

CONFIDENTIAL

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THIS ISSUE:

- **WHAT'S IN A CUP OF COFFEE? (PAGE 3)**
- **WET MILLING: ONE TYPE FITS ALL VS. CUSTOMIZATION (PAGE 4)**

SMALL GROWERS GET TOGETHER TO PURCHASE US\$300,000 HARVESTING MACHINE

A group of 36 small coffee holders at Lagoa village in South Minas Gerais have created an association to purchase a large self-propelled harvesting machine in order to reduce their harvesting costs. The R\$ 500,000 (US\$ 300,000) machine moves from farm to farm and returns to the property where it started after passing through all the others. Growers already report amazing savings in harvesting costs in addition to more time available to monitor coffee drying and processing. In some areas of Brazil harvesting accounts for almost 50% of total production costs.

Source: Folha Rural



HIGH PRICES BUT SMALL PROFITS DUE TO ESCALATING LABOR COSTS

Despite the recent upward trend in coffee prices in the international market, high production costs have curbed growers' profits, especially for those who do not produce high quality coffees. Although the prices for all Brazilian coffees and the premium for pulped naturals (CD) rose substantially as compared with the average for the last six years, differences in technology in each coffee producing region directly affect the final costs, with higher labor costs especially hurting growers in mountainous areas. In the Guaxupé area of Minas Gerais, for instance, labor was responsible for more than 50% of final production costs. Brazilian growers should take advantage of current high prices to improve technology (e.g., mechanical harvesting and irrigation too) in order to lower production costs. Marketing and value addition is another area to be addressed. Prospects for the future seem bright as world coffee demand tends to increase faster than supply in the next few years. Brazilian growers have a unique opportunity to implement technologies already available to bring about a "revolution" in the way coffee is grown on mountain sides - most of Brazilian coffee - in order to ensure competitiveness in the future.

Source: Valor Econômico

HIGHER PROFITS WITH PULPED NATURAL ROBUSTAS

Conilon, the Brazilian Robusta, can have its quality and prices improved with the use of the pulped natural (semi-washed) process. The São Gabriel Coffee Growers Cooperative (Coabriel), located in the state of Espírito Santo, carried out a study that shows that the separation of unripe cherries during pulping enables Conilon to command better prices. The Coop pays a price premium of 12% over average quality for pulped natural Robusta, known as Conilon CD.

Source: Coabriel

STRONG BRAZILIAN PARTICIPATION AT ASIC CONFERENCE IN BALI

The 23rd Conference of the Association for Science and Information on Coffee (ASIC), that took place in October in Bali, Indonesia, was attended by more than 300 coffee scientists from 31 countries. Brazil was represented by one of the strongest delegations. Over 20 researchers from Brazilian coffee research institutions and companies, P&A Marketing International included, presented more than 65 papers. The subjects covered ranged from genetics to coffee chemistry, quality, and coffee and health. One of the studies used infrared spectroscopy to identify roasted and ground coffee that came from non-defective or defective beans. The same technique was used to determine cupping profiles. Another paper analyzed the use of physiological and biochemical tests to evaluate cup quality. P&A Marketing International presented a paper that stated that climate change and erratic rainfalls will render selective picking even less competitive in the future. That is why it is important for coffee growers all over the world to consider new harvesting systems, from stripping to different approaches to mechanical harvesting, to gain competitiveness and to ensure the economic sustainability of the business. Modern processing techniques are already available to handle the mixed product that is presently being harvested today with so-called "selective" picking.

Sources: Embrapa Café, ASIC and P&A



COFFEE GENOME PROJECT JOINS INTERNATIONAL DATABASE

The findings of the Brazilian Coffee Genome Project, that began in 2002 and is coordinated by the Coffee Research Consortium, will be included in the database of the National Center for Biotechnology (NCBI). The NCBI is an international institution in charge of collecting and disseminating genomic data on a variety of organisms worldwide. The Brazilian study unraveled more than 200 thousand coffee DNA sequences and identified around 30 thousand coffee genes. This information is important to help coffee researchers in the development of new varieties resistant to pests, diseases, droughts, etc.

Source: Embrapa

SUPER CONILON VARIETY PRESENTED DURING SCIENCE EVENT

The 7th Science and Technology Week held in Espírito Santo in October presented new varieties of agricultural food products to the public. Among the novelties is the Conilon Vitória, a clonal Robusta variety developed in 2004 that is resistant to droughts and diseases, responds well under irrigation and generates higher yields than other Conilon varieties – up to 70 bags/hectare *without* irrigation and more than 150 bags/hectare *with* irrigation. New food varieties greatly contribute to sustainable developments in agriculture, generating income and reducing costs, especially for small holders.

Source: AgnoCafé



BOOK ABOUT MOUNTAIN COFFEE LAUNCHED

Interviews with more than 1,000 coffee growers in the South and Matas de Minas regions of Minas Gerais, where coffee is mostly cultivated in steep slopes, led to the publication of the book "Caracterização da Cafeicultura de Montanha de Minas Gerais" (Characterization of Mountain Coffee in Minas Gerais). The book, launched by FAEMG, the Agriculture Federation of Minas Gerais State, aims at disseminating knowledge about production systems suitable for mountain terrain and is considered the first step towards the creation of specific public policies for mountain grown coffees in Brazil.

