

CONFIDENTIAL

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HARVESTING CELEBRATED AT BRAZIL'S LARGEST URBAN COFFEE PLANTATION

Growers, roasters, coffee shop owners, government representatives and other players in the Brazilian coffee business gathered at the Biological Institute, in São Paulo, for the "Sabor da Colheita" (Taste of Harvest) event that celebrates the beginning of the coffee harvesting season in the state. The Institute, founded in 1945 and located at the heart of the city, occupies a 10,000m² (107,000sq.ft) area where more than 1,500 coffee trees of the Arabica variety are grown, originally planted to be used as research material. For the occasion, participants could take part in the actual harvesting of the cherries, made selectively by hand. The Biological Institute produces an average of 1 ton of coffee every year which, after processed, results in about 400kg (880lb) of roast and ground coffee donated to a charity fund.



Sources: ABIC and Valor Econômico

EXPOCAFÉ TRADE FAIR 2010 EXCEEDS EXPECTATIONS



The largest coffee trade fair in Brazil took place from June 15th to 18th, at Três Pontas, in Minas Gerais. The event innovated with the "Coffee Crop Mechanization Symposium" that gathered 300 visitors to discuss sector innovations and also to participate in machinery field tests coordinated by specialized consultants. There was also a "technological clinic" organized by coffee researchers from the Minas Gerais Agriculture and Livestock Research Institute (EPAMIG) that helped coffee growers identify and learn how to cope with a wide range of pests and diseases. EPAMIG, coordinator of the trade fair, announced a US\$ 850,000 investment to build the "Technological Coffee Park" that will host the future Expocafé events.

Source: ASCOM Expocafé

FROST WARNING SYSTEM CELEBRATES 15 YEARS IN PARANÁ

The Paraná Agronomy Institute (IAPAR) is celebrating fifteen years of its "Frost Warning System". The program provides detailed information about the weather and issues warnings and orientation that help avoid and minimize the harsh effects of low temperatures on coffee plantations. The benefits of the program are remarkable: it can help the country save up to US\$ 11 million per year by avoiding frost damages and the replanting of coffee. According to IAPAR researchers, the forecasts have been 100% correct until now.

Source: IAPAR

SAFE COFFEE PROGRAM ADVANCING THROUGHOUT BRAZIL'S COFFEE REGIONS

The "Safe Coffee Program" is an initiative to educate coffee growers on the importance of good agricultural practices and the correct use of agrochemicals. The first stage of the project consisted in studies regarding the maximum accepted levels of agrochemical residues in coffee at several importing countries. On the second phase, public and private entities of the Brazilian coffee industry started organizing capacity building workshops for coffee growers, agronomists and consultants on the correct practices of safe coffee production. It is estimated that until now, more than 10,000 people have received training in the context of the Safe Coffee Program. Launched by the Brazilian Coffee Exporters Council (CeCafé), the program has been joined by other coffee associations, coffee growers cooperatives and the Brazilian Coffee Research Consortium that is managed by Embrapa.

Source: Embrapa Café

PULPED NATURAL AND WASHED COFFEES BOOST SALES OF PULPERS

The pulped natural coffee processing method, known as "cereja descascado", is being more and more adopted by growers in Brazil. The system, which consists in the mechanical pulping of beans followed by drying of the parchment with all or part of the mucilage adhered to it, allows the elimination of the unripe cherries that generally cause astringency in the cup and enables growers to keep quality consistent even under adverse climate conditions. Market demand for Brazilian pulped naturals has increased recently as international buyers look for substitutes for the Colombian and Central American milds, whose supply has suffered downturns. Machinery maker Pinhalense has registered an increase of 40% in sales of wet processing units to clients in all coffee producing regions of Brazil and abroad over the last 6 months.

Sources: Revista Cafeicultura, CNC and CaféPoint

COFFEE ACCOUNTS FOR 6.9% OF BRAZILIAN AGRI EXPORTS

Coffee accounted for 6.9% of the revenues from all Brazilian agribusiness exports in the first five months of 2010. Coffee exports added to US\$ 1.9 billion, for a total of 12.4 million bags sold until the end of May. In 2009 a total of 30.5 million coffee bags were exported by Brazil, generating US\$ 4.3 billion in revenues.

Source: Brazilian Ministry of Agriculture (MAPA)

ORGANIC COFFEE FROM ESPÍRITO SANTO STANDS OUT AT AGRICULTURAL FAIR

The 7th National Smallholders Fair, the largest of its kind in Latin America that this year took place in Brasilia, attracted 670 exhibitors from all regions of Brazil to exhibit their products, to exchange experiences and also to transact business. A 50-people delegation from Espírito Santo state had the opportunity to participate and to promote a variety of products such as organic coffee, cheese, banana flour, jams and home-made sweets. An Indian commercial representative visiting the Espírito Santo booth approved the quality of the organic coffee and showed interest in importing the product that is already exported to Germany and the USA. More than 120,000 visitors attended the five-day fair that ended on June 20th.

