

# CONFIDENTIAL

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## **BRAZIL CONSOLIDATES POSITION AS WORLD'S BREADBASKET**

Brazil is positioned today as a worldwide leader in the exports of sugar, beef, chicken, orange juice and soybeans besides coffee, an accomplishment celebrated during the 150th anniversary of the country's Ministry of Agriculture, Livestock and Food Supply (MAPA) in July. Factors like technology, entrepreneurship, national public policies and natural resources positioned Brazil as a country with unique conditions to respond to global challenges such as population growth and higher demand for food products. Brazilian agribusiness exports reached US\$ 64.7 billion in 2009, which corresponds to 42.5% of the country's total exports.

Sources: MAPA and P&A

## **CAFÉS DO BRASIL INDY 300 RACE**

The Brazilian Trade and Investment Promotion Agency (APEX) has been sponsoring the Formula Indy car races since 2009. The Brazilian program to export roast-and-ground coffee is one of the participants in this APEX initiative. The next Indy 300 race, named Cafés do Brasil, to be held in the Homestead-Miami Speedway on October 2nd, will have a wider promotional scope that includes *all* Brazilian coffees: green, roast-and-ground and soluble, commercial and specialty.

Source: ABIC



## **COFFEE FUND TO BE USED FOR OPERATIONS IN FUTURES MARKETS**

The Brazilian National Monetary Council (CMN) approved the creation of a new Funcafé credit line for futures markets related operations. The funds will be used to finance margins and daily adjustments in futures operations, premiums in put-and-call contracts, and other fees. The total amount available will be R\$ 50 million (US\$ 28 million). The objective is to facilitate futures sales by growers and cooperatives in a rising coffee market.

Source: Agência Estado

## **NEW METHODOLOGY FOR CROP ESTIMATES TO BE EMPLOYED IN COFFEE**

A new model for crop estimation has been designed and is already being presented to the coffee sector all over Brazil. The new approach uses modern scientific and statistical methods and will take into consideration a wider range of variables besides planted area and yields, for example, factors that affect coffee production like droughts and diseases and the use of technology, among others. Starting next year, all coffee producing states in Brazil will mandatorily have to use this same methodology to collect and measure crop data. More accurate crop estimates are important because they affect crucial segments of the national and international coffee markets, especially pricing of the product.

Source: Incaper

## **ORGANIC FERTILIZATION TO CUT COSTS DOWN**

Organic fertilization has been increasingly used by coffee growers in Minas Gerais. Instead of using chemical fertilizers in their coffee plantations, growers are resorting to cheaper and equally efficient organic compounds, such as chicken manure, waste coffee grounds and other natural materials available on the farms. Some advantages of this kind of fertilization in coffee include the need for only one application during the year (instead of three, in the case of chemical fertilizers), more flexibility regarding some husbandry activities and the important fact that it is environmentally friendly. The use of organic fertilizers can help coffee growers save as much as 80% in fertilization costs in some areas of Brazil today.

Source: EPTV.com

## **CONTROLLED FLOWERING IN WEST BAHIA REGION**

Irrigation management and water stress techniques enable coffee growers in the West Bahia region to determine when flowering should occur. After irrigation is suspended for 60 days, the water flow is restarted to make the flower buds to open simultaneously, at levels higher than 80%. Since the August weather is usually mild and the sunrays are not very strong yet, the flower-to-cherry conversion rate is very high with great benefits for growers that prefer to induce flowering earlier than the natural Brazilian flowering period of September-October. This control makes possible for growers in West Bahia to start harvesting as early as April, to be compared with May-June for the rest of Brazil.

Source: Abacafé



## GI HELPS TO INCREASE CAFÉ DO CERRADO PRICE PREMIUMS

The Cerrado region of Minas Gerais is the only coffee area in Brazil that has been officially recognized as a geographical indication (GI). Since 2005, more than 3,500 growers in the Cerrado coffee region can have their origin certified and their products traced. Out of the 3.5 million coffee bags produced at the Cerrado every year, more than 700,000 already have the GI registration. The origin label has contributed for Cerrado coffees to be sold at prices up to 10% higher than the non-registered coffees. Apart from value addition to the product, the GI registration process also led to the strengthening of cooperation among growers in the region. There are currently 24 applications for geographical indication of various Brazilian products, coffee included, being analyzed by the National Patent Office (INPI).

