

# CONFIDENTIAL

ISSUES NOS. 1 TO 34 OF COFFIDENTIAL CAN BE FOUND AT SITE [www.peamarketing.com.br](http://www.peamarketing.com.br)

## QUALITY OF ROASTED COFFEE TO BE CHECKED BY GOVERNMENT

The Ministry of Agriculture released a new regulation that establishes standards for roasted coffee in Brazil on May 24th, the National Coffee Day. The program is unique in the world: it is the first time ever that coffee quality standards are enforced by a government. Other requirements are a 1% maximum level of impurity and a 5% moisture content in the coffee sold on Brazilian shelves. The quality of the beverage will be evaluated by technicians, in a 0 to 10 global quality scale, considering flavor, aroma, aftertaste, acidity level, body and other aspects. The minimum quality level will be 4 points and roasters that do not achieve it will have their lots removed from the market.



Sources: MAPA and Cafépoint

## ICE CONSIDERING DELIVERY OF BRAZILIAN PULPED NATURAL COFFEE

The ICE Futures Exchange is considering adding Brazil as one of the deliverable origins for the Coffee "C" Contract. The coffee to be delivered is the Brazilian Arabica fully washed or semi-washed (pulped natural). According to the Exchange, what makes this attempt different from previous ones is that the volumes of Brazilian washed coffees achieved a higher level and their acceptance by roasters increased. The subject is being widely discussed in Brazil and market participants have until June 15th to send comments to the ICE.

Sources: ICE Futures and Agência Estado

## NEW CREDIT LINE FOR STOCKS

Representatives of the producing sector gathered in Brasília and decided towards a new mechanism to finance the 2010/11 coffee crop. According to the National Coffee Council (CNC) there will be a line of credit for stocks, based on a minimum price of R\$261 (around US\$140) per 60kg-bag of Arabica coffee. The mechanism will be used only if coffee market prices remain below the minimum guaranteed price. Parallel to this effort, the Brazilian government has already approved the amount of R\$ 2 billion (approximately US\$ 1.08 billion) from the Funcafé Coffee Fund to support the current crop, R\$ 500 million (US\$ 270 million) of which will be directed to harvesting and R\$ 940 million (US\$ 508 million) to stocks.

Source: Agência Estado

## SECOND OFFICIAL ESTIMATE OF BRAZILIAN CROP

Conab, an agency of the Brazilian Ministry of Agriculture, has released its second estimate for the 2010 coffee crop, which indicates a total production of 47 million bags, a growth of 19% over last year's figure of approximately 39.5 million bags. The high figures are a result of Brazil's "on year" in the crop cycle. The document points out that Minas Gerais will be the state with the largest share in production, around 50%, and that Conilon coffee, the Brazilian Robusta, will account for 25% of production.

Source: CONAB

## BRAZIL IS THE LARGEST SOURCE OF CERTIFIED COFFEE IN THE WORLD

Brazil is already the largest source of certified coffee in the world. Around 1.2 million bags of coffee that meet technical, social and environmental standards should be offered to the market this year. Large coffee shop chains are increasing their purchases of certified Brazilian coffees. "Starbucks is buying more and more Brazilian coffee year after year" stated its vice-president at his presentation at the 18th Santos International Coffee Seminar.

Source: Agência Estado



**GROWERS STRIVE TO PRESERVE COFFEE QUALITY**

Due to the irregularity of rainfall in 2009, coffee trees in Brazil had several flowerings which led to the current problem faced by growers - trees bearing cherries at different stages of ripeness at harvesting time. In order to produce high quality coffees under these circumstances, special efforts will be required, especially during processing. In areas where 80% of the cherries should be ripe by now, coffee trees present a mix of 40% ripe, 40% unripe and 20% overripe cherries. Some growers are worried that cup quality may be affected; others however think that this situation might have a positive side effect: different degrees of ripeness may cause a good variety of flavors in the cup.

Source: Cafépoint

**PINHALENSE ACHIEVES RECORD PRODUCTION IN THE FIRST QUARTER OF 2010**

Pinhalense, worldwide leader in coffee processing machinery, has broken its historical production record due to strong sales abroad coupled with very high demand from its clients in Brazil, where the coffee crop is estimated to achieve record levels too. Pinhalense has always been a pioneer in the launching of technologies and products that greatly contributed to the enhancement of coffee quality, for example, its state-of-the-art rotary dryers. They enable efficient and uniform drying of parchment and cherry coffee that is crucial for the preservation of coffee quality. Sales of rotary dryers have increased more than 55% over the last 6 months, and total sales over the years have already surpassed 20,000 units in Brazil and the main coffee producing countries. There has been an increase of 40% in sales of wet processing units to clients in all coffee producing regions of Brazil and abroad. Pinhalense is leader in the coffee processing machinery business. The company is present in all coffee producing areas of Brazil and exports to more than 80 countries in the 5 continents.