Source: Incaper

WINTER COFFEE FESTIVAL STARTS IN BRAZIL

Roasters and retail outlets all over Brazil are already engaged in efforts to promote coffee during the winter season. The actions, organized by the industry together with supermarkets, bakeries and coffee shops, are part of the Winter Coffee Festival, coordinated annually by the Brazilian Coffee Roasters' Association (ABIC). Coffee consumption in Brazil is usually 10 to 15% higher than average during the colder months of the year. ABIC estimates that local coffee consumption may reach 19.3 million bags in 2010, almost one million bags higher than last year.

Sources: ABIC and CaféPoint



ABIC'S NATIONAL COFFEE CONTEST HAS NEW RULES AND AWARDS

The National Coffee Quality Contest reaches its 7th edition this year with some changes introduced to stimulate the participation of both growers and companies interested in acquiring the winning lots. The new regulation includes a new category for micro-lots, limited to two bags of 60 kg produced by small farmers (up to 3 ha or 7.4 acres). The lots will now be evaluated according to ABIC's Coffee Quality Program (POC) and SCAA's cupping standards. Only coffees that score above 75 points will be auctioned. The quality scale will also be used to define the minimum auction price that in the case of coffees rated above 89 points may be set at fifteen times the BM&F Coffee Exchange market value. In a move meant to increase the participation of small roasters and coffee shop owners, auction participants will now be able to send their bids by e-mail.

Source: ABIC

OCTAVIO CAFÉ EXPANDS IN THE US

The American states of Texas and Florida are the next destinations for coffees produced by the Brazilian Octavio Café Group. The group, that already supplies to markets in the northeastern part of the US, now aims to reach the south and west regions of the country. The company's goal is to reach the whole country within two years. The green coffee roasted by the Group comes from its own farm located in the Mogiana region of the state of São Paulo. The estate produces an average of 35,000 bags of coffee per year in 1,200 ha (2,890 acres). Octavio Group owns Dallis Coffee, a traditional coffee roaster in the US.

Source: DCI



Pictures of the Month

RESULTS OF UNEVEN FLOWERING IN BRAZIL



Photos: Erásio Júnior, Franca SP.
Source: Cafepoint.

THE NEW MIDDLE CLASS AND CONSUMPTION – WHAT IS CHANGING IN BRAZIL

New consumption patterns arrive with the new middle class

Over the last five years, economical stability and higher wages in Brazil favored the ascension of more than 20 million people from the lower social classes to the middle class. The “new middle class”, as it is being referred to, already accounts for 49% of the total population, or 95 million Brazilians. According to the renowned Getúlio Vargas Foundation, an average middle class *family* has a monthly income between US\$ 650 and US\$ 2,700. With more available money and more access to credit, this new middle class represents a group with specific social-cultural characteristics that have already begun to influence consumption patterns.

If we take a look at the Brazilian coffee market we note interesting facts related to these recent changes. The middle class share in the total coffee consumption rose from 37% in 2003 to 42% in 2009, a growth of almost 14%. Out-of-home consumption grew at an incredible fast pace - 170% increase over the same period - pushed largely by the new middle class, as the 2010 ABIC Consumption Trends survey indicates. Out-of-home consumers are looking for different types of coffee beverages, namely espressos, cappuccinos and other milk-based preparations, different from the traditional filtered coffee they usually drink at home. From 2003 to 2008, out-of-home consumption of espresso grew 30% and cappuccino an amazing 127%!

The 2010 ABIC survey indicates that the concept of coffee quality in this segment revolves around purity, aroma and flavor. The brand of the coffee they are used to buy as well as its quality are strong determinants of purchase for these customers. They are also more inclined to pay more for higher quality coffees as compared to previous years.

A higher demand for instant coffee is also noticed amidst this new middle class as they look for more practical products. According to a recent survey done by Nielsen, the middle class contributed to the increase in sales of products linked to practicality and health & well being in the country in 2009. Apart from soluble coffee, instant soups, easy to prepare pastas, yogurts and disposable diapers also registered above average sales.

Companies and industries of different segments are maximizing efforts to adapt and launch new products that best serve the needs of this emerging class. On supermarket shelves one can witness more and more “pouch” products, as well as smaller-sized packages, that make consumer goods more attractive and accessible to this type of client. The variety of options in the Brazilian retail include instant coffee offered in small portions of 50g and R&G coffee, traditionally sold in 500g pouch packages, now also available in packages of 200g.

