

CONFIDENTIAL

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

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BRAZILIAN COFFEES PRAISED AT WALL STREET JOURNAL

Once viewed as a raw product for mass-market brands, Brazilian coffees are now recognized for their special features. The Wall Street Journal recently published an article praising Brazilian coffees, as a growing number of international upscale roasters acknowledge the sweet and full-bodied profile of the country's beans. Italian roaster Illy launched its MonoArabica Brazil blend two months ago. Brazilian coffees vary widely from region to region but generally present marked sweetness and moderate to low acidity, which makes them ideal for high-quality espresso blends.

Sources: Wall Street Journal (USA) and Revista Cafeicultura



BSCA AND APEX BRING COFFEE BUYERS TO BRAZILIAN CARNAVAL

The Brazil Specialty Coffee Association and coffee exporter SMC brought international coffee buyers to Brazil during "Carnaval", the most celebrated festivity of the year. The initiative is part of the so called "Carnaval Project", developed by the Brazilian Trade and Investment Promotion Agency (Apex) in partnership with private companies of 30 different business sectors. British and Japanese coffee buyers came to participate in the event and to discuss business.

Source: Apex-Brasil

COFFEE ACCOUNTS FOR 12.4% OF AGRIBUSINESS EXPORTS

Coffee accounted for 1 out of every 8 dollars earned by Brazilian agricultural and livestock exports in 2011. The main coffee destination was Germany followed by the United States. Brazilian coffee exports to the UK and Finland grew substantially, 222% and 54% respectively, in relation to 2010. Exports to Spain, Russia and Slovenia fell in relation to the previous year.

Source: Ministry of Agriculture, Livestock and Food Supply (MAPA)

CONILON EXPORTS TO REPEAT 2011 RECORD?

Due to lower worldwide supply of Robusta coffee, international prices of Conilon (the Brazilian Robusta) have increased considerably since the beginning of the year. Robusta contracts for May were recently negotiated in London at US\$ 2,056 up from US\$ 1,853 in the previous position. According to the Coffee Exporters Association (CeCafé), Brazil should equal the 2011 record and export approximately 3 million bags of Conilon in 2012.

Source: Valor Econômico

WEST BAHIA COFFEE GROWERS TO APPLY FOR GI

Coffee growers located in the region of West Bahia started actions to protect their origin by registering their geographical indication (GI). The historical survey – one of the steps to fulfill the legal requirements – took place in February when P&A consultants interviewed the pioneers that started irrigated coffee production in that area. Another important step of the process is the definition of the typical quality of West Bahia coffees. Cuppers from farms and companies active in the region met to cup different samples and were surprised to see the quality evolution and the different profiles of the natural and pulped natural coffees produced in the region.

Sources: Abacafé and P&A



BIOLOGICAL AGENT "CLADOSPORIN" IMPROVES COFFEE QUALITY

A PhD dissertation presented recently at the Federal University of Lavras (UFLA) showed that the bioprotector agent called *Cladosporium cladosporioides* improves quality and can be a promising option for application to coffees cherries still on the tree to eliminate other fungi that are harmful to cup quality. The research focused on coffee growing areas with a history of cupping quality problems, for example, areas with high moisture levels (e.g. : near water dams). The application of the product may help to recolonize coffee areas with the Cladosporium in order to reduce the incidence of toxigenic fungi, including the one responsible for the Ochratoxin A. The best results of the application of the bioprotector agent were obtained with over-ripe and partially dry cherries that are usually the ones that suffer the most from quality problems.

Source: Polo de Excelência do Café

RICHEST BRAZILIAN AND MINING TYCOON TO INVEST IN COFFEE

Brazilian billionaire Eike Batista, one of the wealthiest persons in the world, is now interested in investing in coffee. According to several sources, he has already acquired coffee farms in Minas Gerais and plans to add a new venture to his portfolio of companies whose names all end with the "X" letter. His ambition for the new company, BCX, is to produce and market coffee in the domestic market and abroad. Mr. Batista, who holds a sizable participation at Burger King, intends to propose that the chain should open coffee shops similarly to what McDonald's has been doing. Mr. Batista controls a group of companies in a wide range of segments, from mining, oil exploration and energy to hotels and sports.

Sources: Veja and Exame



FAVORITE BRAND MORE IMPORTANT THAN PRICE FOR CONSUMERS IN SÃO PAULO

A survey conducted with coffee consumers in São Paulo state indicates that 78% of them would continue to drink coffee even if the product prices went up. Among this group, 53% would continue to buy the same brand; 24% would buy the same brand but consume less and only 14% would change to a less expensive brand and continue to buy the same amount of coffee. The survey also shows that 53% of the interviewees drink 3 cups of coffee per day on average.

