

COFFIDENTIAL

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PINHALENSE BECOMES 60 YEARS OLD



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 *September 06, 1950*, not August, as informed in the previous *Coffidential*. 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 *Coffidential*.

Source: A Cidade

QUALITY MONITORING OF FARM PRODUCTS TO INCLUDE COFFEE

The National Plan for the Control of Residues and Contaminants in Vegetable Products will include 6 new crops in 2010/11: garlic, soybeans, oranges, sweet pepper, beans, and coffee. Together with another 19 agricultural products such as fruits, grains and vegetables, they will be checked for levels of agrochemicals, salmonella and aflatoxin residues. The Brazilian Ministry of Agriculture will randomly collect samples of these food products, national and imported, at customs warehouses, processing and distribution facilities. The objective is to guarantee the safety and quality of products being consumed by Brazilians.

Source: MAPA

WASTE WATER FROM COFFEE FOR FERTIRRIGATION

A recent study by Incaper, the institute in charge of research and rural extension in the state of Espírito Santo, confirmed that waste water from coffee pulping can and should be used to fertilize the soil for any type of culture, not only coffee. Water that comes out of wet milling is rich in nitrogen, potassium and other nutrients that are vital for the development of different plants. Although waste water is considered a source of environmental pollution, it can be used as a great source of organic material for the soil and reduce the need for fertilizers. The main nutrients found in waste water from the wet milling of coffee are potassium (K), nitrogen (N), phosphorus (P), calcium (Ca) and magnesium (Mg).

Source: CaféPoint

LA NIÑA TO BOOST IRRIGATION SECTOR IN BRAZIL

The expected adverse impacts of La Niña in 2011 are causing a "rush" towards irrigation in Brazil. Growers are worried that droughts may cause serious damages to their production. Although the required investment for irrigation is still high in Brazil – R\$ 5,000.00 (US\$ 2,800.00) per hectare, on average – gains in productivity usually compensate for it. Irrigated areas usually produce 30% more and drip irrigation allows water savings of up to 80% when compared to other irrigation systems. Official data estimate that only 4 out of 60 million hectares are irrigated in the country today, mainly fruit, vegetables and coffee.

Sources: DCI and P&A



NEW WORLD BANK STUDY: "CURSE OF COMMODITIES"

A recently released World Bank study points out that although the "curse of commodities" is a risk for Latin American countries, it can be avoided. The "curse of commodities" theory indicates that abundance of raw materials can have an adverse impact on economic growth. According to the study, Brazil is a good example of an agricultural country that has been able to diversify its economic activity. Whereas coffee represented 53% of Brazilian exports in the 1960s and fell under 5% in the 2000s, iron ore, the main export commodity in 2006, represented only 7%. The study indicates that diversification helps to lessen the influence of commodities' volatility on the exchange rate.

Sources: Folha de São Paulo and P&A

FAIR TRADE CERTIFICATION BENEFITS SÃO PAULO GROWERS

Small growers in the state of São Paulo are getting better prices for their coffees with the use of Fair Trade (FT) certification. In the municipalities of Pratânia and Dois Córregos, each one of the 850 bags of Fair Trade certified Arabica coffee produced was sold for R\$ 450 (approximately US\$ 260), a 35% increase above the average market price. In Pratânia, the Local Certified Coffee Growers Association aims to sell more than 5,000 FT certified coffee bags until the end of 2010.

Source: CNC



3 CORAÇÕES CHALLENGES SARA LEE LEADERSHIP IN BRAZILIAN COFFEE MARKET



American company Sara Lee has been a coffee market leader in Brazil since 2000 when it acquired the popular Pilão and Caboclo brands. This leadership is now threatened by 3 Corações, the merger of Santa Clara and Israeli Strauss-Elite, whose 18.1% market share is coming closer to Sara Lee's 20.9%, according to Nielsen. Latin-Panel, another research institute, claims that 3 Corações is already ahead with 20.3% of the market against Sara Lee's 18.6%. Some of the reasons behind this amazing performance are 3 Corações / Santa Clara's strong presence in the Northeast region of Brazil, one of the most benefited by government social programs, and aggressive sales and marketing in the Southeast region, where São Paulo state alone accounts for more than one third of Brazilian coffee consumption. Third place German Melitta, that is also growing faster than Brazilian consumption, is another factor behind concentration and foreign control of the Brazilian coffee market.