Sources: DCI and P&A

## PARANA GROWERS TRANSFORM COFFEE FARMS IN RURAL ENTERPRISES

The northern region of Paraná state is now implementing a project to teach growers a different approach to their rural activities. The Rural Enterprise Management Project aims to submit producers to intense training in farm management and also to orient the adoption of new processes and control methods. The 8-month long project will address issues such as business administration, coffee quality, marketing and trading, husbandry practices and other related subjects. The idea is that by the end of the project most farms involved would become Utz Certified and that growers will be able to start a cooperative and improve their businesses.

Source: Sebrae/PR

## TOOL TO CALCULATE CARBON FOOTPRINT IN ROASTING LAUNCHED

In order to help decrease global warming, the Brazilian Coffee Roasters Association (ABIC) has developed a tool that allows coffee industries to calculate their carbon footprint or, in other words, their impact on the environment. The "Carbon Calculator" will be made available at ABIC's website so that coffee companies can log in and easily assess their greenhouse gas (GHG) emissions. Once the size of the carbon footprint is known, a strategy can be devised to reduce it by means of appropriate technology, better processes and product management. Some of the measures usually adopted by companies to compensate for emissions include support for reforestation projects and the purchase of carbon credits. Detailed information about ways to reduce GHG emissions and waste materials will also be offered to roasters by ABIC.

Source: ABIC



## SENSEO SINGLE-SERVE SYSTEM NOW IN BRAZIL



Philips and Sara Lee will announce this September the introduction of the Senseo coffee system in Brazil. Launched in Europe on 2001, this single-serve machine is one of the top sellers in the world, with over 26 million units sold. The machine enters a market that is still underexplored in Brazil, since it produces filtered, not espresso coffee. The price of the pod has not yet been released but the machine will be available for R\$ 300 (US\$ 170).

Source: AgnoCafé

## STARBUCKS TAKES OVER ITS BRAZILIAN OPERATION

Starbucks Corporation has assumed 100% ownership and operating control of Starbucks Brazil through the acquisition of Cafés Sereia do Brasil Participações. Starbucks entered the country in 2006 by means of a joint venture with Cafés Sereia do Brasil. The current managers of the Brazilian operation will continue to run day-to-day business in order to guarantee a smooth transition. There are 23 Starbucks stores in Brazil today, mostly concentrated in São Paulo city, but also in Rio de Janeiro and Campinas.

Sources: Valor Econômico and Starbucks

## PINHALENSE'S 60th ANNIVERSARY

Sixty years ago, six young men came together to make their common dream a reality: to create a company to manufacture coffee machinery employing their different personal skills that complemented each other. As a result, Pinhalense came to life on August 06, 1950. The six founders never realized that their original dream would grow well beyond their most optimistic expectations and that their small company would become the largest coffee machinery manufacturer in the world, with equipment sold in almost 80 countries on the 5 continents. Some of the founders did live until the time when half of the world's coffee started to pass through at least one Pinhalense machine. More about Pinhalense's 60th anniversary in the next issue of Confidential.

Source: A Cidade



## HOW DOES COFFEE PROCESSING AFFECT COFFEE QUALITY?

The table below lists all processing steps that coffee undergoes from tree to industry, from cherry to roasting, as well as the coffee features that may be affected by one or more of these processing steps.

PROCESSING STEPS	COFFEE FEATURES
<ul style="list-style-type: none"> <li>▲ HARVESTING</li> <li>● SEPARATION</li> <li>▲ PULPING</li> <li>▲ DEMUCILAGING</li> <li>▲ DRYING</li> <li>▲ STORAGE</li> <li>● PRECLEANING</li> <li>● DESTONING</li> <li>▲ HULLING</li> <li>▲ POLISHING</li> <li>▲ SIZE GRADING</li> <li>● DENSITY SEP.</li> <li>● COLOR SORTING</li> <li>▲ BULKING / BLENDING</li> <li>▲ WEIGHING / DISPATCH</li> <li>▲ STORAGE</li> </ul>	<ul style="list-style-type: none"> <li>- COLOR</li> <li>- SIZE</li> <li>- UNIFORMITY</li> <li>- PHYSICAL INTEGRITY</li> <li>- ABSENCE OF DEFECTS</li> <li>- AROMA</li> <li>- CUP TASTE                             <ul style="list-style-type: none"> <li>* ACIDITY</li> <li>* BODY</li> <li>* AROMA</li> <li>* OTHER FEATURES</li> </ul> </li> </ul>

CHANGE QUALITY   
 ▲ CAUSE DEFECTS    ● REMOVE DEFECTS  
water contamination   
 ■ air contamination    noise

For example, the color of coffee beans may be affected by the way drying, hulling, polishing and/or storage are performed. Defects in aspect and cup features may be created or eliminated by most processing steps, as indicated by the blue triangles and green circles, respectively.