Source: FAEMG

LAVAZZA TO EXPAND OPERATIONS IN BRAZIL

Italian Lavazza will expand its operations in Brazil by building a € 10 million (US\$ 14 million) coffee roasting factory in the state of Rio de Janeiro. The facility will be Lavazza's first plant outside Italy and should be concluded in 2 years. The initial target of the project will be single-serve products for the office / institutional / food service market segment. Lavazza sales in Brazil currently account for only 1% of total world sales.

Source: Valor Econômico

SINGLE SERVE SEGMENT ON THE RISE IN BRAZIL



The lack of time to prepare coffee and the search for convenience have led big companies like Nestlé and Sara Lee to launch more and more products aiming at the single-serve home segment. Nestlé has recently launched cold cappuccino capsules for its Dolce Gusto line and Sara Lee entered the market with its Senseo machine. Senseo operates with pods for filtered coffee and will initially offer coffee of the Pilão brand, the R&G market leader in Brazil. Whereas coffee is consumed in 97% of the Brazilian homes today, only 30% of them have coffee machines, 7% of which are of the espresso type.

Sources: Meio&Mensagem and P&A



Pictures of the Month

FLOWERING IN BRAZIL



Photos: Caio Garcia, Patrocínio MG; Simone Souza, Cambuquira MG; Artur Souza, Cambuquira MG
Source: Cafepoint.

WHAT'S IN A CUP OF COFFEE?

Maybe because of its origins, coffee evokes mystery and romanticism like few products do. Abisinia (the former name of Ethiopia) presented it to the world, that took care of naming it; a name that suffered several changes over time. Coffee surreptitiously traveled to faraway places. It became an object of desire in royal courts. Many intrigues followed it. Nations were built and failed around it. Many countries along the Equator line cultivate it.

Even though coffee plays a minor economic role in my native Venezuela today, we are still a coffee producing country, not only because we grow, process and consume coffee, but also because coffee is one of those resisting products and traditions in rural towns. Determination could be the key. But not everyone grows coffee, because producing coffee is a serious business. One has to have the tradition and the dedication required to grow coffee. It is definitely one of the top agricultural products in the world. Not by accident, it is one of the most popular beverages around the world. Coffee is grown and appreciated even in China.

A cup of coffee has many secrets; not many people actually know what lies behind it.

Seeds have been developed for different purposes, some for higher yields, others to resist plagues, others to develop in areas that are not shaded; seeds that generate smaller trees to facilitate picking, others for multiple purposes.

Coffee plantations in full blossom are a wonderful spectacle, but that only happens after the most difficult obstacles are surpassed. The act of picking is an art, performed manually and selectively. Drying coffee in patios requires all sorts of abilities; it is hard, tiresome, filled with techniques and secrets passed on by families from generation to generation over centuries. That means it is a family activity. Is there anything more traditional and larger than family?

Harvesting, pulping, fermenting and washing to remove the mucilage, drying, peeling, cleaning and separating, grading, storing, color sorting, blending, weighing, bagging, transporting... All of these steps take place before coffee is taken to roasting plants, where it is received and evaluated, cleaned, roasted, cooled, stored, blended, ground, degassed, weighed, packaged, organized on pallets and transported. Coffee also undergoes several tests in laboratories to evaluate moisture levels, taste, color and granulometry. Coffee is cupped by professionals, just like French wines.

And we are not even mentioning the local and international infrastructure needed to trade, store, transport and distribute coffee.

What's in a cup of coffee? Hard work and ancestral knowledge. Much investment. Many processes. Much technology. Much love and suffering. Many crises. But above all families. In a cup of coffee there are also truths.

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Brazilian Prices

October 29, 2010

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	350,00 ↑
Mogiana-SP fair average quality T.6	340,00 ↑
South Minas fair average quality T.6	340,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	400,00 ↑
South Minas	395,00 ↑

+ ~12%

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

São Gabriel da Palha-ES fair average	168,00 =
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BM&F (US\$/ 60 kg)

Dec 2010	239,45 ↑
Mar 2011	242,00 ↑
May 2011	244,05 ↑

Real R\$/ Dolar US\$

October 29	1,70 ↑
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Source: Qualicafex

WET MILLING: ONE TYPE FITS ALL VS. CUSTOMIZATION

If every coffee farm is different and if the mix of cherries reaching wet mills today changes from farm to farm due to lack of labor and different harvesting strategies, why should growers and millers rely on fixed-design, one-type-fits-all wet mills?

If in today's sophisticated market there are clients who require different qualities of washed coffee that result from different wet milling techniques and approaches, why shouldn't growers and millers rely on tailored wet milling solutions that meet their requirements, no matter how specific they are?

Pinhalense believes that its clients should have wet mills that meet each and every one of their requirements as well as each and every one of their own clients' requirements. It is for this reason that the Pinhalense **ecoflex** wet mills are designed either to work by themselves, in the one-type-fits-all fashion, or to be customized to respond to specific requirements using their own built-in components or optional items selected according to users' needs.

The result of this flexible approach is higher income and greater profits for coffee growers and wet millers who can

- get as much quality parchment as possible out of their cherries, no matter how mixed these cherries arrive at the mill;
- have different parchment qualities separated according to the degree of cherry maturation;
- have a flexible approach to mucilage removal (fermentation or mechanical or both);
- remove all mucilage or leave some behind according to the cup profile required;
- eliminate typical wet milling defects: pulper cuts, bruises, broken beans, hulled beans, etc.;
- avoid pulp mixed with parchment;
- by doing all above, control acidity, sweetness, astringency and other cup features;
- avoid the loss of parchment with pulp; and
- have the lowest water consumption in the market.

Consider Pinhalense wet mills to maximize your profits.



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