalense. There was also a series of awards for coffee quality. Clients who use Pinhalense wet milling and other types of equipment won several first prizes and scored very well in most categories. Pinhalense must be the supplier of coffee processing equipment whose clients won the most awards at IICF altogether.

P&A, PINHALENSE AND MK ASSOCIATES, OUR AGENTS IN INDIA, CONGRATULATE OUR ESTEEMED CLIENTS FOR THEIR IICF AWARDS.



## QUALITY COMPETITION SEASON IN BRAZIL

Brazilian growing regions are busy cupping their best coffees as part of the many quality competitions that take place after the harvesting season ends. One such example is the São Paulo state competition, whose definition of the winner takes place at the Santos Coffee Museum and is based on the auction prices of the best pre-selected coffees. Other states and producing regions are holding or already held their own quality competitions whose winning natural and pulped natural coffees will enter the national contest held at the Brazilian Coffee Roasters' Convention (Encafé) every November. The coffees that win the national competition are acquired in an auction, at record prices, by the country's leading roasters and made into a Special Edition launched at a breakfast ("café da manhã") with the Brazilian President. The Special Edition will then hit the supermarket shelves at prices 2 or 3 times higher than specialty coffees. This shows to Brazilian consumers that some of the best Cafés do Brasil remain in the country for the pleasure of discerning coffee lovers.



Brazil is the cradle of coffee quality competitions: both Cup of Excellence and the Illycaffé competition started here. Cup of Excellence, that today holds competitions around the world, started in Brazil in the 1990s as part of the International Coffee Organization's Gourmet Coffee Project, funded by the Common Fund for Commodities. This year's Brazilian Cup of Excellence will define the winners on November 2nd to 6th and hold the international auction on January 19th, 2010. Illycaffé started its Quality for Espresso Coffee Competition in Brazil 19 years ago and has now expanded to India, Guatemala and Colombia. The disclosure of the 50 finalists will be on November 4th and the winners will be revealed on March 5th, 2010, at Illy's annual event. Coffee quality competitions had a unique role to reposition Brazilian coffees abroad, the introduction of pulped natural (CD) coffee included, and to promote the domestic consumption of high quality coffees.

Sources: P&A, BSCA, ABIC and Illycaffé

## NEW MERGE IN THE COFFEE VENDING MACHINE SEGMENT

The Brazilian companies Brasvending and DAB Coffee have merged to create Brasvending DAB, that will have a 22% market share of the coffee vending segment in Brazil. The vending machine sector has huge potential for expansion in the country. Whilst in places like Japan and the United States there is a ratio of 48 and 90 persons per machine, respectively, in Brazil there are more than 4,000 people per vending machine in operation today.

Source: Monitor Mercantil

## BRAZILIAN SPECIALTY COFFEES IN JAPAN

Brazilian coffee growers are more than happy with the deals closed during Japan's Specialty Coffee Conference and Exhibition held in Tokyo, in October. The Brazilian Specialty Coffee Association (BSCA) innovated by organizing cupping sessions to present "The Taste of the Harvest", the exceptional quality coffees of the 2009 crop. BSCA, with the support of the Brazilian Ministry of Agriculture, Livestock and Food Supply (MAPA), had a booth where visitors could taste coffees from all the different producing regions of Brazil.

Source: Tempo de Comunicação

**COFFEE IMPORTS NECESSARY TO INCREASE EXPORTS**

Representatives of the Brazilian Coffee Roasters' Association (ABIC) and of the Brazilian Trade and Investment Promotion Agency (APEX) held a meeting with the Minister of Agriculture to discuss the issue of increasing exports of roasted coffee. The coffee industry wishes to quintuplicate sales of the roasted product over the next 3 years. In order to accomplish this goal it will be necessary to import coffee from countries such as Colombia, Ethiopia and Peru, for instance. The goal is to mix the imported coffees with Brazilian products to create a blend that embodies the features desired by the importing countries. The Minister estimates that the volume to be imported would account for only 0.3% of the national coffee production. Imports are expected to start in 2011.