Sources: CNC, Cafépoint, CoffeeClub Network, etc.

**CAFÉS DO BRASIL AT INDY 500**

A Cafés do Brasil marketing campaign was launched at the 2010 Indianapolis 500-Mile Race. The Brazilian Coffee Roasters Association (ABIC) built a coffee shop at the Apex-Brasil motor home, a special vehicle with meeting rooms and lounges. There was an exclusive menu with drinks named after Brazilian drivers like "Helio's Full Throttle" and "Tony's Speed Coffee". Cafés do Brasil will sponsor all races in the 2010 Indy League.



Source: Revista Cafeicultura

**VERTICAL INTEGRATION: FROM FARMING TO COFFEE SHOPS**

Coffee shops in São Paulo are selling coffees produced by their own estates. One could say that growers' families are actually opening coffee stores in the city. The trend is more and more visible due to value addition in sales of the finished product (by the cup) rather than of green coffee (by the bag). Suplicy Café is one of the examples with its Minas Gerais' Santa Izabel Estate now supplying 60% of all the coffee sourced by the shop. The entire line of coffee beverages prepared at Octavio Café, part of the Octavio group that owns Dallis Coffee in the US, come from their own coffee farm located in Pedregulho, state of São Paulo.

Source: O Estado de São Paulo

**BRAZIL CELEBRATES NATIONAL COFFEE DAY**

On Monday, May 24th, Brazil celebrated its National Coffee Day. Several activities were organized throughout the country by private companies, institutions and government. The Museu do Café, in Santos, had an event with live music, coffee tasting and free entry offered to its visitors; Embrapa Café organized an exhibition about coffee in Brasilia, the capital of Brazil, and offered workshops about coffee preparation to its employees. P&A held a special breakfast for its employees and invited town officials and the president of CeCafé (the Brazilian Coffee Exporters Association), who lives in Pinhal, to attend the gathering where baristas prepared different coffee beverages. The holiday was established in 2005 after a suggestion by ABIC (the Brazilian Coffee Roasters' Association) to promote the country's favorite beverage. Coffee first arrived in Brazil in 1727, brought from the French Guyana by a Portuguese army officer. Brazil is the world's second largest coffee consumer today, with a per capita consumption of almost 6kg/year, similar to that of traditional consuming countries such as Germany, Italy and France.

Sources: ABIC, Embrapa Café, Museu do Café and P&A



Mayor of Pinhal, President of CeCafé, Pinhalense Directors and P&A, GSB2 and Qualicafex staff commemorate



## COFFEE PRICES AND THE SIZE OF THE BRAZILIAN CROP

As usual in the “on-year” of the Brazilian biennial crop cycle, the range of crop estimates grows wider, so wide this year that it is already larger than the full crop of the world’s third largest coffee grower. Indeed, the current crop estimates go from CONAB’s 47 to some traders’ 60 million bags, a range of 13 million bags that equals the Vietnamese production of a few years ago.

In spite of my many years in the coffee business, most of them spent in Brazil, I never bothered to look at coffee trees, satellite photographs, rainfall series or the like. Not being an agronomist, I have always used what I call the “sales forecast approach”. Faced with the need to make projections, sales managers ask their regional managers and salesmen for their own projections that are then corrected for the biases that they build into their estimate. A good sales manager knows that salesmen tend to under or overestimate their sales forecast for different reasons, with only some informing their actual numbers. I do the same in my crop forecast. I collect the crop estimates available, correct them for the biases I believe they may have, and average them out or take the median. This number is then checked against the highest ever past average yield multiplied by the current area under coffee adjusted for changes in technologies. Friends and collaborators with whom I shared my “estimates” in the past bear witness that this rather simple “methodology” has produced crop numbers that have not been far off the mark.



This time I am tempted to share my “sorcerer’s apprentice” figure with a wider public. But maybe I should not, not for fear of making a mistake, but because our business does not need another forecast, specially one without sound backing. What I will do is to write my estimate or my rather short range, 2-million-bags wide, on a piece of paper and keep it in a safe place to be released when official numbers become available. For those who find this old fashioned, I will insert my number and range in a secret place in the CoffeeClub Network ([www.cofeclubnetwork.com](http://www.cofeclubnetwork.com)), again to be released in due time.

