

# CONFIDENTIAL

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

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## **BRAZIL TO TRANSFER COFFEE TECHNOLOGY TO OTHER PRODUCERS**

During the March International Coffee Council meeting Brazil and the International Coffee Organization (ICO) signed a memorandum of understanding for technical cooperation in coffee focused on technology transfer from Brazil to other producing countries. The ICO will be in charge of identifying producing countries' demands and the Brazilian Cooperation Agency (ABC) will carry out the projects. Sources: ICO and Valor Econômico

## **FUNCAFÉ'S LARGEST BUDGET EVER TO FOCUS ON STOCK FINANCING**

Funcafé's budget of R\$ 2.7 billion (US\$ 1.5 billion) for 2012 will be the highest in its history. The majority of the funds will be allocated for building up stocks in order to equalize coffee flows between large and small crop years. According to the president of the National Coffee Council (CNC), it is important to care for the existing plantations and to improve their yields instead of expanding the planted area because recent profits have not yet compensated for the past losses of the sector. Source: Gente & Mercado

## **CHANGES IN TAX LEGISLATION AFFECT PLAYERS' COMPETITIVENESS**

Brazilian president Dilma Rouseff signed into law a bill that changes the way federal levies PIS/Pasep and Cofins are calculated in coffee transactions. The major outcomes of the change are the end of competitive advantages for exporters that roast coffee for sale in the Brazilian market and for cooperatives in acquiring coffee from growers. Source: Agência Estado

## **NATURALS BEAT PULPED NATURALS BY SMALL MARGIN IN 2011 QUALITY COMPETITIONS**

An interesting analysis indicates that the scores received by natural coffees at the 2011 Natural Late Harvest contest were slightly higher than the ones received by pulped naturals at the 2011 Cup of Excellence Competition – scores varied from 91.65 (1st place) to 87.71 (10th place) in the case of naturals and from 91.41 (1st place) to 86.88 (10th place) in the pulped natural contest – probably due to exceptional good weather during harvesting time in Brazil in 2011. Carmo de Minas was the region with most award-winning coffees in both the Cup of Excellence and Natural Late Harvest competitions in 2011. Among the top-ten pulped natural coffees at Cup of Excellence 2011, there were six from Carmo de Minas and seven from the same area were among the top-ten naturals at the Natural Late Harvest competition. Source: P&A based on data from BSCA



## **MATAS DE MINAS GROWERS STAND OUT AT ILLY QUALITY AWARD**

The 21<sup>st</sup> Ernesto Illy Quality Award for Espresso Coffee held its traditional award ceremony in São Paulo on March 16. The great winner, a coffee grower from Matas de Minas region, received R\$ 50.000,00 (about US\$ 28,000.00). Only growers from Minas Gerais ranked among the top 10 in this edition of the Quality Award, with a highlight for Araponga, in Matas de Minas, with 6 finalists. This year the company awarded more than R\$ 180.000,00 (US\$ 100,000.00) in prizes to the 50 best Brazilian growers and five coffee cuppers. Sources: Illy and P&A

**CHINESE COMPANY BUYS THE WINNING LOT AT NATURALS AUCTION**

The online auction of the top ranked coffees in the first Natural Late Harvest Competition was held in February. The winning coffee lot (from Colinas Estate) was bought by a Chinese company for US\$ 45,476.91, an average of US\$ 2,500 per bag or about US\$ 19 per pound. It was the first time ever that China acquired a coffee lot in all editions of the Cup of Excellence auctions around the world.  
Source: Valor Econômico

**ESPÍRITO SANTO STATE TO HOLD INTERNATIONAL ROBUSTA CONFERENCE**

The International Conference on *Coffea canephora* will be held in the city of Vitória, the capital of Espírito Santo state, Brazil, on June 11 to 15, 2012, with the central theme: One Hundred Years of History and Evolution of Conilon in the State of Espírito Santo, Brazil. The event will address research, development and innovation, and aspects of organization, quality, market and industry, with the aim of ensuring the competitiveness and sustainability of the business. Espírito Santo is the largest Conilon grower in Brazil, followed by the states of Rondonia and Bahia. Brazil expects a record Conilon crop of 13 to 15 million bags this year depending on the source of the estimate.  
Sources: Embrapa Café and P&A



**DRY WEATHER HELPS CONTROL BACTERIAL DISEASE**

Major coffee growing areas in Brazil received less rain than normal in February and, according to agronomists, this was good to curb the spread of the bacterial disease called "mancha aureolada". But dry weather is also causing concern because the harvesting season is only two months away and the beans may not have sufficient water to achieve optimum size.  
Source: Jornal da Cidade



