

# CONFIDENTIAL

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## “CAFÉS DO BRASIL” HIGHLIGHTED AT SCAA EVENT

The “Cafés do Brasil” booth was the center of attention at SCAA’s 23rd Annual Event, held in Houston, Texas, on April 28 to May 1. This year’s “Portrait Country” showed the different origins, qualities and the sustainable production of its main producing areas. A Brazilian delegation of around 500 people attended the event. Before the event, the SCAA Symposium presented new challenges for the coffee industry in a changing world. Brazilian speakers presented both at the Symposium and the main event to highlight the role of Brazil in this new coffee era. Brazilian growers are now preparing to host specialty coffee buyers during the harvesting season that has just started.

Source: MAPA, Cafépoint and P&A.



Source: Revista Espresso SCAA website



## CAFÉS DO BRASIL FOR IPAD

A new digital marketing strategy was launched by “Cafés do Brasil” at the SCAA event. A new website, [www.cafesdobrasil.com.br](http://www.cafesdobrasil.com.br), and a new free Ipad application (<http://itunes.apple.com/gb/app/cafes-do-brasil/id433533746?mt=8>) are now available. The application is available in Portuguese, Spanish and English. The Cafés do Brazil portal will come next.

Source: MAPA

## PINHALENSE CLOSSES MAJOR DEALS AT SCAA EVENT

The sales of Pinhalense coffee processing equipment made during the 5-day SCAA Trade Fair were well above expectations. The Pinhalense booth was busy throughout the event with five hosts receiving guests – coffee growers, millers, exporters, researchers and government representatives – from the five continents. “Impulse” sales concentrated on wet milling and drying equipment.

Source: P&A



## HIGH HOPES FOR BRAZIL'S NEW HARVESTING SEASON

The harvesting period in Brazil starts with high expectations among growers and traders. Growers invested in response to last year's good prices and are expecting to produce high quality lots to take advantage of even better, record prices. Although this is the “off-year” of the biennial cycle, the CONAB crop estimate ranges from 41.9 to 44.0 million bags. The first lots from Minas Gerais, São Paulo and Bahia are already available in the market. Record prices, around R\$ 550,00 (US\$ 345.00) per 60 kg bag, were practiced in the internal market in recent weeks.

Source: G1 and P&A

## 2011 COFFEE FUND BUDGET APPROVED

The National Monetary Council (CMN) approved in April the Funcafé budget of R\$ 2.29 billion (US\$ 1.44 billion) for 2011 operations, R\$ 290 million (US\$ 182 million) higher than last year. Crop financing had the highest allocation (R\$ 600 million/ US\$ 377 million), followed by credit lines for private stocks (R\$ 500 million/ US\$ 314 million), government stocks (R\$ 500 million/ US\$ 314 million), harvesting (R\$ 300 million/ US\$ 188 million) and refinancing of old debt (R\$ 300 million/ US\$ 188 million). Financing is limited to R\$ 200 thousand (US\$ 125 thousand) per grower, with an interest of 6.75% per year.

Source: MAPA

**NEW RECORD EXPECTED FOR BRAZILIAN EXPORTS IN 2011**

Despite the strong currency, it is expected that current high prices will impact the value of Brazilian exports positively. The Coffee Department (DECAF) of the Brazilian Ministry of Agriculture (MAPA) projects for 2011 an export volume of 30 million bags (3 million bags less than 2010), with total value of US\$ 7 billion, to be compared to US\$ 5.8 billion last year.

Source: Agência Brasil / EBC

**VITÓRIA IS THE 2ND LARGEST COFFEE EXPORT HARBOR IN BRAZIL**

The port of Vitória, in Espírito Santo state, accounted for 13.4% of Brazilian coffee exports in 2010, with 4.4 million bags out of total exports of 33 million. Vitória also reached a historical record of US\$ 583 million exported, US\$ 71 million above 2009. Experts believe that the port of Vitória will gain importance in coming years.

Source: [www.eshoje.com.br](http://www.eshoje.com.br)

**MECHANICAL HARVESTING FOR BETTER QUALITY COFFEES**

Agronomists and technicians from different coffee growing regions are suggesting mechanical harvesting as an alternative to improve coffee quality and profits. The aim is to harvest all ripe cherries as fast as possible. The incentive comes from the price difference between low and high quality coffees, R\$ 280,00 (US\$ 176.00) and 500,00 (US\$ 314.00) per bag of 60 kg respectively.

Source: Flamma Comunicação



**NEW CHALLENGES FOR WEST BAHIA COFFEES**

West Bahia coffee growers are engaged in developing strategies for the future, focusing on coffee research and marketing. The first objective is to create a "technological package" to cultivate coffee in the region in order to enhance yields and quality. They are also developing their geographical indication and creating a marketing strategy. The average production of the region is around 500,000 bags per year, with the potential to produce high quality natural, pulped natural and washed coffees.

