

CONFIDENTIAL

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

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4 FOUR YEARS OF CONFIDENTIAL NEWSLETTER!

We are very proud of our newsletter after 4 years and 48 editions. The comments and suggestions we receive only confirm the feeling that we achieved our goal to provide the coffee world with reliable information about the Brazilian coffee business as well as information on coffee processing and our opinion about what is going on in the coffee world. The Confidential newsletter is today available in English, Spanish, Chinese and Indonesian. But we couldn't achieve this mark without our loyal readers all over the coffee world. So, we just want to say.....



COFFEE IS THE MOST CONSUMED FOOD IN BRAZIL

According to consumer research results published recently by the Brazilian Institute for Geography and Statistics (IBGE), coffee is the most consumed food in Brazil. The daily intake of coffee beverages measured in weight is greater than that of Brazilian staple foods beans and rice that rank second and third. On average, each person drinks 215.1 milliliters of coffee per day but only 145.0 ml of juices and 94.7 ml of soft drinks.

Source: Agência Estado

IAC'S NATURAL DECAF COFFEE

The Ministry of Agriculture's Brazilian Institute for Agricultural Research (EMBRAPA) has a fifteen minute weekly radio show called "Prosa Rural" (Farm Talk). The show is distributed freely to many radio stations all over Brazil. The main theme of one of July's shows was the natural decaf coffee that is being developed by the Campinas Agronomy Institute (IAC) and Embrapa's Coffee Research Consortium.

Sources: EMBRAPA and MAPA

RECORD EXPORTS OF COFFEE IN 2010/11

Brazil registered record exports of coffee in crop year 2010/11, reaching 34.9 million bags, 17% higher than in the previous year considering exports of both green and soluble coffee. Revenues increased 65% in the same period due to the higher prices of the product. Germany was the main destination of Brazilian coffees (21% of shipments), with a total of 6,697,400 bags, followed closely by the United States (20.7%) and then Italy (9%).

Sources: Reuters and CaféPoint

ARABICA PRICES UP BY 53% IN BRAZIL

According to CEPEA/Esalq, the average price of a bag of type 6 Arabica coffee in Brazil was R\$ 419.83 (US\$ 270.00) in crop year 2010/11, a 53% increase over the previous period. Experts note that the general quality of Brazilian coffees for 2011/12 is higher than last season as a result of more uniform flowering in the second semester of 2010.

Source: Agência Estado

CREDIT LINE FOR BRAZILIAN SOLUBLE INDUSTRY

The National Monetary Council (CMN) approved a permanent credit line to support the Brazilian soluble coffee industry. The sector will have R\$ 150 million (US\$ 96 million) for working capital. Around 90% of Brazilian soluble coffee is exported. In 2010, Brazil exported the equivalent of 3.2 million coffee bags of 60 kg.

Source: MAPA



BRAZILIAN AGRIBUSINESS LAUNCHES NEW INSTITUTIONAL CAMPAIGN "SOU AGRO"

"Sou Agro" (I'm Agro) is the new institutional campaign launched by agri-companies and the Brazilian Association of Marketing in the Agribusiness (ABMR&A) to promote the Brazilian agribusiness to urban consumers. The campaign uses famous actors, TV and radio spots, a website (www.souagro.com.br) and social media to show to urban dwellers the importance of the Brazilian agribusiness in their everyday lives and the connections between rural and urban people.

Source: www.souagro.com.br

SHADED COFFEE IN BRAZIL

Although not usual in Brazil, some coffee growers in the Chapada Diamantina region of Bahia state are already using coffee shading techniques in their crops. Technicians recommend shade trees with deep roots and thin tree tops to allow sunlight in. The shade cover should be under 30% and the trees planted in a way not to interfere with mechanization and irrigation. Shade can protect against high temperatures and help conserve water in the region.

Source: Globo Rural



FIGHTING "COFFEE SCALE" IN CONILON

The institute in charge of research and rural extension in the state of Espírito Santo (INCAPER) is building technical capacity to cope with the "coffee scale" pest. The focus is on prevention techniques, using natural enemies. Around 10% of Conilon coffee production is affected by the pest in some municipalities.

Sources: INCAPER and P&A

RESEARCH SYMPOSIUM TO ADDRESS KNOWLEDGE NETWORKS AND FRONTIERS

The Coffee Research Consortium's 8th Cafés do Brasil Research Symposium, to take place in Araxá, state of Minas Gerais, on August 22 to 25, will address "coordination of research networks and new knowledge frontiers".