Sources: Agência Estado and Valor Econômico

**RENEW ARABICA PROGRAM SEEKS HIGHER YIELDS IN ESPÍRITO SANTO**

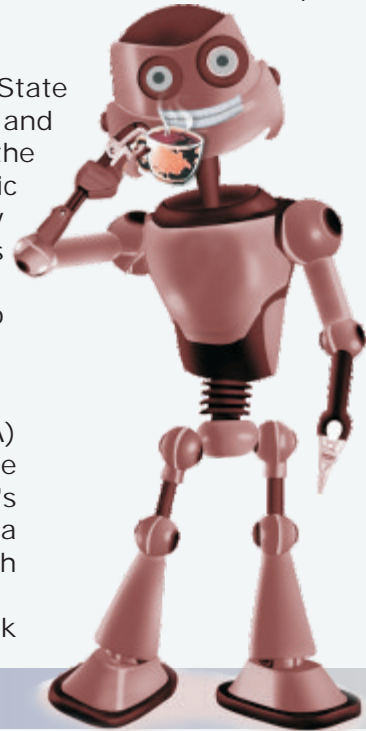
Launched only a year ago by the state's Agricultural Research and Extension Institute (Incaper), the Renew Arabica Program has already achieved a 33% increase in coffee yields and a 21% increase in coffee production notwithstanding a reduction of 9% in cultivated area. In its first year, the program was implemented in 33 municipalities, embracing the renewal of more than 6,000 hectares (about 15,000 acres). The target until 2025 is to replace 100% of the state's Arabica coffee with leaf rust resistant varieties and to double coffee production.

Source: Incaper

**"ELETRONIC TONGUE" DEVELOPED TO CUP COFFEE**

Researchers at the Brazilian Institute for Agricultural Research (EMBRAPA) and the State University of São Paulo (USP) developed a taste sensor able to evaluate flavor nuances and the presence of impurities in coffee with a higher sensitivity than the taste buds of the human tongue. The "electronic tongue" can be extremely fast in distinguishing basic taste patterns like sweet, salty, sour and bitter. The new technology can successfully distinguish Arabica from Robusta and commercial coffees from gourmet ones, besides soluble and decaffeinated coffees.

Source: Portal Terra - Agronegócio



**COSTS OF PRODUCTION IN BRAZILIAN COFFEE REGIONS**

A recent paper published by São Paulo state's Institute of Agricultural Economics (IEA) estimates and compares coffee production costs in Brazil's major coffee regions. The study shows that Paraná has the lowest production costs in Brazil followed by São Paulo's Mogiana and Minas Gerais' South and Cerrado regions. According to the study, Mogiana and South Minas have similar production costs and excellent conditions to produce high quality coffees.

Source: Agrolink



**Picture of the month**

**A CLOSER LOOK AT CD ("CEREJA DESCASCADO" / PULPED NATURAL) COFFEE IN BRAZIL**



CONFIDENTIAL

Santana Estate, municipality of Espírito Santo do Pinhal, São Paulo. Photos by João Guilherme Moraes, Brazil.



## CD CONSOLIDATED IN INTERNATIONAL MARKETS

The café Cereja Descascado (CD), that translates as pulped natural and is also known in English as semi-washed or semi-dry coffee, is obtained by pulping ripe cherries *only* and drying the resulting parchment *with all* or *some* of its mucilage still attached to it. In other words, there is *no* or *only partial* mucilage removal. Since the process separates the unripe cherries before the ripe ones are pulped, there is no adstringency in the cup that, in addition, retains the body and sweetness typical of high quality Brazils.

1. **Conception** - First suggested in the early 1950s by researchers at the renowned Campinas Agronomy Institute (IAC) and implemented at pilot level by a few South Minas growers in the late 1980s, the cereja descascado (CD) semi-washed milling system started to be implemented in commercial scale in the early 1990s when the required equipment was made available to growers.

2. **Introduction** - The introduction of the new system took place piecemeal in the 1990s as growers had to be convinced, equipment acquired and personnel trained. Roasters initially hesitated to acquire the product, available in small volumes. As a result, a lot of the cereja descascado produced in the 1990s ended up blended with other coffees to boost the quality of the final product.

3. **Quality Competitions** - Still in the 1990s, CDs started to dominate most quality competitions in Brazil with the double effect of motivating growers to use the system and attracting roasters' attention to the new product, first at the specialty but then at the fine commercial level too. Both the Cup of Excellence and the Illicafé Quality for Espresso competitions became the domain of CDs.

4. **CDs vs. Low-grown Milds** - The surge in coffee prices at the end of the 1990s led the industry to use CDs to replace low-grown milds, especially those of Central-American origin. CD production broke the one-million-bag barrier and quickly jumped to 2 million bags in the early 2000s with small but consistent price differentials for CDs over Brazilian naturals.

5. **Expansion** - The production and exports of CD grew consistently into the 2000s, as concluded from equipment sales, because neither production statistic nor CeCafé export figures report CDs separately. Brazilian Arabicas are mistakenly treated as all naturals when in reality CDs and fully washed coffees are now produced at a scale that already places Brazil as the second largest source of washed Arabicas in the world, after Colombia.