Coffee is the second most drunk beverage in Brazil, after water, and is consumed by 97% of the population over 15 years of age. The rise of the new middle class is creating new opportunities for the coffee industry, but challenges are there too nonetheless. Over the last five years, coffee-substitute products have also registered growth in sales, mainly ready-to-drink juices, powder refreshments and soft drinks. Children seem especially attracted by ready-to-drink chocolate beverages. Coffee companies now have to fight for more space in an expanding sector.

But, for ABIC's executive director, we should expect a positive scenario: “coffee consumption in Brazil will grow 5% per year over the next years, in a rather conservative perspective”. If the country keeps this pace, aided by the expansion of consumption in the middle class, the domestic market will demand around 21 million bags of coffee by 2012 which will possibly position Brazil as the largest coffee consuming country in the world.

Last year, the Brazilian per capita coffee consumption reached 5.81kg/year. Sales of the Brazilian coffee sector in 2010 are estimated at more than R\$ 7 billion (US\$ 3.9 billion).



Brazilian Prices

June 30, 2010

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)

Cerrado-MG fair average quality T.6	320,00	↑
Mogiana-SP fair average quality T.6	310,00	↑
South Minas fair average quality T.6	310,00	↑

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

Cerrado-MG	360,00	↑
South Minas	355,00	↑

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

São Gabriel da Palha-ES fair average	170,00	↑
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BM&F (US\$/ 60 kg)

Jul 2010	191,30	↑
Sep 2010	190,45	↑
Dec 2010	190,50	↑

Real R\$/ Dolar US\$

June 30	1,80	↓
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Source: Qualicafex

THE SUSTAINABILITY OF COFFEE PROCESSING EQUIPMENT AND MILLS

Environmental protection is perhaps the key concept behind the sustainability of either a coffee mill or a single piece of coffee processing equipment. Does it produce noise or waste – gas, liquid or solid – that affect users and their environment? How much energy / fuel does it consume?

Another concept is impact on labor using the equipment. Is the equipment user friendly? Does it require undue human effort to be operated? Does it meet safety regulations?

A third, often forgotten or despised concept behind a sustainable coffee mill or machine is *the sustainability of its own manufacturing operation*, i.e., whether the supplier of the equipment meets environmental protection and social responsibility criteria. How sustainable are the manufacturing and business practices involved in the production of the equipment?

A list of minimum applicable criteria regarding equipment manufacturers is found below, grouped according to specific categories.

- Labor related criteria:

- all labor must be formally employed, receive fair wages, and enjoy benefits such as paid weekly rest and annual vacation, health and pension plans, and insurance, as a minimum;
- working hours must be compatible with the type of work and degree of physical and intellectual effort required;
- mechanization of production should ensure that labor does not exert undue effort as part of its work;
- labor must have personal protection equipment compatible with its work; and
- each and every piece of labor legislation should be rigorously followed, including the right to belong to labor unions.

- Working environment related criteria:

- adequate lighting and ventilation;
- clean air, free of industrial residues;
- fire protection system;
- user-friendly equipment and tools;
- organized accident prevention team composed and managed by workers themselves; and
- adequate changing, washing, eating and leisure facilities.

- General environment (neighbors and community: production must not affect the environment of the area where it is inserted):

- noise and/or vibration must be kept within accepted limits;
- absence of residues – gas, liquid or solid –;
- traffic congestion should not be created;
- etc.

Where local legislation is too lenient, internationally acceptable standards (e.g.: those of the International Labor Organization, as a minimum) should be enforced, not to mention shameful practices (e.g. child labor and slave work) that should be definitely forbidden. Last but not least, outsourcing should not be used to circumvent the criteria above. In other words, all outsourced suppliers should follow the same labor practices and code of conduct above, applicable to the main manufacturer.

Long and detailed as the list above is, it should be considered as a bare minimum. After all, if consumers are prepared to pay more for sustainable coffees, should this coffee not be processed by equipment that is also produced in a sustainable manner, using criteria of social and environmental responsibility?

Next time you procure coffee processing equipment make sure that your potential suppliers fulfill the criteria above. Pinhalense coffee processing equipment is produced using manufacturing and business practices that pay due respect to each and every criteria above and to many more that have to do with the welfare of employees (e.g.: an employees' club) and the environment (e.g.: recycling). Pinhalense is very proud to be a socially and environmentally responsible company.



State-of-the-art sustainable manufacturing of machinery for coffee, cocoa, nuts and other agricultural products