Source: Coffee Research Consortium

SARA LEE AND 3 CORAÇÕES FIGHTING FOR REGIONAL MARKETS

Sara Lee and 3 Corações, the largest players in the Brazilian R&G segment, have been gaining market participation recently with acquisitions of medium-sized companies. The new target is Maratá, the second largest player in the Northeast region with a very strong brand. 3 Corações currently leads in Northeastern coffee markets, followed by Maratá and Sara Lee. Maratá is considered a strategic purchase either for 3 Corações to protect its market from competitors or for Sara Lee to strengthen its presence in the region.

Source: CaféPoint

CONSUMPTION ON THE RISE IN PRODUCING AND EMERGING COUNTRIES

Coffee consumption in Brazil has increased 50% over the last 10 years and should reach 20 million bags in 2011. Russia has raised its coffee imports from 1.8 million bags in 2000 to 4 million bags in 2009. The group of producing and emerging countries, led by Brazil, has been responsible for the largest relative impact on global coffee consumption since the year 2000.

Sources: Valor Econômico and P&A

COFFEE STILL WAITING FOR CHINA EFFECT

Differently from almost all other commodities, the impact of Chinese demand has not affected coffee. Brazilian shipments of coffee to China have almost doubled between 2002 and 2008, but still have not surpassed 40,000 bags, or a bit over 0.1% of the country's total exports. Coffee consumption in China is estimated at around 1 million bags, but still heavily concentrated on tourists and foreign residents.

Source: Valor Econômico



Pictures of the Month

SHADED COFFEE IN NORTHEAST BRAZIL - Region of Maciço do Baturité, Ceará state.



Source: Peabirus (photos by: Sérgio Parreiras Pereira) and SEMACE

BACK TO BASICS: COFFEE YIELDS AND SUSTAINABILITY

In round figures, Brazil and Vietnam produce almost 50% of the world's coffee but the area planted with coffee in these two countries accounts for only 25% of the world's total. With the help of statistics – production and planted area – and basic math, one concludes that whereas the average yield in Brazil and Vietnam is around 23 bags/ha (1.38 tons/ha), the average for the rest of the coffee producing world is under 9 bags/ha (0.54 tons/ha). A closer view reveals that, to make matters worse, the lowest yields tend to be in some of the poorest coffee producing countries.

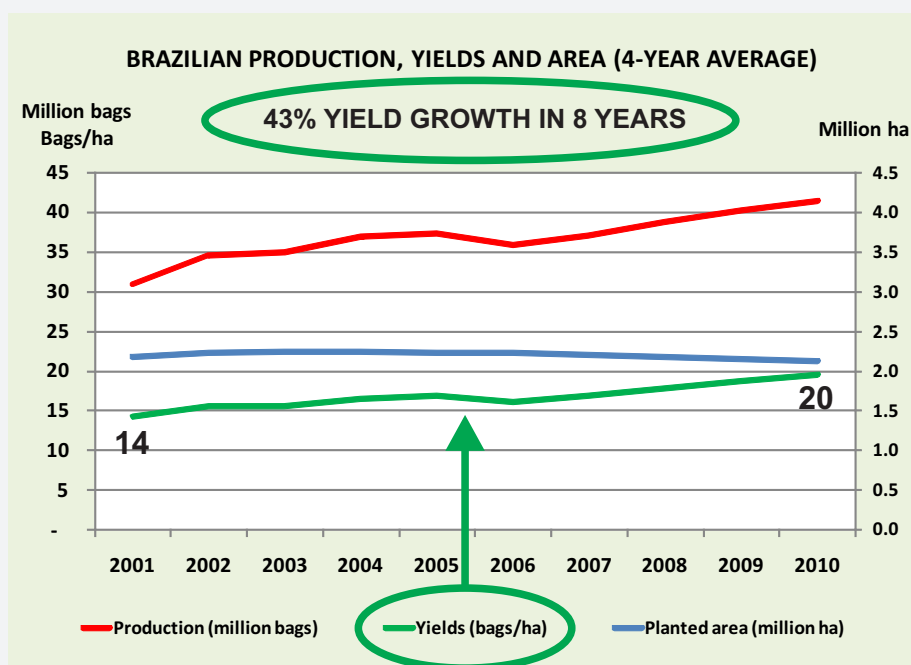
Dangerous as looking at “averages” alone can be, the calculations above send a strong message regarding sustainability. Can one expect coffee growers to be sustainable with low yields that directly affect their income and their ability to survive? In addition, low yields force growers to rely on more land to ensure survival with the risk of deforestation or encroaching on land that can be used for food production. Is this sustainable?