Coffee processing also impacts the environment where it is performed. Wet milling – cherry separation, pulping and mucilage removal – contaminates the water used in the process. Drying and dry milling generate dust and contaminate the air, no matter how clean coffee is and how often dust is aspirated and removed along the process. The fumes from mechanical drying also contaminate the air. Finally, nearly all processing steps produce noise, some more than others.

Complex as the interaction among processing steps, coffee features and the environment is, it is not as striking as the combined impact that pulping, mucilage removal and drying has on coffee quality. Put in a different way, most processing steps can either introduce damage and lower quality or retain the original quality of the coffee bean by eliminating defects; however pulping, mucilage removal and drying are the only processing steps that can actually change the main quality features – body, acidity and aroma – causing coffee to be described as natural, pulped natural (semi-washed) or (fully) washed.

*Natural* coffees are dried involved by the pulp and mucilage; the whole coffee cherries are dried in the way they are picked from the trees. *Pulped natural* coffees are dried with all or some of the mucilage attached to the parchment skin that remains around the coffee beans after pulping, i.e., after the pulp is removed. *Washed* coffees are dried involved by parchment whose mucilage has been fully removed by fermentation or mechanical means. Whereas natural coffees tend to have more body and a sweeter cup, washed coffees are more acidic and aromatic. Contrary to what common sense would indicate, pulped natural coffees have cup features that are similar to those found in naturals, but certainly free from the woody or astringent taste that may characterize naturals when maturation in not even.

Happy are the growers located in areas where all three types of coffee – natural, pulped natural and washed – can be produced because they can offer *single estate blends* with a unique degree of diversity and sophistication.

## Brazilian Prices

August 31, 2010

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	340,00 ▲
Mogiana-SP fair average quality T.6	330,00 ▲
South Minas fair average quality T.6	330,00 ▲
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	410,00 ▲
South Minas	410,00 ▲

+15%  
to  
20%

Conilon/ Robusta (R\$/ 60 kg bag)	
São Gabriel da Palha-ES fair average	165,00 ▼
BM&F (US\$/ 60 kg)	
Sep 2010	226,00 ▲
Dec 2010	213,50 ▲
Mar 2011	214,00 ▲
Real R\$/ Dolar US\$	
August 31	1,75 =

Source: QualicaféX

## PINHALENSE LINE OF COFFEE PROCESSING EQUIPMENT

Plenty of readers' suggestions were received in response to the survey made at the third anniversary of the Confidential newsletter. Many readers mentioned their wish to have a full perspective of the complete line of coffee processing equipment made by Pinhalense. We are more than happy to provide this in the three charts below.

The tables, organized according to the processing flow, from cherry to finished green coffee, cover the three systems – natural, pulped natural (semi-dry) and washed – and list all coffee machines made by Pinhalense. The numbers after the codes of the machines indicate different capacities for the same type of equipment. Different machine codes in the same line indicate that there are different types of equipment to perform the same processing task. Some machines cover more than one processing step, in what is called a combined or compact unit.

The machines in the charts below can be seen – photographs and specifications – at Pinhalense's site [www.pinhalse.com.br](http://www.pinhalse.com.br).

### WET MILLING

OPERAÇÃO FASE DEL PROCESAMIENTO PROCESSING OPERATION	SISTEMA - SISTEMA - SYSTEM			EQUIPAMENTOS RECOMENDADOS EQUIPOS RECOMENDADOS EQUIPMENT RECOMMENDED	
	DESPOLPADO - LAVADO WASHED	CEREJA DESCASCADO SEMI-SECO - SEMI-DRY	NATURAL - NATURAL NATURAL		
LAVAGEM E SEPARAÇÃO - SEPARACION DE FLOTANTES SEPARATION OF FLOATERS	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	LSC-5P / LSC-10P / LSC-20P	
SEPARAÇÃO DE VERDES - SEPARACION DE VERDES SEPARATION OF GREENS	SIM - SI - YES	SIM - SI - YES	NÃO - NO - NO	ecoflex-0.5 ecoflexmob ecoflex	—
DESPOLPAMENTO - DESPULPADO PULPING	SIM - SI - YES	SIM - SI - YES	NÃO - NO - NO	ecoflex-2/2T/3/4/6/8	DC-DPV-3 / DC-DPV-6 D-2 / D-4 / D-6
DESMUCILAGEM - DESMUCILAGINADO DEMUCILAGING	SIM - SI - YES	NÃO - NO - NO OU - O - OR PARCIAL - PARTIAL	NÃO - NO - NO		DMPE-0A / DMPE-1A / DMPE-4A / DMPE-5A

