

# COFFIDENTIAL

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## THIS ISSUE:

- LEARN HOW YOUR ORIGIN CAN HELP YOU GRANT PRICE PREMIUMS FOR YOUR COFFEE (PAGE 3)
- COOXUPÉ BUILDS THE LARGEST COFFEE PROCESSING COMPLEX IN THE WORLD (PAGE 4)

### BIG COFFEE CONSUMERS WIN THE WORLD CUP

A close look at the finalist teams of the 2010 World Cup shows that three of them – Germany, Holland and Spain – are big coffee consumers. Germany is one of the largest coffee importers worldwide and the average German consumes around 6kg of coffee/year. Coffee consumption in Spain, the World Cup champion, is approximately 5kg per person per year. Could it be that European soccer players are winning because they are drinking coffee on a regular basis? (This “theory” does not explain why Brazil did not make it to the finals this time! It is suspected that the former coach did not drink enough coffee...) Several studies and much research have proved that coffee has important compounds such as antioxidants, caffeine, minerals and chlorogenic acid that help to reduce fatigue and sleepiness, increase concentration and also stimulate muscle action during prolonged exercise. For athletes to greatly benefit from this beverage they should take between 3 and 4 cups of coffee a day.



Sources: Embrapa Café and P&A

### HIGH YIELD NATURALLY DECAFFEINATED COFFEE VARIETY DEVELOPED

In 2004 a group of Brazilian researchers announced in the Nature scientific journal the discovery of a naturally decaffeinated coffee variety originally brought from Ethiopia. But the idea of commercially using the variety was frustrated by its low yields and abandoned. Now, researchers from the Campinas Agronomy Institute (IAC) and the State University of Campinas (UNICAMP) used a different and non-related approach to develop coffee mutant plants that combine high yields with the absence of caffeine. The researchers treated “Catuai Vermelho” variety seeds with two mutagenic types. From 28 thousand plants, 7 with the absence of caffeine were identified. The researchers are now searching for a Brazilian company interested in using the new variety in commercial plantations.

Source: Agência Fapesp

### COFFEE TO RISE 15% IN RETAIL IN AUGUST

Coffee prices to the final consumer should soon increase 15% in Brazil due to recent rises in green coffee prices. Local industries were paying R\$ 150 (US\$ 85) for a bag of Conilon, the Brazilian Robusta, at the end of May. Today it already costs around R\$ 200 (US\$ 113). Arabica coffee, that cost an average R\$ 220 (US\$ 124) per bag in May, is now priced close to R\$ 270 (US\$ 152). Besides the price escalation of raw materials, coffee companies in Brazil have also been suffering with heavy taxation. Higher prices on supermarket shelves are not expected to stop consumption from expanding. Coffee sales in the domestic market are already up by 7% this year in comparison with 2009. High quality coffees are sold in Brazilian supermarkets for around R\$ 35/kg (US\$ 9/lb) and traditional coffees can be found at R\$ 10/kg (US\$ 2.5/lb). Industry claims that these prices have not changed in the last 5 years.

Sources: Folha de São Paulo and Campo News

### HELP US IMPROVE THE COFFIDENTIAL NEWSLETTER!

As we reach our third anniversary we would like to thank our more than 4,000 readers worldwide for the feedback and support in improving our monthly newsletter. We have prepared a very brief survey, with just 9 questions, regarding the content and quality of the Coffidential newsletter.

Please, click on the link below to access it:

<http://www.zoomerang.com/Survey/WEB22AY7TOGANL>

Your reply will be very helpful to us. Thank you very much!



## COFFEE PICKERS LOSING GROUND FOR MECHANICAL HARVESTERS



Pickers are becoming more and more scarce in coffee plantations of important producing areas such as Franca and Pedregulho, in the state of São Paulo, and Ibiraci, in Minas Gerais. Coffee farms full of pickers harvesting coffee manually, which used to be the case during this time of the year, are now a rare scene. Mechanical harvesters, which may cost up to R\$ 500,000 (US\$ 282,000) in Brazil, are gradually replacing this type of worker. Growers, who are not able to buy this equipment, have the option of renting one. Mechanical harvesters offer excellent results and one machine can replace the work of approximately 120 pickers in Minas Gerais, where the rental price of the machine reaches R\$ 200 (US\$ 113) per hour.

Source: Comércio de Franca

## eFarm DATA SHARING PROJECT TO HELP SMALL GROWERS IN MINAS GERAIS

In order to improve production planning and to increase yields and profitability, members of the Cooxupé coffee growers cooperative are counting on a new project developed by the State University of Campinas (UNICAMP). The project involves the creation of a farmers' network to use sensors and software to collect and exchange information. The eFarm project aims to create a low cost data communication infrastructure, based on the Internet, to link the farms and the cooperative, to help growers monitor their activities, from planting to harvesting. The network is now being tested by a few farmers in order to estimate the costs of applying the eFarm project in large scale.