**LARGE SCALE ARABICA CLONING**

A partnership between private companies and the Campinas Agronomy Institute (IAC) to develop coffee cloning at a large commercial scale and reduced costs showed its first results. Three genotypes with high commercial potential and favorable agronomic features were produced at a pilot scale. The results are very promising with yields 10 times larger than expected. The clones will now be evaluated in field trials.  
Source: Cafépoint

**SIX PRODUCTS INCLUDING COFFEE MAKE UP FOR HALF OF BRAZILIAN EXPORTS**

The Brazilian dependency on the exports of raw materials has increased considerably in recent years. In 2011, six groups of products – iron ore, oil, soy, beef, sugar and coffee – represented 47.1% of Brazil's total exports. In 2006, this share consisted of only 28.4%. Coffee exports reached 33.4 million bags with revenues of US\$ 8.7 billion.  
Sources: O Estado de São Paulo and P&A

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## SÃO PAULO, THE NEW COFFEE DRINKING HUB

The city of São Paulo is progressively becoming what we can call a coffee "meca". Seven out of ten São Paulo residents, called "paulistanos", drink three or more cups of coffee daily. The numerous coffee chains in the city together sell approximately 5 million espressos per month. Specialty coffee consumption is growing 15 to 20% per year. The passion for coffee is noticeable, at home and out of home: at the workplace, restaurants, coffee shops and even bookstores where clients can go to look for the latest book launch and savor a good cup of coffee.

Veja, the weekly magazine with the largest circulation in Brazil, has recently published a survey about coffee consumption with more than 2,300 people who live in São Paulo, with amazing results. *Paulistanos* are drinking more espresso than the traditional filtered coffee, a national preference. 18% of the respondents go to coffee shops twice a week for their coffee and 32% drink coffee in restaurants 2 to 3 times per week. Consumption is also growing at home. Since 70% of the interviewees consider drinking coffee outside the house expensive, there is a trend towards the acquisition of household coffee machines. The arrival of Nespresso in 2005 and Dolce Gusto and Senseo in recent years – three different single-dose concepts – definitely changed the way people are drinking coffee in São Paulo and Brazil too for that sake.

The expansion of coffee shops not only in São Paulo but also in many Brazilian cities helps increase the love for espresso among teenagers and youngsters. Fran's Café, one of the largest national coffee chains, sells more than 1 million espressos per month; Casa do Pão de Queijo, another Brazilian chain, has 148 stores only in São Paulo, apart from hundreds of others in the country. Kopenhagen, the gourmet chocolate chain, decided to invest in coffee and today sells 33,000 cups of coffee per day in its stores!

São Paulo is a natural showcase for many consumption trends and habits in Brazil. With a population of 11 million people (19 million if we add the 38 municipalities that surround it), the city is a melting pot of cultures, races and nationalities. The love for coffee is one thing they all have in common.

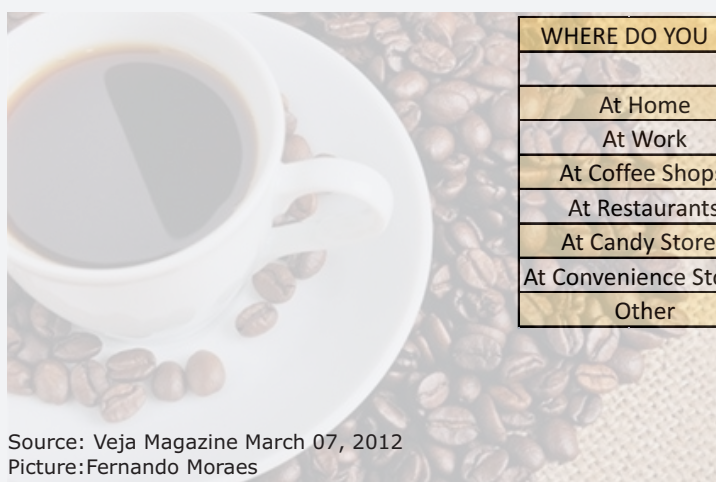
Please find below some of the results of the consumption survey mentioned in the Outlook.