Can one expect a coffee grower to address environmental preservation or even attend to his or her social needs when income is not enough? By forcing growers to invest to address the environmental and social pillars of sustainability when income is at risk, are not sustainability platforms making growers worse off? The argument may go that sustainable coffee sells at a premium and that this premium should more than cover the investment in order to make the grower better off. Fine, if this is the case. But does this hold over time, for the future?

It seems that besides setting codes and standards and measuring them in order to certify the product, which is an important achievement in itself, sustainability platforms should also address the basic issue of ensuring income to the grower. This will not be done by price premiums alone because in the mid-to-long run price premiums are likely to be squeezed by excess supply and then environmental and social requirements will become another cost. What is the alternative? The figures at the beginning of this article show that sustainability platforms should also address the very basic issue of increasing yields, i.e., producing more coffee in the same area that the grower already has planted with coffee. How to do it? With technology!

The examples of Brazil and Vietnam as well as those of other countries with high yields in the rest of the world (e.g.: Costa Rica) provide enough “food for thought” not to say benchmarking opportunities for sustainability platforms to consider, let alone for decision makers, researchers and extension services in low-yield producing countries to investigate, adapt and use. This may indeed be the duty of the latter – the coffee business in low-yield countries – but there may be also an important role for sustainability platforms to lead the process by including minimum yields in their sustainability codes and providing the necessary technical support for them to be reached.

This is all very polemical, but there is much room for a “green revolution”, i.e., a *yield revolution*, in coffee production, with major impacts on the sustainability of growers... and the planet too. Can the process of yield growth depicted in the graph on the right-hand side be duplicated in other countries?



Brazilian Prices

July 29, 2011

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	455,00 ↓
Mogiana-SP fair average quality T.6	450,00 ↓
South Minas fair average quality T.6	450,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	505,00 ↓
South Minas	500,00 ↓

+ 12.2%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	215,00 =
BM&F (US\$/ 60 kg)	
Sep 2011	317.05 ↓
Dec 2011	316.50 ↓
Mar 2012	316.60 ↓
Real R\$/ Dolar US\$	
July 29	1,55 ↓

Source: www.qualicafex.com.br

MICRO LOTS AND MICRO MILLS

The growth of the market for micro lots has posed specific coffee processing challenges that Pinhalense has addressed in different ways with the objective of offering equipment to all segments of the business that use this new trading option.

Pinhalense offers small size equipment for micro, mini and small growers, from cherry to green exportable quality coffee, with the same quality and performance of larger machinery used by central millers, cooperatives and traders/exporters. Because Pinhalense is a large supplier to all segments of the coffee processing business, it has the resources to devote much research and development work to the needs of tiny coffee growers or larger ones that have nevertheless the need to keep and process micro lots separately from the bulk of their production.

Pinhalense offers a structured approach to the needs of small processors, starting with ecoflex wet mill with capacities from 0.5 to 1.0 ton/hour onward, rotary driers for batches as small as 1 ton, and options for 2 and 3.5 tons too (SRE-016X, 033X or 050X), and compact hullers-polishers-graders starting at 0.3 ton of green coffee per hour (C2DPRCX). These machines are organized in a flow that enables the processing of top quality specialty Arabicas, with or without fermentation, from the reception of fresh coffee cherries to the bagging of the micro-lots to be exported, with the least consumption of water, labor and energy.



The equipment above can also respond to recent Arabica processing trends – semi-washed (pulped natural) coffee and the washing of unripe and over-ripe cherries – as well as be used to produce high quality washed Robustas. With clever flow design, the same machines may offer all processing options above even in the extreme case of a small farmer who grows Arabica and Robusta coffee.

As the number of micro-lots to be processed grows, so does the size of the equipment, always retaining the ability to process the lots separately. Fresh cherries will then be received in larger mechanical siphons followed by ecoflex units (LSC-10PX + ecoflex-2X), wet parchment will be dried in larger rotary machines (SRE-050X and/or 075X) and dry parchment will be hulled, polished and graded in the compact C2DPRCX or in small separate machines (combined units CON, polishers DBD, grader PFA and gravity separator MVF). The latter are all available in small sizes as compared to the larger versions used by established (central) millers and traders.

Central millers, cooperatives and traders are also responding to the trend to process and supply micro-lots by either (a) installing smaller dedicated Pinhalense line(s) on the side of their larger processing lines or (b) counting on Pinhalense to introduce special features in their main processing line(s) so that micro and small lots can be kept separate without the risk of mixture or “contamination” from larger lots.

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