

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:

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SMALL GROWERS INVEST ON MECHANIZATION

The Ministry of Rural Development (MDA) included coffee harvesting machinery for small growers in its list of items eligible for financing. The objective is to reduce harvesting costs by half in small properties. It is estimated that farms with less than 10 ha (24.7 acres) account for 75% of Brazilian coffee production.

Sources: Reuters and Brasil Online



IAC PRESENTS NEW ARABICA VARIETIES AT AGRISHOW 2011

The Campinas Agronomy Institute (IAC) launched three new coffee varieties at the Agrishow 2011 event that took place in the city of Ribeirão Preto, São Paulo state, last month. The Tupi RN IAC 1669-13 is resistant to coffee leaf rust and to the Meloidogyne exigua nematode. The other two varieties presented were the Ouro Verde IAC H 5010-5 (Green Gold) and Obatã Amarelo IAC 4739 (Yellow Obatã), the latter also resistant to leaf rust disease. All three varieties, selected for their small plant size, have average yields of 30 to 45 bags/ha (0.75 to 1.10 tons/acre) in non-irrigated areas. Another IAC concern was to select varieties with different maturation periods in order to facilitate harvesting.

Sources: IAC and Portal Fator Brasil

SHADED COFFEE IN BRAZIL?

Researchers at the Campinas Agronomy Institute (IAC) disclosed results of a 12-year research program on shaded coffee in Brazil. Positive results are improved quality from the longer maturation period, smaller oscillation of production from one year to another, and protection against temperature variation. Rubber trees were considered the ideal shade because they shed their leaves in the spring when coffee bushes need more light. Rubber is also an income alternative for coffee growers.

Source: EPTV



LARGE COFFEE ESTATES DO PRODUCE SPECIALTY COFFEES

Large estates in Brazil are countering the paradigm that large production is opposed to high coffee quality. Monte Alegre farm, located in South Minas, is a 2,050 ha (5,063 acres) certified coffee estate that supplies the specialty coffee market. Out of the 80,000 bags of 60 kg (4,800 tons) produced, around 35% are specialty coffees exported to more than 10 countries.

Sources: MAPA and Cafépoint

"BIG COFFEE" BOURBON BEANS

A grower identified a different coffee bush in his Bourbon plantation in South Minas Gerais. With similar yields in comparison to his other plants, the bush showed larger leaves and coffee beans twice the usual size. Researchers at the Federal University of Lavras (UFLA) are now evaluating the possibility to clone this plant and to launch a new variety nicknamed "Big Coffee".

Source: Polo de Excelência do Café



“SERRA DA MANTIQUEIRA DE MINAS GERAIS” IS NEW COFFEE GEOGRAPHICAL INDICATION

The region of “Serra da Mantiqueira de Minas Gerais” is the latest coffee geographical indication (GI) registered in Brazil. The new GI includes specialty coffees produced in Carmo de Minas and neighboring municipalities like Santa Rita do Sapucaí.

Source: Cafépoint



COFFEE PROCESSING IS CRUCIAL FOR QUALITY IN THE CUP

Carlos Brando's presentation at the 23rd SCAA Conference in Houston last April showed how coffee processing can affect cup quality. All three processing systems – natural, pulped natural and washed – can deliver high quality coffees if the right procedures are used. Approximately 85% of Brazilian Arabicas are processed using the natural method, with pulped natural rapidly expanding among growers.

Sources: MAPA and CNC

MORE OPPORTUNITIES FOR BRAZILIAN WOMEN IN COFFEE

Brazil is about to become part of the International Women's Coffee Alliance (IWCA) due to the efforts of a woman who grows coffee in Manhumirim, Minas Gerais, and is mobilizing other Brazilian women growers to participate. IWCA aims at empowering women in coffee and developing opportunities for them in coffee communities worldwide. The organization is already present in Nicaragua, Costa Rica, Guatemala, El Salvador and Colombia.