This idea of “hiding” my estimate gives me yet another idea: why not have a contest about the size of the Brazilian crop in the CoffeeClub Network? Let’s give some thought to it. Are you in favor? Reply to [info@coffidential.com](mailto:info@coffidential.com)

Irrespectively of the actual figure – there is no doubt it will be large, most probably the largest one ever – there will be a surplus after we deduct the expected Brazilian consumption in excess of 19 million bags and exports above 30 million bags. It is the size of this surplus that will determine how much and how fast coffee prices will go up because, given the current supply situation in coffee producing countries, prices will have to increase in order to force production in Brazil to grow to cope with increased demand.

With the current crop shortfalls in Colombia and Central-America and the supply situation worsening in Vietnam, the only producing country that can quickly deliver the additional coffee volumes called for by increasing demand is Brazil. However, current coffee prices are not attractive enough for Brazilian coffee growers to expand production: the current margins are either small or negative. Brazilian coffees producers, specially the Arabica ones, are either profiting little or losing money. As a result prices will have to rise for Brazil to produce more coffee. If my crop estimate is correct, prices will have to increase sooner than most people think, i.e., when the actual size of the current Brazilian crop becomes known and this year’s flowering takes place.



## Brazilian Prices

May 31, 2010

### Main Producing Regions / Farm Gate

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

Cerrado-MG fair average quality T.6	295,00	▲
Mogiana-SP fair average quality T.6	290,00	▲
South Minas fair average quality T.6	285,00	=

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

Cerrado-MG	315,00	▲
South Minas	310,00	=

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

São Gabriel da Palha-ES fair average	160,00	▲
--------------------------------------	--------	---

#### BM&F (US\$/ 60 kg)

Jul 2010	162,75	▼
Sep 2010	161,80	▲
Dec 2010	163,50	▼

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

May 31	1,84	▲
--------	------	---

Source: Qualicafex

## PINHALENSE BUCKET ELEVATORS

Elevators are often treated as a secondary component in the purchase of a coffee mill, with the focus resting only on the choice of the machines themselves. This is a big mistake because poorly designed and wrongly chosen elevators can impair the proper operation of the machines, cause damage to coffee, increase power consumption and negatively affect the performance of the full mill. It is not uncommon for clients to complain that their machines are not performing to satisfaction and, upon verification, Pinhalense has to explain that the fault is with the non-Pinhalense elevator that is not feeding the machine properly and reducing its capacity, or causing the coffee damage that has been mistakenly blamed on the machine, or else.

Elevator design and construction require specific skills and technologies as well as sophisticated product development and field trials, specially so when the product to be transported is coffee. What makes the manufacturing and supply of elevators for coffee more challenging than for other products is that coffee has a much higher value and physical damage causes substantial prices losses. In addition, margins in the coffee business are small which makes efficiency critical at all stages of processing.

Besides the use of poorly designed or low-tech elevators available in many markets, another mistake is the use of grain elevators whose speed is much higher than acceptable to handle coffee. These elevators lack the specific features required to handle the different coffee products found along the processing chain, from recently harvested cherries to export quality green beans.

Pinhalense offers coffee elevators specifically designed for each and every processing stage. Fresh cherries, wet parchment, dry coffee with impurities, and beans of different sizes and qualities pose different design challenges because they require specific features such as perforated buckets and bases, low-shock intake hoppers, low-friction discharge heads, self-cleaning devices, etc. Pinhalense elevators are equipped with a wide array of different pulleys for specific coffee products and processing conditions. All coffee elevators supplied by Pinhalense are selected according to specific needs and requirements when the processing lines are designed or individual machines are quoted. Sometimes different types of elevators are used in the same project or mill to cope with specific processing challenges.



One of the main competitive advantages of Pinhalense dry mills are the self-cleaning elevators that enable the processing of different coffee lots without the need to clean elevators as products are switched. Coffee mills have always handled different coffee qualities; however, the variety of coffee products has greatly increased in modern mills because of multiple origins, specialty coffees, micro lots, certification, traceability, etc. At the same time that the capacity of the mills increases, more flexibility is called for. In order to process large and small lots efficiently a modern mill has to be able to switch products quickly, which is not possible with conventional elevators. When coffee products are changed, the base of each and every elevator has to be thoroughly cleaned in a cumbersome and time consuming process. If this is not done, different lots and qualities can be mixed, yields cannot be measured, and traceability is not possible. This is what happens in conventional coffee mills.

Pinhalense self-cleaning elevators enable the switching of coffee types without the need to clean elevator bases resulting in no time lost between lots. The use of these elevators greatly increases the efficiency of coffee mills because many hours of idle time are avoided.

Whenever you buy Pinhalense machines and mills *with* their respective elevators, you can rest assured that the elevators have been carefully selected and customized for your specific needs and the specific requirements of the machines that the elevators feed. Do not run the risk of using elevators that may affect negatively the performance of your state-of-the-art Pinhalense machines and mills.



CONFIDENTIAL