

CONFIDENTIAL

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THIS ISSUE:

- **A UNIQUE OPPORTUNITY FOR BRAZIL (PAGE 3)**
- **THANKS... AND SEASON'S GREETINGS (PAGE 4)**

NATIONAL INITIATIVE TO ENHANCE GEOGRAPHICAL INDICATIONS FOR COFFEE

The National Coffee Commission of the National Agricultural Confederation (CNA) held a meeting with representatives of important agricultural related institutions like the Ministry of Agriculture, EMBRAPA, SEBRAE, research institutes and certification experts, P&A International Marketing included, to discuss the importance of Geographical Indications (GI) in the coffee sector. At the event, experts talked about the benefits of GIs, that allow growers to differentiate their coffees and to add value to their production. The objective is to establish a national initiative to evaluate the potential of new coffee areas, to stimulate traditional ones to develop geographical indications, and, eventually, to regulate the process.

Source: CNA

COOXUPÉ REACHES MARK OF 5 MILLION BAGS RECEIVED

Cooxupé, the largest coffee cooperative in the world, has broken a new record: 5 million bags received in 2010. The coop's revenues should total R\$ 1.8 billion (approximately US\$ 1 billion) this year, a 15% increase over 2009. Cooxupé is currently investing R\$ 50 million (US\$ 29.5 million) to double its current processing and storage facilities with a new mill for 10,000 bags (600 tons) per day. The new plant, to be fully equipped with Pinhalense processing equipment, is expected to be ready by March 2011.

Sources: Cooxupé and Brasil Econômico

NEW QUALITY CERTIFICATION FOR CONILON CAPIXABA

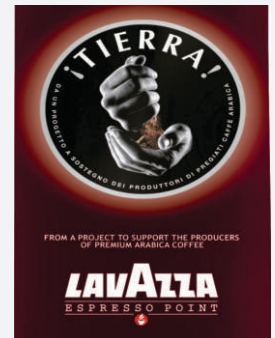
The Conilon (Robusta) coffee produced in the state of Espírito Santo will receive a quality certification – “Specialty Conilon” – to be awarded to growers who follow a series of standards including husbandry and environmental protection practices. This government certification program aims at opening new markets for Espírito Santo's Conilon in Brazil and abroad. Espírito Santo is the largest Conilon producer in the country, with 72% of the national production and average yields of 26 bags/ha (1.56 tons/ha). A few Conilon growers in the state have yields as high as 180 bags/ha (10.8 tons/ha).

Source: Incaper

LAVAZZA LAUNCHES “TIERRA PROGRAM” IN BRAZIL

Lavazza has launched its “Tierra Program” to support small coffee holders in Brazil. The program, implemented through Lavazza's social arm, is already operating in Colombia, Honduras and Peru with good results. The Tierra Program aims at helping growers increase their coffee production in terms of quality and quantity and should include approximately 500 growers in the Lambari area of South Minas Gerais. The “Tierra Program” has a € 1.7 million worldwide budget for 2011, most of which will be directed to the Brazilian project.

Source: Valor Econômico



COFFEE QUALITY COMPETITION SEASON IN BRAZIL

The table below summarizes the results of this year's coffee quality competitions.



COMPETITION	CATEGORY	REGION/CITY	SCORE (SCAA)	PRICE (US\$/lb)
Cup of Excellence (National)	Pulped Natural	South Minas/Carmo de Minas	93.91	YET TO BE AUCTIONED
ABIC (National)	Pulped Natural	South-west SP/Piraju/Itaí	89.00	YET TO BE AUCTIONED
	Natural	South-west SP/Piraju/Sarutaiá	85.25	YET TO BE AUCTIONED
São Paulo (State)	Pulped Natural	South-west/Piraju/Itaí	89.00	31.45
	Natural	South-west/Piraju/Sarutaiá	85.25	7.31
Minas Gerais (State)	Pulped Natural	South Minas/Carmo de Minas	89.10	35.90
	Natural	South Minas/Ilicínea	89.90	17.72



Sources: BSCA, ABIC, Secretaria de Agricultura-SP, Valor Econômico and P&A

COFFEE QUALITY REVOLUTION IN THE STATE OF PARANÁ

Coffees from Paraná were once known as low quality products. However, actions developed by the Specialty Coffee Association of the North Pioneer of Paraná (ACENPP) and Brazil's Small Business Agency (SEBRAE) are changing this paradigm. During the International Coffee Fair (FICAFÉ), held in Jacarezinho in November, growers had the opportunity to show their coffees to national and international coffee buyers. Although the main themes of this year's event were commercialization, associativism and management, the quality of the coffees from this crop thoroughly impressed most coffee experts that attended the event.

