

CONFIDENTIAL

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

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AMAZING RESULTS IN FIRST CUP OF EXCELLENCE NATURAL COFFEE COMPETITION

The Brazil Specialty Coffee Association (BSCA) has recently organized the first Cup of Excellence Natural Late Harvest Competition, a quality contest for natural coffees only. The final cupping round took place in Varginha, Minas Gerais, on January 27, carried out by 2 judges from Brazil and 18 international judges from the USA, Japan, Italy and Australia, among others. The 4 top rated coffees got more than 90 points according to the SCAA grading scale; the next 15 top lots all got more than 85 points. The winning natural coffee scored 91.656 points. Source: BSCA



OVER HALF-A-MILLION DOLLAR SALES AT BRAZILIAN CUP OF EXCELLENCE AUCTION

The Cup of Excellence online auction held on January 18 generated sales in excess of US\$500,000. The highest bid was US\$3,055.58 paid by a consortium of companies for each of the 22 bags sold by Rainha Estate, located in São Sebastião da Gramma, state of São Paulo, totaling US\$67,222 for the lot. The complete results of the auction can be accessed at BSCA's website www.bsca.com.br. Source: BSCA

EMBRAPA CONDUCTS COFFEE EXPERIMENT TO SIMULATE YEAR 2100

Embrapa is simulating future environmental conditions in a coffee plantation in Jaguariúna, state of São Paulo, to identify possible challenges for the culture over the next decades. The research involves the application of higher (than current) concentrations of carbon dioxide to the air over specific areas of the plantation to observe the probable development patterns of the trees, soil fertility, occurrence of pests and diseases, among other factors, all under simulated atmospheric conditions expected for the year 2100. It is important to predict future scenarios for coffee since the development of new coffee varieties takes an average of 10 to 15 years. A similar study is being conducted in the United States for soy. The Brazilian project is the first of its type to be developed in a tropical region. Sources: ABIC and Agricultura Rural

CERTIFICA MINAS CAFÉ GROWING FAST

The state of Minas Gerais has its own certification initiative called "Certifica Minas Café". The number of estates certified by the program increased to 1,431 properties in 2011, a 19% increase in comparison to 2010. The program makes use of existing state agencies, like EMATER-MG extension services, that coordinates the program, and the Agricultural and Livestock Institute (IMA) that undertakes pre-auditing. The certification attests that the production meets standards of good agricultural practices and quality.

Source: Agência Minas



PRODUCTION IN BRAZIL INSUFFICIENT TO MEET DEMAND

Conab's first estimate of the 2012 coffee crop indicates that Brazil may produce between 48.97 and 52.27 million bags, a possible new record. Arabica production is estimated between 36.41 and 39.02 million bags and the Robusta output between 12.56 and 13.25 million bags. According to local traders, to meet current domestic demand and exports, without taking into account the rebuilding of stocks and the annual growth in global coffee consumption, Brazil needs 54 million bags. Brazil exported 33.46 million bags last year according to the Coffee Exporters Association (CeCafé).

Sources: Conab and Agnocafé

COOXUPÉ IS LARGEST BRAZILIAN EXPORTER IN 2011

Cooxupé ranked first among Brazilian green coffee exporters in 2011 with 2,456,736 bags of Arabica shipped, a historical mark for the sector. Cooxupé shipped 32% more coffee as compared to 2010. Coffee exports reached a total of US\$ 8.7 billion in Brazil in 2011, according to CeCafé. Source: CeCafé

BRAZILIAN COFFEE CONSUMPTION CLOSE TO 20 MILLION BAGS

Coffee consumption in Brazil grew 3% in 2011 and reached 19.7 million bags. The growth was smaller than the 4 or 5% increase expected by ABIC, the Coffee Roasters' Association. Recent surveys conducted by Kantar Worldpanel indicate that even though coffee penetration in Brazilian homes continues high (95%), other product categories have also grown, like ready-to-drink juices (24% penetration) and soy-based beverages (29%). ABIC estimates a 3.5% growth of consumption for 2012, which would lead to a total of 20.4 million bags. Source: Tempo de Comunicação

SUMMER RAINFALLS POSITIVE FOR COFFEE CROP

Brazil has been suffering from excessive rainfall that is causing major problems in urban areas this summer. However, these rains have been beneficial for coffee. Researchers report only minor problems due to losses of nutrients and erosion caused by water flow. January and February rains are important because they ensure the development of sound coffee cherries. Source: Embrapa Café

BACTERIAL DISEASE DAMAGES COFFEE CROPS IN SÃO PAULO AND MINAS GERAIS

Coffee growers from São Paulo's Mogiana region and South Minas Gerais have been reporting the occurrence of the bacterial disease called "pinta preta" (black spot). High thermal amplitude alternating cold nights and warm days, frosts and strong cold winds in mountainous areas have exposed the plants to the disease that is caused by bacteria that turn the leaves yellow, cause necrosis of branches and inhibit production in the infected branches. The weakened plants also become more vulnerable to fungi. The level of infestation varies from 20 to 40% according to cooperatives in these regions. Source: Folha

12 YEARS OF COFFEE RESEARCH CONSORTIUM AND EMBRAPA CAFÉ

The coffee unit of the Brazilian Institute for Agricultural Research (Embrapa) was created to coordinate the Coffee Research Consortium. They both celebrated 12 years in 2011 and made a flashback of important projects in the period. On the international front, there were partnerships with CIRAD/France to produce clonal coffee seedlings and to exchange genetic information on Arabica coffee. There was also a training program for Venezuelan researchers of the "Instituto Nacional de Investigaciones Agrícolas" (INIA) and projects with Portugal's Coffee Leaf Rust Research Center (CIFC). Source: Embrapa Café