Source: Brasil Econômico

## CAFÉS DO BRASIL LOGO WAS LAUNCHED AT SPAIN WORLD CUP

The logo and brand name that identify the coffees of the world's biggest producer is celebrating 28 years. The original "Café do Brasil" logo, to which the "s" was added in 1993, was created to mark the sponsorship of the Brazilian Coffee Institute (IBC) to the national soccer team in the 1982 World Cup held in Spain. The "Cafés do Brasil" brand was officially registered in 2000 by the Brazilian Coffee Roasters Association (ABIC) and can be used by growers, exporters, industries and government.

Sources: Embrapa Café and P&A



## EXPORTS OF R&G COFFEE BACK ON TRACK

Brazilian exports of roasted and ground coffee are expected to grow in 2010 and return to the same levels of 2008, when the sector achieved record results. Revenues from external sales of the industrialized product are estimated to reach US\$ 30 million this year. The United States should remain the main destination for Brazilian R&G coffee but Europe has already started to attract Brazilian companies. Exports of the finished product currently represent only 1% of the total revenues from Brazilian coffee exports.

Source: Valor Econômico

## BRAZILIAN COOP SELLS R&G COFFEE IN FRANCE

In order to enter protected European markets, Brazilian companies are resorting to different strategies. Some of them, like the large meat industries Marfrig and BR Foods, made their way in through acquisitions. Cooparaiso, one of the largest coffee cooperatives in Brazil, decided for a lower-cost strategy: exporting roasted and ground coffee to France in partnership with a local cooperative. By selling a value-added product instead of the raw green coffee, it is possible for Cooparaiso to bypass some of the difficulties imposed by Europe's commercial barriers. From August on, R&G coffee from Cooparaiso will be available at more than 250 establishments in France. The cooperative estimates that its exports to that country will increase from the current 17.6 tons to approximately 80 tons of coffee per year.

Source: Brasil Econômico

## ROBUSTA COFFEE IS AN ALTERNATIVE FOR SÃO PAULO STATE

Coffee entrepreneurs in the state of São Paulo decided to invest in Robusta coffee production. They were attracted by the profitability of the variety, 20 to 30% higher than Arabica, in spite of a market price 45% lower. The low cost of production and the high yields are the reason for the investments, as demonstrated by some field test in municipalities in the western region of the state with the support of the Campinas Agronomy Institute (IAC). São Paulo has a great market for Robusta coffee, coming from 250 roasters and 3 soluble coffee plants that consume around 7 million bags of coffee per year.

Source: Valor Econômico





## USING GI AS A COFFEE MARKETING STRATEGY

One important way to introduce coffee qualities to consumers is to associate them to origins. An origin with distinctive quality attributes can be easily identified by consumers in the supermarket shelves and play the role of a brand.

But there is a huge difference between a company brand and an origin label. When a consumer looks for a specific brand, it doesn't matter to him where the coffee comes from. He or she will search for the best coffee that fits his or her needs (quality and/or price for example). But, when consumers associate their preferences to an origin they will always look for this coffee, over and above the brand. As a consequence, the growers are directly benefited because the industry will always need their origin to offer to final consumers.

There are many marketing tools to promote origin, but the most efficient and recognizable one worldwide is the geographical indication (GI). A GI is the name of, or a term referring to a particular geographical place. It is used to identify products which have a unique quality or reputation due to their geographical origin. Consumers associate the origin to a high quality product that can command a higher price.

Over the years European countries have taken the lead in identifying and protecting their geographical indications but in recent years developing countries are becoming aware of this marketing tool. Its potential is remarkable. We have several successful examples, like France's Champagne sparkling wine and red wines from the Bourdeaux region, Cuban cigars, Italy's Parma ham, Roquefort cheese, Jamaica Blue Mountain and Colombian coffee, etc.

The geographical indications belong exclusively to growers associations or cooperatives. This is one of the most important features of GIs because in order to manage the whole structure needed to register and monitor them, growers have to unite efforts and work together for a common goal. In reality, the GI recognition process acts as a powerful incentive for everyone to invest in quality, marketing strategies and commercialization.

Our company, P&A Marketing International, has been working with GIs in Brazil since the dawn of "Café do Cerrado" as a recognizable origin in the coffee world. Working closely with coffee growers, we have seen how a GI can motivate them. In order to apply for and obtain a GI it is important to define a step-by-step plan, with well established objectives. It is common to see associations and their representatives overwhelmed by the length and complex legal demands set out by their country's property rights institution. Those demands generally include: (1) proof of the Association/Cooperative's representativeness of the growers located in the area; (2) clearly defined standards for production and processing; (3) an evaluation system of physical and quality attributes; (4) GI's usage regulation; (5) geographical delimitation of the area; and (5) compilation of all data deemed necessary by the legal authority in the country. That's why it is important to have the full support of well-known companies/organizations familiar with those procedures.

The GI acts as a coordination and empowering tool, bringing together coffee growers and companies/institutions in order to achieve the same goal. The final objective is to offer to consumers a high quality coffee, easily associated with its origin. It is a fair system to influence in your favor the way added-value and profits are shared along the coffee chain providing that consumers know that the perfect cup of coffee that they drink comes from your coffee region!