Sources: Sebrae-PR and P&A

ENCAFÉ DISCUSSES MINIMUM QUALITY STANDARDS FOR R&G COFFEE

The 18th Annual Conference of the Brazilian Coffee Roasting Association (ABIC) took place in Natal, state of Rio Grande do Norte, on November 12 to 16. The event gathered primarily coffee roasters, but also soluble makers, exporters, growers, suppliers to the industry and government representatives to discuss recently enacted regulation that establishes a minimum quality standard for R&G coffee produced in Brazil or imported from other origins. The main requirements are: less than 1% of impurities; maximum moisture content of 5%; and cup quality evaluation equal or above 4 in a 0 to 10 points scale. The roasting community is concerned about the cup quality standard, whose implementation should be delayed until adequate monitoring capability is developed.

Sources: CaféPoint and P&A

SARA LEE BUYS CAFÉ DAMASCO

The American giant Sara Lee has announced the acquisition of Café Damasco for R\$ 100 million (US\$ 59 million), pending approval of the Brazilian anti-trust agency (CADE). Sara Lee is the largest coffee company in Brazil, according to ABIC's rank of the R&G segment, while Damasco holds the 7th place and is currently the market leader in Paraná state, south Brazil. Sara Lee has important brands in its Brazilian coffee portfolio such as Pilão, the leader in the country, Caboclo, Moka, Selete and Café do Ponto, that is also the largest chain of coffee shops in Brazil. With this acquisition Sara Lee will again distance itself from Três Corações, that had been challenging its leadership in recent months.

Sources: O Estado de São Paulo and P&A



KEY PLAYERS OF THE COLOMBIAN COFFEE INDUSTRY VISIT BRAZIL



Participants in the Colombian program to promote domestic coffee consumption called "Toma Café", "Drink Coffee" in English, were in Brazil for a series of visits and meetings in November. Their objective was to get a glimpse of the very dynamic Brazilian coffee market and to learn more about the local programs to promote consumption developed by ABIC and the coffee sector that helped coffee intake more than triple in Brazil in the last 20 years. The "Toma Café" initiative, officially launched in Colombia last March, has had P&A Marketing International as its consultant for the last couple of years.

Source: P&A

Pictures of the Month

USE OF TECHNOLOGY IN CONILON PRODUCTION: AIRPLANE SPRAYING



Photos: Gustavo Sturm, Teixeira de Freitas/BA; Roberto Cangussu, Itabela/BA
Source: Cafepoint.

Our last June Outlook stated that Arabica prices would go up when the actual numbers of the Brazilian crop, current and future, came to light. A higher price was indeed the only way to entice the world's largest Arabica grower to increase its production in order to fill the gap that was becoming more evident day after day.

Prices reacted even earlier than predicted and went above US\$1.60/lb in June itself and broke the US\$2.00/lb threshold later in the year. It is no wonder that the prices of Arabica coffee seedlings are up 50% from last year and they are in short supply in Brazil today.

High coffee prices pose a unique opportunity for Brazil to carry out still another "revolution" in order to ensure its competitiveness when coffee prices fall back closer to historical levels. The strong Brazilian currency and increasing production costs, especially labor, have caused Brazilian formerly low production costs to reach levels comparable to those prevailing today in Colombia and in the most costly Central American producers. The challenge now is how to benefit from the temporary "price bonanza" to increase competitiveness through both lower costs and higher added value. If this is not done, it is highly unlikely that Brazil will be able to retain the high market share that it has achieved in recent years.

There are three critical areas for Brazilian growers of Arabica coffee to address to retain their leadership: irrigation to increase yields, mechanization to lower costs, and quality enhancement to improve price differentials. The technology to bring about this new revolution is already available; it only has to be more widely disseminated and implemented with the support of better extension services.

Average Brazilian yields grew from 10/12 bags/ha (0.60/0.72 tons/ha) to 18/20 bags/ha (1.08/1.20 tons/ha) mostly due to higher coffee tree densities. The next round of increases in average yields, perhaps to 30 bags/ha (1.80 tons/ha), is likely to come from irrigation. Less than 15% of the area under Arabica is irrigated today which causes the country to lose as much as one full Arabica crop every 6 to 7 years due to droughts that affect different growing areas. Not only is a wide array of irrigation technologies available today but prices of equipment have fallen substantially in recent years. Demand for irrigation equipment is soaring.