6. **Consolidation: CDs vs. Milds** - The consolidation of CDs in international markets may have come with the recent shortage of mild coffees. The price differentials of CDs in relation to Brazilian naturals progressively increased to reach record-level premiums, at times 5- and even 10-fold the usual premiums. Production will soon go well beyond the current average of 5 million bags per year.

7. **Outside Brazil** - The advances of Brazilian CDs in international markets have not gone unheeded in other producing countries. CDs are now produced in some Central American countries as an ingredient for espresso blends. In Costa Rica it is called "honey coffee". Washed coffee producers elsewhere are either experimenting with or producing CDs in small scale as reported in Ethiopia and India.

8. **Conclusion** - CDs have definitely carved their space in international coffee blends and their participation is likely to grow in coming years. Originally sought after for espresso blends, CDs seem to be finding a role in other types of blends too, especially now that the pool of origins that supply them is progressively developing.



## Brazilian Prices

October 30, 2009

### Main Producing Regions / Farm Gate

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

Cerrado-MG fair average quality T.6	265,00	↑
Mogiana-SP fair average quality T.6	255,00	↑
South Minas fair average quality T.6	260,00	↑

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

Cerrado-MG	300,00	↑
South Minas	300,00	↑

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

São Gabriel da Palha-ES fair average	187,00	↑
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#### BM&F (US\$/ 60 kg)

Dec 2009	163,70	↑
Mar 2009	166,05	↑
Mai 2010	170,00	↑

#### Real R\$/ Dolar US\$

October 30	1,75	↓
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It was India in October, but there is rarely a month when a national coffee quality competition does not take place around the world. There is rarely a month when users of Pinhalense equipment, wet milling and other, do not win awards or even dominate the competition. The secret of a successful coffee machinery manufacturer is to add value to its clients' products and this Pinhalense has been doing since 1950.

Competitions that acknowledge and reward coffee quality are not that old but they have been the domain of users of Pinhalense equipment since coffee quality awards and prizes existed. The 2005 advertisement below summarizes well Pinhalense's performance at the time.

COFFEES PROCESSED BY PINHALENSE EQUIPMENT WIN  
 QUALITY AWARDS AROUND THE WORLD.



The world's best coffee, chosen during the 2005 SCAA Conference in Seattle: Hacienda La Esmeralda, Panama, grown by the Peterson Family and separated, pulped, demucilaged and dried by Pinhalense machines. The world's most expensive coffee, auctioned by U\$ 3,000.00 per bag after the 2004 ABIC Brasil Competition: Fazenda Transwal, Minas Gerais, grown by Daltro Noronha Barros and processed by Pinhalense machines. Coffees processed by Pinhalense equipment have won 90 to 100% of the illycaffè and Cup of Excellence quality competitions in Brazil in the last 15 years.

The phenomenon of Pinhalense clients winning coffee quality awards has intensified since the advertisement above. One such example was reported in the September 2008 issue of Confidential, as summarized below.

33% OF 2008 RWANDA CUP OF EXCELLENCE WINNERS USE  
 PINHALENSE WET MILLING EQUIPMENT

The winner of this year's Rwanda Cup of Excellence, a coffee wet milled in Pinhalense equipment, scored above 90 points at SCAA cupping scale. Another 7 winning coffees, all with scores above 85 points, including the third place, were also processed in Pinhalense wet mills. The Pinhalense wet mills used to process one-third of the 24 winning coffees had one or all of the following pieces of equipment: mechanical siphon, green cherry separator and vertical pulper. Pinhalense wet milled coffees were awarded, first, third, ninth, tenth, thirteenth, sixteenth, seventeenth and twenty-second prizes. Over 200 coffee samples entered the competition.



We do not want to bore our readers with frequent news of competitions — if regional quality awards are included, there is probably one competition per week somewhere around the world — but it is highly unlikely that any other coffee machinery manufacturer has a record of winning coffee quality competitions as Pinhalense does. After all, besides quality, efficiency and durability, the bottom-line is processing coffee to the standards that clients require and top quality is the main standard for many clients.

The best indication of Pinhalense's concern for its clients' coffees is the fact that Pinhalense is the only machinery manufacturer to have a coffee cupping laboratory and expert cuppers to advise it on product development and improvement. If you have a problem with your coffee or some idea of what you want to do with it, please send us your samples. If you want to win coffee quality competitions, let us help you do it!