Sources: MAPA and CNC

ABIC LAUNCHES CAMPAIGN ABOUT NEW QUALITY CRITERIA FOR COFFEE

The Brazilian Coffee Roasters' Association, ABIC, is launching a campaign to orient consumers about the new official quality criteria for roast and ground coffees sold at retail. Federal Regulation No 16, in effect since February, stipulates that coffee sold to consumers in Brazil must have a maximum limit of 1% of impurities and 5% moisture content, besides other specific standards for physical aspect and label information.

Sources: ABIC and EPTV

SARA LEE NEGOTIATES ACQUISITION OF CAFÉ MARATÁ

Sara Lee, coffee leader in Brazil with a 22.3% market share, is currently negotiating to buy the coffee operations of Maratá, the fourth largest coffee company in Brazil, based in the state of Sergipe, in the country's Northeast region. Sara Lee intends to expand its sales in the Northeast, where it trails both Maratá and 3 Corações.

Source: Valor Online

MELITTA TO INVEST US\$ 37 MILLION IN BRAZIL IN 2011

Melitta plans to increase the market share of its coffee brands in Brazil in 2011 with investments of R\$ 7 million (US\$ 4.5 million) for capacity expansion and R\$ 51 million (US\$ 32.3 million) for advertising and marketing campaigns in radio, TV and points of sale. The 2011 plan aims to develop new markets such as Rio de Janeiro, Minas Gerais and the Northeast region. Brazil is Melitta's second biggest market in the world, accounting for 22% of the group's worldwide revenues.

Sources: Valor Econômico and Peabirus



Pictures of the Month

COFFEE HARVESTING IN BRAZIL



Source: Cafépoint



BIG COFFEE



Source: Polo de Excelência do Café

COFFEE CONSUMPTION IN PRODUCING COUNTRIES: CHALLENGES FOR THIS DECADE

Producing countries already account for 30% of global coffee consumption. While world consumption grew from 131 million bags in 2009 to 134 million bags in 2010, a 2.4% growth, the group of producing countries alone grew 3.3%, totaling 40 million bags in 2010.

The table below contains information about the countries that, together with Ethiopia, are currently the largest coffee consumers among producers: Brazil, Indonesia, Mexico, Vietnam and India. Coffee consumption has increased rapidly in these countries in recent times, especially from 2006 to 2010, and there are strong indications that it will increase even more in the future. These countries have large populations, booming economies, rising GDP and disposable income, and fast growing middle classes.

But things have not always been like that. With the exception of Brazil – where coffee consumption has grown steadily since the 1990s due to institutional programs funded by the industry first and also government later – coffee consumption in producing countries was stagnated for a long time, until 2003. That year, the International Coffee Organization (ICO) hired P&A to create a Guide to Promote Coffee Consumption in Producing Countries based on the successful experience of Brazil. The methodology proposed by the Guide was used as the basis for programs to promote coffee consumption that P&A helped to develop in India, Mexico, El Salvador, Costa Rica and Colombia. As a result, coffee consumption

COUNTRY	CONSUMPTION				PER CAPITA (KG)	POPULATION (MILLIONS)	GDP PER CAPITA (US\$)
	X 1,000 BAGS		GROWTH RATE				
	2006	2010	PERIOD	2010			
BRAZIL	16.133	18.950	17,0%	5%	6,00	190	10.100
INDONESIA	2.750	3.333	21,2%	9%	0,88	245	4.000
MEXICO	1.794	2.240	25,0%	7%	1,22	114	13.200
VIETNAM	829	1.583	91,0%	15%	0,83	90	2.900
INDIA	1.357	1.573	16,0%	5%	0,09	350*	3.100

* Estimate of consumers in formal market

growth accelerated in these countries and an additional annual demand for two million bags was created. These successful cases motivated other countries to promote coffee consumption.

Consulting for the programs above confirmed that the strategies to promote coffee consumption can vary substantially from place to place and that institutional programs may not be required in certain cases, for example where coffee is new and trendy. The coffee industry in Indonesia and China is “generating” consumption by itself, without the need for institutional programs, because there is a natural enthusiasm towards coffee among local consumers. On the other hand, in markets where coffee is already a traditional beverage drunk by most people, it is vital to have institutional programs that promote consumption and create more excitement around coffee. This is the case of Mexico, Colombia and Central America besides Brazil, where it all started.