Source: Infomoney

CREDIT RESTRICTIONS FOR GROWERS THAT DO NOT COMPLY WITH FOREST CODE

According to new Banco do Brasil procedures agriculture credit applicants must now register their "Legal Reserve" ("Natural Vegetation Protection Area") with the public notary or join "Environment Plus", a federal program to advance compliance with environmental requirements. This comes in the wake of public hearings at Congress of proposed amendments to the Forest Code that states today that, as a percentage of the land holding, the "Legal Reserve" must be 80% in the Amazonic Region, 35% in the Cerrado (the Brazilian savannah) and 20% in the rest of the country.

Source: Revista Ecológica

P&A CONSOLIDATES POSITION IN COFFEE CONSULTING BUSINESS

In sequence to contracts with clients such as the World Bank, the International Coffee Organization (ICO), governments and coffee associations in countries like India, Mexico, Colombia, Costa Rica and Brazil itself, and private companies around the world, P&A is currently busy with consulting projects for Cooxupé, the world's largest coffee growers' cooperative, and IDH, whose international coffee initiative aims to increase the percentage of sustainable coffees produced and sold from 10 to 25%, besides several Geographical Indication and other projects. P&A's partners and executives have an active schedule of presentations in the leading coffee events worldwide, advancing ideas and concepts as diverse as promotion of consumption, technology and increase of coffee yields, value addition and marketing, all of which have direct impact on the sustainability of both coffee growers and the coffee business itself.

Source: P&A

Pictures of the Month

COFFEE QUALITY AT WEST BAHIA REGION



Source: Abacafé



Sunset at Rio Branco Estate, oil on canvas, by Valéria Vidigal.

SUSTAINABILITY: RECOMMENDATIONS FROM A BRIEF COST-BENEFIT ANALYSIS

The roasters' increasing demand for sustainable coffee is not causing production to react fast enough to meet it. Are the rewards for producing sustainable coffee right? Let's see if a brief cost-benefit analysis on the growers' side can explain what is happening and point to solutions.

The most evident benefit of producing sustainable coffee is the price premium paid by roasters followed by preferential access to specific clients and markets. However the most important (and more durable) advantage of becoming a sustainable coffee producer may lie on better management, cost control and greater production efficiencies, all of which are required to become sustainable and are therefore "hidden" benefits of sustainability. That these hidden benefits are neither easily perceived nor necessarily short term may explain why the supply of sustainable coffees may be trailing demand.

Although technical assistance, consulting and auditing costs are often mentioned on the other side of the equation, they are far from being the most important costs to become sustainable. These are undoubtedly the costs of compliance with the sustainability codes, for example, adequate storage of coffee, fertilizers and agro-chemicals, treatment and disposal of wastes or provision of health and social services to labor. Even with currently falling but still good coffee prices, these compliance costs may consume the growers' profits for a few years. In the lack of proper financing to help growers spread these costs over a longer period of time, it is unlikely that the production of sustainable coffee will increase to meet the demand with the price premiums prevailing today. In the short run the benefits may be perceived as not covering the costs or may indeed not cover the costs!

Even if the short term solution may be higher price premiums, as it has happened in a few recent cases, the long term solution may be structural, with better extension services to promote sustainability (good sustainable agricultural practices), the training of growers to become better managers (lower costs, higher yields, greater efficiencies) and, very important, credit lines at reasonable terms (ability to pay for changes). Behind this structural change lies an organizational and behavioral (perhaps generational) change: understand and incorporate sustainability, manage change efficiently and share the costs of change (government, growers and industry). The setting is clear for Public Private Partnerships (PPPs) whereby government provides training and finance, the industry provides market access and price premiums and growers implement the changes to become sustainable, with benefits to all involved.

One limitation of the model above is the difficulty to extend training and finance to small growers who account for most of the world's coffee production. The solution is the formation of groups of growers facilitated by the trade (exporters, cooperatives and associations) with the support of the sustainability platforms. Largely absent from this article about *sustainability*, the sustainability platforms, that are at the heart of the sustainability process and have been its "midwife", should be seriously thinking about redesigning themselves to evolve from sustainability labels to sustainability services. The platforms that will best support change are the ones whose codes of conduct and allied services will help improve management to implement changes at the growers' level.