### DRYING AND HULLING

OPERAÇÃO FASE DEL PROCESAMIENTO PROCESSING OPERATION	SISTEMA - SISTEMA - SYSTEM			EQUIPAMENTOS RECOMENDADOS EQUIPOS RECOMENDADOS EQUIPMENT RECOMMENDED	
	DESPOLPADO - LAVADO WASHED	CEREJA DESCASCADO SEMI-SECO - SEMI-DRY	NATURAL - NATURAL NATURAL		
SECAGEM - SECADO DRYING	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	SRM-20 / SRM-30 / SRE-016 / SRE-033 / SRE-050 / SRE-075 / SRE-100 / SRE-150	
REMOÇÃO DE IMPUREZAS E PEDRAS - LIMPIEZA Y DESPEDREGAMIENTO CLEANING AND DESTONING	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	PRELI-1 / PRELI-2 / PRELI-3 / CPF-1 / CPF-2 / CPF-3 CPFBNR-1 / CPFBNR-2 / CPFBNR-3	CDVR-2 / C2DPRC CON-4* / CON-6*
DESCASQUE - TRILLA HULLING	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	—	DBD-05 / DBD-15 DEPOS-2 / DEPOS-4 DEPOS-6
POLIMENTO - PULIDO POLISHING	SIM - SI - YES	OPCIONAL - OPCIONAL - OPTIONAL	NÃO - NO - NO*	—	CON-8* / CON-12* / CONAN

\*EXCEPT FOR WET POLISHING OF ROBUSTA COFFEE

\*\* ALL CONS HAVE A "B" VERSION WITH A PRECLEANER

### EXPORT PROCESSING

OPERAÇÃO FASE DEL PROCESAMIENTO PROCESSING OPERATION	SISTEMA - SISTEMA - SYSTEM			EQUIPAMENTOS RECOMENDADOS EQUIPOS RECOMENDADOS EQUIPMENT RECOMMENDED	
	DESPOLPADO - LAVADO WASHED	CEREJA DESCASCADO SEMI-SECO - SEMI-DRY	NATURAL - NATURAL NATURAL		
CLASSIFICAÇÃO POR TAMANHO - CLASIFICACION POR TAMAÑO SIZE GRADING	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	PI-2 / PI-4 / PII-2 / PII-4 / PFA-1-2 / PFAA-1-3 / PFA-2-2 / PFAA-2-3 / PFA-4 / PFAII-04 / PFAII-06	
SEPARAÇÃO DENSIMÉTRICA - SEPARACION POR DENSIDAD DENSITY SEPARATION	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	MVF-0 / MVF-1 / MVF-2 / MVF-3	
SEPARAÇÃO POR COR - SEPARACION POR COLOR COLOR SEPARATION	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	—	
PESAGEM E EMBALAGEM - PESADO Y EMPAQUE WEIGHING AND PACKING	SIM - SI - YES	SIM - SI - YES	SIM - SI - YES	BALANCA / MCT / CPC-A / CPC-B / CPC-M	

The charts do not include the ancillary equipment made by Pinhalense – silos, elevators, conveyors, pollution control systems, etc. – that are required to link and bring together the machines to create complete coffee processing lines and mills.

As part of its "supply package", Pinhalense provides full engineering support to its clients. This includes the conception of product flows that meet each and every client requirement, detailed drawings of the processing lines, and basic foundations, architecture, electric and hydraulic drawings to be further developed by the respective contractors.

At the time this newsletter was released, Pinhalense was developing its project No. 16095, meaning that Pinhalense has already designed this same number of coffee mills. This is roughly equivalent to designing one coffee mill per working day since the company was founded 60 years ago!