Source: [www.abacafe.org.br](http://www.abacafe.org.br)

**A CLOSER VIEW ON COFFEE INDUSTRY CONCENTRATION**

Data collected by ABIC indicates that the 10 largest coffee roasters in the country are now responsible for 75% of domestic market sales. This participation has almost doubled since 2003. A closer view shows that the four market leaders, Sara Lee, 3 Corações, Melitta and Maratá, account for 60%. According to these companies, the concentration process will continue until they control 75% of the market with the remaining 25% distributed among regional roasters. According to P&A's Carlos Brando, high green coffee prices intensified a process already in place. Shrinking profits have forced some roasters to leave the market.

Source: Valor Econômico

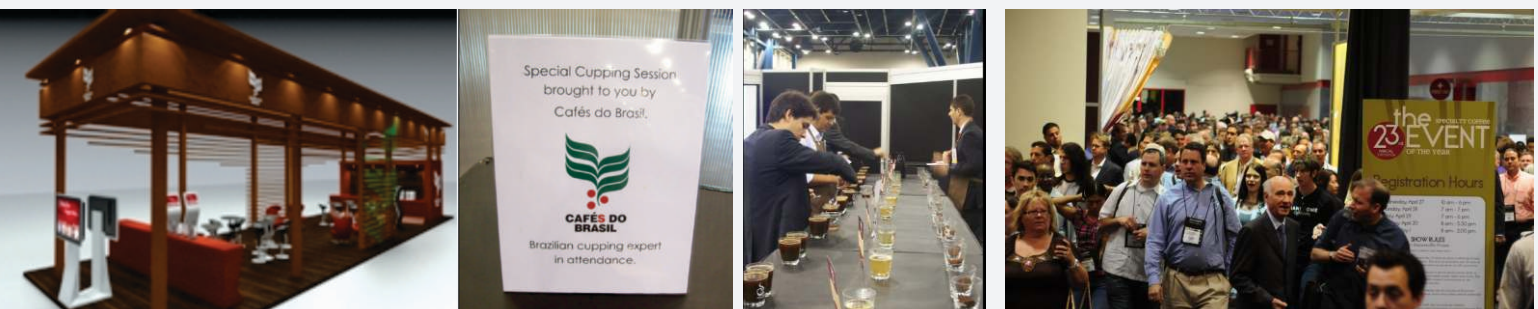
**LAVAZZA TO FOCUS ON ROAST AND GROUND SALES IN COFFEE SHOPS**

The company has 2012 plans to sell roast and ground coffee in Brazilian coffee shops that already offer Lavazza espresso. The strategy is to avoid the intense competition and the falling margins for quality coffees in supermarkets.

Source: Valor Econômico

**Pictures of the Month**

**CAFÉS DO BRASIL AT SCAA EVENT**



Source: SCAA website and Revista Espresso via Facebook

## SCALING UP SPECIALTY

There is a perception in coffee consuming countries that there is a shortage of specialty coffees, whose production must be increased. The recent SCAA Symposium and Conference addressed the subject in presentations, panels and discussions. The Global Coffee Quality Research Initiative (GCQRI) is moving to seek short but specially mid and long term solutions to expand supply.

The startling increase in coffee yields – production per unit of area – in Brazil in recent years coupled with evidences that the process is likely to continue in the near future indicate that the best solution to increase the production of specialty coffees in the short run may be to increase the yields of existing producers and this may be achieved by benchmarking. Let's address the several assumptions above one at a time.

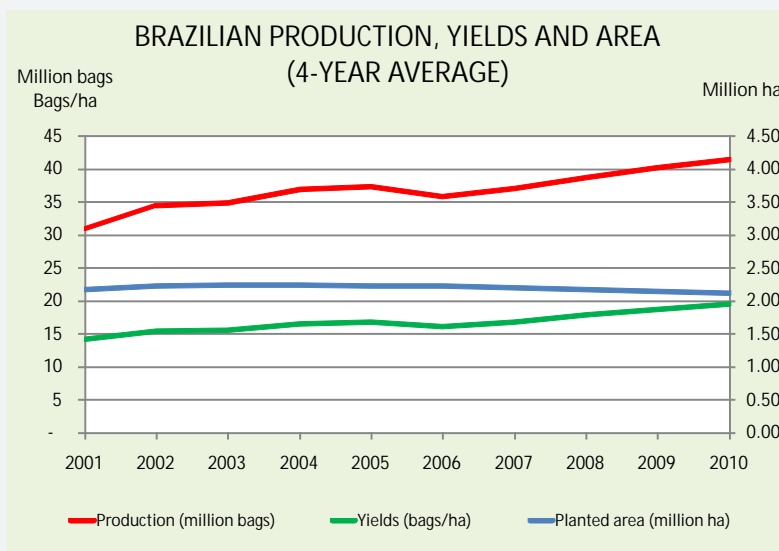
First, why are coffee yields likely to continue increasing in Brazil in coming years? Because whereas current average yields for Arabica are around 18 bags/ha (1,080kg/ha), there are large Arabica production areas, e.g., the Cerrado of Minas Gerais, that have average yields close to 30 bags/ha (1,800kg/ha), let alone farmers who produce in excess of 40 bags/ha (2,400kg/ha). Not only the potential is there to increase average Arabica yields but there is substantive evidence that it can be done because large coffee areas have already reached a new, much higher figure.