Pictures of the Month

NATURAL LATE HARVEST



Source: Polo de Excelência do Café

Brazilian Prices

January 31, 2011

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	485,00 ↓
Mogiana-SP fair average quality T.6	480,00 ↓
South Minas fair average quality T.6	480,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	515,00 ↓
South Minas	510,00 ↓

+ 7%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	275,00 ↓
BM&F (US\$/ 60 kg)	
Mar 2012	291,30 ↓
Set 2012	280,50 ↓
Dec 2012	284,65 ↑
Real R\$/ Dolar US\$	
January 31	1,74 ↓

Source: www.qualicafex.com.br

THE REVIVAL OF NATURAL COFFEES

The results of the recent Cup of Excellence Natural Late Harvest Competition in Brazil have confirmed what many experts have known for years: properly grown and processed Arabica naturals have qualities that are comparable to the best washed and pulped natural coffees. Cup features may be different and these coffees may go to different markets, but there is no evidence that supports that washed coffees are superior to naturals or vice-versa. Each type of coffee has its own place in blends and consumer preferences.

As reported elsewhere in this Confidential, the 19 top ranked naturals in the Brazilian competition mentioned above had scores above 85 points in the SCAA scale and the top four coffees scored above 90 points. In the same month of January, the third best Arabica coffee in the Uganda Taste of Harvest Competition was a natural that scored 84.21 points in the SCAA scale.

The revival of naturals started with the growth of espresso coffee when the beverage moved out of Italy, entered most markets and became the preparation system of choice for coffee shops around the world. Natural Arabicas are the basis for most espresso blends and Brazilian coffees prevail in most top quality espressos around the world. Almost 20 years have already passed since a well known American cupper said that "Brazils are the heart and soul of a quality espresso".

The production of top quality Arabica naturals is considered as difficult as that of exclusive wines. It depends not only on the producers' expertise but also on climate features that are not likely to happen every year. However modern post-harvesting processing technology enables growers to produce at least some volume of high quality Arabica naturals in most years. This same technology now allows naturals to be produced in countries and areas where the only way to avoid unwanted fermentation was to pulp coffee, i. e., to remove the pulp immediately after harvesting in a process that yielded washed coffees.

In spite of modern processing technology, the production of late harvest naturals – picked when the cherries have partially dried on the tree – remains the exclusive realm of Brazil, Ethiopia and Yemen besides small areas in a few other countries like Mexico (Guerrero) and India. In other producing countries naturals can only be produced by picking ripe cherries and drying them in cherry driers that avoid unwanted fermentations.

The relationship between quality of Arabica naturals and moment of harvesting, that can be indicated by the moisture content of the cherry or the number of days past full ripening, is still to be established. Here is an interesting challenge for coffee researchers and lovers. Maybe a first step to create this relationship is to investigate when the top ranked coffees in the Brazilian competition were picked and to see if lateness of harvesting can be associated with the SCAA scores of coffees produced in the same region. This should be facilitated by the fact that at least half of the top-ranked coffees come from the same micro region.

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PROCESSING NATURAL COFFEES

Three key machines are required to produce high quality Arabica naturals: a mechanical siphon, a rotary drier designed for coffee cherries (rather than parchment) and a cold huller with a repassing device.

As a result of its historical involvement with natural coffees, Pinhalense played a preponderant role in the development of all three machines. It invented the mechanical siphon and registered two patents regarding its technology, it adapted the rotary drier to receive coffee cherries with any moisture content and registered the respective patent, and it perfected several features of the combined hulling set again registering patents for two of its components.



The Pinhalense mechanical siphon LSC separates cherries with different densities and moisture contents in order to dry them separately with savings in full consumption and drying time besides, most importantly, uniform drying and superior cup quality. The mechanical siphon is an environmentally friendly machine that consumes very little water – much less than traditional siphons tanks – , requires no labor and reduces drying time.

The Pinhalense SRE rotary driers for coffee cherries are critical machines to produce top quality Arabica naturals. They are essential in warm countries where ripe cherries start fermenting soon after they are harvested. The Pinhalense SRE rotary driers avoid unwanted fermentations because the mechanical drying of ripe cherries starts immediately after they are picked and is completed much earlier than under the sun. These driers have other positive impacts on coffee quality, e.g.: coffee motion and proper heat distribution that homogenize the moisture content of the coffee lot.



The combined unit CON – pre-cleaner, destoner, huller, repasser and catador – is a compact coffee mill specifically designed to process natural coffees. Its unique combination of cold huller and perforated oscillating screen enables the recovery of 1 to 2% of coffee that is usually lost in conventional machines. The CON's catador separates different coffee qualities that can be directed to different market segments, e. g.: domestic roasters and exporters, with further gains to the user.



The three Pinhalense machines above, besides several other made by the same manufacturer, processed the majority of the top ranked lots in the recent Brazilian Natural Late Harvest Arabica Competition. These same machines, specially the three key ones whose pictures are above,

are also recommended to produce high quality Robusta naturals.

Please contact P&A or the Pinhalense / P&A agent nearest to you to explore the possibility of producing and processing top quality Arabica (and Robusta) naturals on your current farm irrespectively of where it is located.