## Brazilian Prices

July 30, 2010

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	325,00 ↑
Mogiana-SP fair average quality T.6	320,00 ↑
South Minas fair average quality T.6	325,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	380,00 ↑
South Minas	380,00 ↑

+15%  
to  
20%

Conilon/ Robusta (R\$/ 60 kg bag)	
São Gabriel da Palha-ES fair average	168,00 ↓

BM&F (US\$/ 60 kg)	
Sep 2010	208,50 ↑
Dec 2010	203,50 ↑
Mar 2011	208,00 ↑

Real R\$/ Dolar US\$	
July 30	1,75 ↓

Source: Qualicafex

## CAN PINHALENSE MACHINERY PROCESS OVER 50% OF WORLD'S COFFEE?

Members of the Guaxupé Coffee Growers Cooperative (COOXUPÉ) produce more coffee than any coffee producing country, except for Brazil, Vietnam, Colombia and Indonesia. In other words, if Cooxupé were a "country", it would be the fifth largest coffee producer in the world!

Cooxupé has recently decided to upgrade its already sizable dry milling and storage facilities and to erect the largest coffee processing complex ever built in the world. Guaxupé's new coffee mill will have an initial capacity to process up to 5 million bags of Arabica coffee per year, with a provision to be expanded to handle twice that much in the future. The coffee processing machinery supplier selected was Pinhalense whose technical department also designed the heart of the new facility – the milling area itself – in close consultation with Cooxupé's engineers. The coffee milling equipment for the new project is currently being manufactured and the mill is scheduled to run next year.

This is only one more chapter in the long story of how Pinhalense achieved and retained the world leadership in coffee processing equipment, from Brazil to Vietnam, from India to Colombia, from Jamaica to Kenya...

Most if not all foreign companies in Vietnam use Pinhalense dry milling, drying and wet milling equipment. Pinhalense dry mills in Vietnam, ranging from 7 to 28 tons/hour, process a large chunk if not most of the coffee exported by the country. One local Vietnamese company is Pinhalense's single largest buyer of size graders and gravity separators. The largest Arabica wet mill in Vietnam, whose Pinhalense equipment is already in the country, will be installed shortly.



Colombia's dry millers have since long ago elected Pinhalense's size graders and gravity separators as the standard machines to process their high quality coffees. More recently, Pinhalense rotary driers and innovative wet mills have made inroads into the farm and cooperative markets.

India has been an established market for Pinhalense equipment since the coffee business was liberalized at the end of last century. Pinhalense led the process of modernization of the dry mills, known as "curing works", and sold more equipment than all competitors together. This leadership remains today: Pinhalense has supplied the most modern large dry mills in India and equipment for the largest wet mill in the country, for Arabica and Robusta, is due to arrive shortly. The largest coffee grower and miller in the country uses Pinhalense machinery for wet milling, drying and dry milling. Likewise, the country's top suppliers of specialty coffees, Arabica and Robusta, use Pinhalense wet milling equipment.

Known for the top quality of its coffees, Kenya has favored Pinhalense equipment for almost three decades now. The majority of Kenya's coffee is milled by Pinhalense equipment and the country's most modern mill, belonging to a large international coffee trader, will start running soon. Another top quality producing country whose coffee is mostly processed by Pinhalense equipment is Jamaica. Almost half of all Blue Mountain coffee is wet milled, dried and dry milled using Pinhalense machinery.

We can go on with this list of countries and Pinhalense achievements but for the sake of not boring our readers we will close with some highlights around the world. Outside Brazil, Guatemala has the largest share of the 20,000 SRE rotary coffee driers made by Pinhalense, notwithstanding the fact that this type of machine was first manufactured in this Central American country itself. Honduras has the largest number of Pinhalense wet mills outside Brazil. Peru is one of Pinhalense's fastest growing markets. Some of the most modern integrated coffee mills in Indonesia have been supplied by Pinhalense, whose Robusta wet polishing equipment enables this type of coffee to achieve premium prices in Indonesia itself, India and Vietnam. Coffee quality competitions have been the realm of users of Pinhalense wet milling equipment from Rwanda to India, from Panamá to Brazil. Pinhalense is a household name in producing countries of all sizes and as diverse as Ethiopia, Mexico, Costa Rica, Madagascar, Papua New Guinea and Vanuatu!

It is for all the reasons above that we can say that today Pinhalense equipment processes over one-half of the coffee produced in the world. Coined in the mid-1980s, the motto above reflected Pinhalense's total control of the Brazilian market and its fast expansion into other coffee producing countries. Considering the growth of Pinhalense's exports in the twenty-five years since the motto was created, it may be fair to say that today Pinhalense equipment handles well over 50% of the world's coffee and that perhaps as much as three-fourths of all coffee produced passes through at least one Pinhalense machine before it reaches the consumers' cups.