The alignment of standards and the creation of conditions for permanent improvement from base-line to more demanding codes is a current challenge for sustainability platforms. There may also be room for base-line national standards that can become the first step of the sustainability ladder. Last but not least, another challenge to be addressed is that the reliance of sustainability codes on the national labor and environmental legislation prevailing in each country can cause sustainable coffees in country X to be "more sustainable" than in country Y because the legislation in the former is more rigorous than in the latter. But this deserves another Outlook article...

Brazilian Prices

February, 29, 2012

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	430,00 ↓
Mogiana-SP fair average quality T.6	425,00 ↓
South Minas fair average quality T.6	425,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	465,00 ↓
South Minas	460,00 ↓

+ 9,4%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	285,00 ↑
BM&F (US\$/ 60 kg)	
May 2012	260,40 ↓
Sep 2012	266,60 ↓
Dec 2012	269,60 ↓
Real R\$/ Dolar US\$	
February 29	1,71 ↓

Source: www.qualicafex.com.br

SUSTAINABILITY OF COFFEE PROCESSING BEYOND FARM GATE

Although much has been written about the sustainability of on-farm coffee milling, not much is available about the sustainability of processing beyond farm gate. Pinhalense has been addressing this subject in many ways, as described below, from labor safety and energy consumption to environmental protection, to mention only a few items.

Labor safety has always been a major Pinhalense concern in the design of both the machines themselves and the equipment layout (product flows). All Pinhalense machines come with belt protectors and other safety items. Pinhalense coffee mills have service ladders and catwalks with safety railings. The layout of Pinhalense coffee mills takes into account minimum safety distances between machines, elevators and other pieces of equipment in order to ensure the free, unencumbered transit of operators and visitors alike.



Pinhalense also worries about undue burden to workers who manipulate coffee bags. The company offers equipment that facilitates the transport of bags with minimum or no need for labor; where labor is required, features are available to minimize the work load, e. g., conveyors for sewing bags and bags stackers. Still another area where Pinhalense minimizes or avoids the use of labor in tedious and unhealthy conditions is in the cleaning of the base of elevators every time coffee types or lots are changed in a processing line. Pinhalense self-cleaning elevators, designed specifically for coffee (and not adapted from grain models), do not require the frequent emptying and cleaning of their feet with great savings in labor and idle milling time.

Because coffee bags are made of natural fibers and these bags are usually destroyed (burnt) at the destination, nature can benefit from a change from the traditional jute/hessian bags to either larger recyclable synthetic big-bags or bulk loading into containers. Pinhalense is a pioneer in the areas of both bulk container loading and big-bag usage. Pinhalense's CPC line of bulk loaders can fill a 20 foot container with up to 21 tons of green coffee in only 18 minutes!



Pinhalense not only designs the coffee processing area but also proposes solutions for the storage of raw materials and intermediate and finished products using traditional bags, big-bags and silos, including the equipment to weigh, fill and transfer coffee from one storage system to the other and to containers, trucks or rail wagons, always bearing in mind workers' safety and health protection. Pinhalense offers regular bag and big-bag weighing and filling stations that are compatible with digital control equipment. The company has unique solutions for big-bag handling and staking that optimize the use of warehouse floor space.



Pinhalense's R&D has always devoted special attention to lowering power consumption in machines and mills alike. Pinhalense's line of MVF gravity separator has the lowest power consumption in the market, about 1HP per ton of green coffee processed to be compared with figures as high as 5 HP or even higher in traditional machines. Pinhalense densimetric separation solutions are known to bring power consumption down to one third or even one-fourth when the MVFs replace batteries of gravity separators and catadors. Major energy savings are also possible with the Pinhalense family of fluid-bed destoners CPF and cold-hullers CON.

The dry milling of coffee generates husk and dust that must be collected, conveyed and disposed off efficiently in order to ensure a clean work place, to avoid problems with neighbors and to protect the environment. Pinhalense offers dust hoods and dust collection and disposal systems for its equipment, including elevators, conveyors and silos. Several systems are available to retain husk and dust including cyclones and dust filters, self-cleaning or not. Coffee husk can be used as a fuel for Pinhalense coffee driers, whose heat exchangers are designed to burn parchment or dry cherry husk.

Similarly to the case before farm gate, sustainability beyond farm gate has a cost. In the same way that several coffee growers' actions to become sustainable require better management that in turn causes cost savings and others gains, the sustainability of coffee processing beyond farm gate may also have direct benefits that help to pay for its costs, e. g., lower energy consumption, less labor and fewer health-related claims from workers, savings in the cost of "one-way" bags, etc. There are also indirect benefits, like a good, efficient and clean mill to show to clients, and the positive image that accrues to coffee millers / exporters from being sustainable.