Sources: Valor Econômico and P&A

COMPETITION REDUCES PRICE OF SINGLE-SERVE COFFEE MACHINES

In the same day that Sara Lee launched its Senseo coffee machine in Brazil, Nestlé, owner of Nespresso and Nescafé Dolce Gusto, announced a 16.6% price reduction in its less expensive coffee makers. Nestlé also introduced a loyalty program for Dolce Gusto consumers. Other single-serve brands, such as DeLonghi and Illy, have also dropped their machine prices by 15 to 20% in Brazil. Sara Lee is expected to become Nestlé's main competitor in the Brazilian single-serve segment.

Source: Valor Econômico



STARBUCKS TO INTRODUCE SEATTLE'S BEST IN BRAZIL

Starbucks plans to strengthen its position in the Brazilian market with the introduction of its Seattle's Best Coffee in the early months of 2011. Aiming at the C and D lower income segments, that currently do not frequent Starbucks stores and whose disposable income has been growing, the launching of Seattle's Best Coffee may heat up the competition among coffee shop chains like Fran's Café, Casa do Pão de Queijo and Rei do Mate that are also investing to expand their business with the avid C and D "new middle class" consumers.

Source: DCI



COFFEE SHOP SCHOOL TO TRAIN NEW PROFESSIONALS

In order to improve services in the specialty coffee market in Minas Gerais, the South Minas Federal Institute (IF – Sul de Minas), located in the town of Machado, created a project called the Coffee Shop School. Bakery and restaurant professionals, or anyone interested in coffee, can attend the Coffee Shop School and take classes on coffee cupping, receive training on how to prepare a good cup of espresso, and develop barista skills. The project focuses on training professionals for the fast-growing out-of-home coffee sector, that still has bakeries as its main outlet in spite of the growth of coffee shop chains and coffee bars in fast food restaurants.

Sources: Polo de Excelência do Café and P&A

The International Coffee Organization (ICO) has recently updated a previous study on cyclic behavior in coffee production. Cyclic patterns in coffee are characterized by alternations between increases and falls in production. In the case of biennial cycles an abundant crop in one year is followed by a much smaller crop in the next.

Seventeen countries were selected for this study based on their production and export performance over the last 20 crop years, from 1988/89 to 2008/09. The countries selected account for 89% of the average world coffee production during that period and include: Cameroon, Ivory Coast, Ethiopia, Kenya and Uganda in Africa; India, Indonesia and Vietnam in Asia and Oceania; Costa Rica, El Salvador, Guatemala, Honduras and Mexico in Central and North America; Brazil, Colombia, Ecuador and Peru in South America.

The study showed that although there is evidence of cycles in coffee production in Brazil, El Salvador, Honduras, India and Mexico, statistical analysis indicated that only Brazil has a statistically significant and consistent long-term biennial production cycle. And since Brazil has more than a 30% share of world production, the country's biennial cycle affects the formation of prices at world level.

It is important to note that Brazil produces both Arabica and Robusta coffees but the variation in the country's total production from year to year occurs mostly because of the cyclic nature of Arabica. Arabica trees bear large quantities of cherries in one crop and need time to recover during the next crop year. This variation can be reinforced by climatic factors such as droughts, excessive rainfall, frosts, etc.

Some of the leading agronomic "brains" in Brazil were instigated by P&A to propose explanations for the biennial cycle to the ICO. Based on their contributions and the Organization's extensive background and practical experience on the matter, the ICO elaborated on a series of possible reasons for the phenomenon, as quoted below from the study.