Harvesting will be the central focus of mechanization efforts. Only 15% of the Arabica crop is mechanically harvested today. Manual strip harvesting will be progressively replaced by mechanical stripping using hand-held harvesters that are compatible with coffee planted on mountain sides, no matter how steep. This change can increase a picker's efficiency 4 or 5 fold; it is no surprise that pickers themselves are buying such machines for as low as US\$500 per unit! Large coffee harvesters, with their own wheels and engines, are the preferred choice for areas that are flat or have moderate slopes; in this case each machine replaces up to 100 pickers.

The table below, with average differentials for Brazilian coffees, shows that competitiveness can be greatly enhanced by climbing the "quality ladder". Whereas husbandry can help improve quality substantially (e.g.: choice of varieties and nutrition practices), the largest gains lie on post-harvest processing, specially on the use of the pulped natural / semi-washed system that produces coffees known in Brazil as CD ("Cereja Descascado"). Pulped naturals command a higher price because they have the typical sweetness and body of high quality naturals but are free from the astringency that may be found in Brazilian naturals when climate is adverse. CD production has gone beyond the specialty coffee niche and has already surpassed 5 million bags in some years. The tendency is for further growth as indicated by the very strong demand for equipment. Better husbandry, harvesting and processing, using technologies already available, can also help bridge the gap between a good cup and a fine cup coffee with major gains accruing from both the price hike and especially the higher volumes of these types of coffee.

The challenges are huge, the tools are readily available and excellent coffee prices create the conditions for their use. The big question is whether recent and future profits, before coffee prices fall down again, will be enough to offset the decapitalization (and even losses) that affected most Brazilian coffee growers this decade and whether the coffee sector and government will together devise and implement policies to support the turn-around. If not, we will have only the survival of the fittest, which are not few, and Brazil will no longer increase its market participation and will certainly lose market share in Arabica.

AVERAGE BRAZILIAN DIFFERENTIALS AGAINST ICE (NY COFFEE EXCHANGE)

COFFEE QUALITY	DIFFERENTIALS (US cents/lb)
Specialty	+20 to 40
Pulped Natural (CD)	0 to +10
Fine Cup	-10
Good Cup	-20

Brazilian Prices

November 30, 2010

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	380,00 ↑
Mogiana-SP fair average quality T.6	375,00 ↑
South Minas fair average quality T.6	375,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	410,00 ↑
South Minas	400,00 ↑

+ ~11%

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

São Gabriel da Palha-ES fair average	185,00 ↑
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BM&F (US\$/ 60 kg)

Dec 2010	240,10 ↑
Mar 2011	240,80 ↓
May 2011	243,90 ↓

Real R\$/ Dolar US\$

November 30	1,71 ↑
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Source: Qualicafex

THANKS... AND SEASON'S GREETINGS

It is now the time to thank the hundreds of clients around the world who honored Pinhalense with their preference in this year of 2010. We want them to know that we are very grateful to have them as clients and that we have striven and will strive to serve them in the best possible way in order to ensure their loyalty and continued membership of the Pinhalense family.

Important as each and every order and client are, it is relevant to mention here some major achievement in 2010.

The most modern dry coffee mill in East Africa was supplied to a leading client in Kenya. The largest Robusta dry mill in Vietnam is about to start operation. The same Vietnamese client is now installing a state-of-the-art wet milling and drying facility to process Arabica in the northern part of the country. The largest dry coffee mill in the world (5 million bags/year) has been sold to a coffee cooperative in Brazil, to start operation next season.

Pinhalense rotary coffee driers are making important in-roads into new markets known for the high quality of their Arabica coffees, like Colombia and East Africa. Rotary driers for Robusta coffee entered Cameroon and the Ivory Coast and consolidated their presence in Uganda, Indonesia, Vietnam and India.

Hundreds of ecological wet milling lines of all sizes were exported to almost all countries where Pinhalense does business. A large, flexible and sophisticated wet mill, sold to an important Indian coffee planter, will start running still this year. East Africa, Ethiopia included, Central America and Peru have remained important destinations for Pinhalense wet milling equipment, which has helped consolidate Pinhalense's market leadership in areas like Peru itself, East Africa and others.

Good cocoa demand and prices have boosted Pinhalense sales of rotary driers and dry milling equipment from Latin America to the Caribbean, from West to East Africa and to Southeast Asia too. New technical advances in cocoa processing are increasing the participation of this line of equipment in Pinhalense's product mix.

Since the coffee, cocoa and nuts markets are very dynamic, we are constantly improving our network of agents in order to support our clients in the best possible way. In 2010 we named new agents in Mexico, El Salvador, Costa Rica, Panama and Indonesia and established our first agency in Nicaragua.

Thanks go again to all our clients for making the achievements above and many others possible. In closing, we now take the opportunity to export to you a very different product...