Second, if one moves from Brazil to other Arabica producing countries, most of which have lower average yields than Brazil, one will also find growers and regions that are above, some well above, the average figures for the respective country. So there is equally good potential for improvement, in many cases indeed greater potential than in Brazil itself.

Third, if good high-yield examples abound in most countries and such examples are by definition adapted to those specific regions – they are there! – why not use them for benchmarking, with emphasis on interventions that may produce short term results? Old hands in rural extension services know that benchmarking is not a novelty but only a modern, high-tech word for the “demonstration effect”, the most powerful tool for the dissemination of agricultural technology.

One may say that there is a lot of wishful thinking or speculation in the arguments above. What, for example, if specialty coffee producers are already the ones with high yields? Not likely with the emphasis that the specialty coffee business places on small family growers. What if quantity – higher yields – is antagonistic to quality? Not the case because there are examples in many producing countries of top quality specialty coffees coming from large high-yielding plantations although that may not necessarily be the rule. Specialty coffees result from “terroir”, varieties, processing and, above all, dedication and care, that may be provided by either personal attention at the small family grower level or management systems at the mid-size and large grower level.

Many words have been written above to present a single case for “copy your neighbor”. But are great solutions not simple? If you do not agree, please e-mail us at [coffidential@peamarketing.com.br](mailto:coffidential@peamarketing.com.br) with your arguments. A sound discussion may prove the arguments above either sound or farfetched and unravel other paths to scale up specialty in the short run.



## Brazilian Prices

April 29, 2011

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	525,00 ↓
Mogiana-SP fair average quality T.6	520,00 ↓
South Minas fair average quality T.6	520,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	585,00 =
South Minas	580,00 =

+ 12.5%

Conilon/ Robusta (R\$/ 60 kg bag)	
São Gabriel da Palha-ES fair average	230,00 ↑
BM&F (US\$/ 60 kg)	
May 2011	389,85 ↑
Jul 2011	383,20 ↑
Sep 2011	373,05 ↑
Real R\$/ Dolar US\$	
June 29	1,59 ↓

Source: Qualicafex

## MACHINERY TO SCALE UP SPECIALTY: QUALITY, QUANTITY AND SUSTAINABILITY

Benchmarking good wet milling practices is a great way to increase the supply of specialty coffees. The two tables and one graph below present the case of a Guatemalan client who compared his Pinhalense wet mill with the equipment he had before.

TABLE 1: OUT-TURNS

CROP YEAR	CHERRY/PARCHMENT	TYPE OF MILL
2006-2007	4.58	TRADITIONAL
2007-2008	4.57	TRADITIONAL
2008-2009	4.44	PINHALENSE
2009-2010	4.33	PINHALENSE
2010-2011	4.10	PINHALENSE

GRAPH 1: QUALITY OF LOTS



TABLE 2 – KEY SUSTAINABILITY INDICATORS

ITEM	PINHALENSE	CONVENTIONAL	SAVINGS
Water consumption	13 m <sup>3</sup> /day	110 m <sup>3</sup> /day	- 88%
Energy consumption	108 KW/day	163 KW/day	- 34%
Personnel	2 workers	5 workers	- 60%
Maintenance	US\$ 240/year	US\$ 750/year	- 68%

Table 1 shows that this client increased out-turns from cherry to parchment coffee by over 10%. The out-turns fell because fewer cherries are now needed to produce the same weight of parchment. In other words, the same cherries now produce a greater weight of parchment. Coffee supply increased because wet milling technology was improved.

But an increase in quantity was not the only impact of using Pinhalense wet milling equipment. Graph 1 shows that the quality of the coffee lots improved and remained consistently good whereas it oscillated greatly before and only a few lots reached the top quality level.

Quality and quantity of coffee increased with great gains in the sustainability of the operation, as show in Table 2. Water consumption fell dramatically (88%), power consumption was reduced by 34%, the mill is now operated by 2 instead of 5 persons, and maintenance costs dropped to one-third of what it was before.

Any coffee grower can enjoy the benefits above in the very short run – next harvesting season – by switching to Pinhalense wet milling technology. Let us help you to do it!