- The prevalence of sun-grown (unshaded) planting in Brazil results in increased productivity (fructification). The cherries consume the reserves of carbohydrates and metabolites in the plant and leave fewer nutrients for its branches and roots, thereby reducing the potential production in the following crop.
- Favorable climatic conditions in one year tend to result in increased productivity, thus strengthening the biennial cycle and synchronizing it across producing regions. In addition, extreme climatic events (frosts and droughts) also tend to make the stress on the trees more uniform and accentuate the existing biennial cycle.
- Strip-picking techniques used in Brazil mean that coffee trees carry a full load of cherries for a longer time than occurs with selective picking that prevails in most other Arabica producing countries. This practice intensifies the biennial cycle since trees in Brazil come under greater stress to provide nutrients to the cherries.
- The biennial cycle may be exacerbated at high southern latitudes, such as those where the majority of Brazil's coffee plantations are located, because precipitation is more concentrated and seasons are more well-defined than in producing regions closer to the Equator.

We would add two more factors to the list above.

First, since most Brazilian Arabicas are dry processed, there is an incentive to delay harvesting because the volume of cherries decrease as they dry and harvesting costs fall accordingly. As a result, cherries remain on the trees for a longer period than when coffee is washed and the trees are therefore under a greater stress with dry than with wet processing. One can speculate that the biennial cycle may be attenuated as Brazil washes more coffee, as it is presently doing.

Second, pruning is much less prevalent in Brazil than in countries that produce washed Arabicas. This means that there are more non-productive branches that are competing for nutrients all the time which further intensifies the biennial cycle. There is evidence in Brazil that farms that rely on pruning experiment less variation in production from year to year.

The complete study is found in ICO document ICC 105-1, Cyclic Patterns in the Supply of Coffee, dated July 12, 2010, and can be accessed at: <http://dev.ico.org/documents/icc-105-1e-cyclic-patterns.pdf>

Brazilian Prices

September 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	320,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	380,00 ↓
South Minas	375,00 ↓

+13%
to
+18%

Conilon/ Robusta (R\$/ 60 kg bag)	
São Gabriel da Palha-ES fair average	168,00 ↑
BM&F (US\$/ 60 kg)	
Dec 2010	216,35 ↑
Mar 2011	217,00 ↑
May 2011	218,65 ↑
Real R\$/ Dolar US\$	
September 30	1,69 ↓

Source: Qualicafex

HULLERS-POLISHERS FOR PARCHMENT COFFEE

The objective of hulling is to remove the husk layer(s) that cover the dry coffee beans. Coffee is hulled to remove the parchment husks from dry parchment / washed coffee or the cherry husks from dry cherry / natural coffee. Coffee is polished to remove the thin layer of silverskin that is closely attached to give the beans an extra gloss. Some hulling machines are also polishers and perform both tasks in one single operation.

Pinhalense offers a family of hullers-polishers for washed coffee that can handle from micro-lots to large shipments. This family is summarized in the table below and shown in the pictures on this page. The hullers-polishers below are selected not only according to capacity but also depending on the specific type of job and coffee quality required. For example, the C2DPRC is a machine to prepare small lots that can also hull cherry coffee and has a built-in size grader. At the other end of the range, the DEPOS-6 is a large, state-of-the-art, two-stage huller-polisher. The DBDs and DEPOSs are recommended for specific tasks and small to intermediate capacities.

MODEL	SIZES	FUNCTIONS				CAPACITY (TONS/HOUR)	TYPES OF COFFEE		
		CHERRY HULLER	HULLER POLISHER	POLISHER	SIZE GRADER		CHERRY	PARCH	GREEN
C2DPRC		X	X	X	X	0.3	X	X	X
DBD	5 / 15		X	X		0.3 to 0.9 (1.2)		X	X
DEPOL	1 / 2		X	X		1.0 to 2.0		X	X
DEPOS	2 / 4 / 6		X	X		2.0 to 6.0		X	X



DBD



DEPOL



DEPOS



C2DPRC