The main challenge to attract new consumers for coffee in producing countries lies on youngsters and the “emerging middle classes” that both have different preferences, interests and consumption patterns from those traditionally established. There is an evident need to adapt coffee products to these consumers' new life styles that translate into less time available and the demand for more convenience and practicality. Out-of-home consumption, specially in coffee shops but also in other food outlets, is important to reposition coffee as a sophisticated drink in these markets, while helping to drive at-home consumption and boost volumes among new and old consumers.

The strength of young consumers is notable in Indonesia, where a recent survey indicated that the country's consumption of “3 in 1” coffees – soluble coffee, non-dairy cream and sugar – is growing at a faster pace than soluble and roast and ground. “3 in 1” is a coffee favorite among modern urban Indonesian and Asian youth today. The strength of the “new middle class” is notorious in China and India where hundreds of millions of people are being lifted into the consuming classes and coffee shop chains expand in the cities. Coffee consumption in India will soon reach 2 million bags per year with China already beyond the threshold of 1 million bags. Plans to expand coffee production in China will create further incentives for consumption. China and India are both expected to be net coffee importers as consumption becomes widespread.

The future of world coffee consumption depends on all markets – producing, emerging and consuming. Nevertheless emerging producing-country markets, led by the BIIC – Brazil, India, Indonesia and China –, are likely to be the driving force behind the expansion of world coffee consumption in years to come. If the current trends persist, these four countries may exceed 25% of world coffee consumption by 2020 and push the participation of producing countries close to 35%.



GLOBAL WARMING, CLIMATE CHANGE... AND MVF GRAVITY SEPARATORS

Global warming is causing berry borer to disseminate much faster than before, to the point of becoming a major threat in some coffee areas. Climate change, especially drastic variations in rainfall patterns and distribution, is causing harvesting to be much less selective than before. Together, global warming and climate change are causing a substantial increase in the proportion of light coffee beans: berry borer damaged, mal-formed, hollow, black, unripe, fermented, etc.

The best solution to remove such defective beans is the separation of the coffee lot according to density, since most if not all defects listed above cause the coffee beans to lose density, i.e., to become "lighter", in popular non-technical language. The correct approach is to separate the lot by bean size first, in coffee graders, and then to use gravity separators to remove the "light" defective beans.

The Pinhalense MVF gravity separators have been specially designed for coffee, whose beans have a unique combination of flat and round surfaces. Pinhalense's responses to this challenge have been (1) a metallic (not wire mesh) deck, with specially developed and designed "bulbs" and perforations and (2) air-directioning under the deck. These exclusive features enable high-efficiency separation of coffee beans according to density in order to discard the defective materials.

The Pinhalense MVF gravity separators are well known in the market for their superb separation efficiency, lower power consumption and exclusive built-in repassing features. Their efficiency is so high that they indeed replace color sorters in cases where color defects are associated with lower density, e.g., some types of black and fermented beans. This substitution enables great gains for coffee millers and exporters, both in investment and operation. The price of the larger MVF Pinhalense gravity separators is in the range of US\$ 3 to 4 thousand per ton of coffee capacity whereas a color sorter costs at least 10 to 15 times more. It is needless to say that the MVF gravity separators are much easier to operate and maintain than a color sorter.

The Pinhalense MVF gravity separators are available in capacities of 1 to 7 tons of green coffee per hour in order to handle the different coffee fractions and grades.



More information about Pinhalense machines on the website: www.pinhalse.com.br

Brazilian Prices

May 31, 2011

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	505,00 ↓
Mogiana-SP fair average quality T.6	500,00 ↓
South Minas fair average quality T.6	500,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	565,00 ↓
South Minas	560,00 ↓

+ 13%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	230,00 =
BM&F (US\$/ 60 kg)	
Jul 2011	345,95 ↓
Sep 2011	339,80 ↓
Dec 2011	338,05 ↓
Real R\$/ Dolar US\$	
May 31	1,58 ↓

Source: www.qualicafex.com.br