WHAT IS YOUR FAVORITE COFFEE PREPARATION?	
Espresso	57%
Filtered coffee	37%
Italian	5%
Other	1%

HOW MANY CUPS DO YOU DRINK PER DAY (AVERAGE)?	
One	9%
Two	23%
Three	27%
Four	20%
More than four	21%

WHICH COFFEE MACHINE DO YOU HAVE AT HOME?	
Do not have	37%
Simple Electric Coffee Maker	27%
Single-dose Machine	23%
Espresso Machine for Powder	8%
Other	3%
Espresso Machine for Wholebean	2%

WHERE DO YOU USUALLY DRINK COFFEE?	
At Home	73%
At Work	69%
At Coffee Shops	49%
At Restaurants	33%
At Candy Stores	13%
At Convenience Stores	7%
Other	5%



Source: Veja Magazine March 07, 2012  
Picture: Fernando Moraes

## Brazilian Prices

March, 30, 2012

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	385,00 ↓
Mogiana-SP fair average quality T.6	380,00 ↓
South Minas fair average quality T.6	380,00 ↓
<b>+ 6,6%</b>	
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	405,00 ↓
South Minas	400,00 ↓

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	245,00 ↓
BM&F (US\$/ 60 kg)	
May 2012	234,00 ↓
Sep 2012	237,15 ↓
Dec 2012	239,95 ↓
Real R\$/ Dolar US\$	
March 30	1,82 ↑

Source: www.qualicafex.com.br

## EVER LARGER DRY COFFEE MILLS... FROM A SINGLE SUPPLIER

The tendency toward larger and larger coffee export processing facilities has definitely consolidated with Pinhalense's recent supply of an Arabica mill with a capacity of 42 tons/hour and a Robusta one for 36 ton/hour. These mills can process more than 11,000 and 9,000 bags of 60kg per day in two shifts or about 4 and 3 million bags of coffee per year, respectively, with enough idle time to add a third shift and 50% of extra capacity.

It is mind-boggling to think that this Arabica mill can process all the production of Mexico or Guatemala under one roof. The Robusta mill can in turn process all the production of Uganda or India. Amazing as these numbers are – these two mills are perhaps the largest of their type in the world – they represent the continuation of the trend for ever larger mills that started in the last decade and is gaining speed in this decade.

The design features that Pinhalense incorporated into these giant mills are stepped-up versions of the unique solutions that Pinhalense has developed for the mills of all sizes shown in the table below, supplied to clients around the world in recent years.

**NUMBER OF PINHALENSE DRY COFFEE MILLS SUPPLIED RECENTLY**

CAPACITY	ARABICA	ROBUSTA
2 to 6 tons/h	29	2
6 to 12 tons/h	13	8
12 to 18 tons/h	10	3
18 to 24 tons/h	3	4
24 to 30 tons/h	1	1
> 30 tons/h	1	1

Pinhalense has always claimed that the success of a coffee mill depends equally on the performance of the equipment and the efficiency of the process flow. The reliance on process flow becomes even more important as the size of the mills grow beyond 12 tons/hour for Arabica and 14 tons/hour for Robusta. At those capacities and larger, not to say at any capacity, it no longer makes sense to improve or enlarge small existing lines let alone for clients to design themselves new mills. The latter prevents the client from benefiting from Pinhalense's unparalleled ability to design coffee mills of all sizes.

Pinhalense's computer aided design (CAD) facilities created an environment of permanent design improvement that benefits all clients. No matter how large a miller, exporter or multinational trader is, chances are that its engineers and technicians may have designed a few coffee mills only if any because their main task is operation and maintenance. This is to be compared with over 16,000 mills designed by Pinhalense, with a record of over one mill per day in the last two years. This is a reliable indicator of the technology that is transferred free of cost to clients who buy a complete Pinhalense coffee mill. It is therefore no wonder that clients prefer 100% Pinhalense mills today!

Problems that are easy to solve in small projects are aggravated when the size of the mills increase, e. g., shifting types of coffee to be processed, dust suction, and disposal of rejects. That is why Pinhalense has developed items like high-capacity, low-friction, self-cleaning elevators that address the problem of coffee damage and idle time to clean elevator feet, bag – big bag – bulk interfaces, and bulk handling of products and rejects, to mention only a few features. These are other reasons why clients have been favoring complete Pinhalense mills, with machines, silos, conveyance equipment, etc. all manufactured by Pinhalense.

Besides the technological and efficiency benefits that clients enjoy when buying a complete Pinhalense mill, there are other tangible benefits too, for example, the responsibility for performance, maintenance services and spare parts lies on a single party, Pinhalense itself and its network of agents around the world. This can have a major impact on profitability considering that any coffee mill but specially large ones operate on a very tight contractual schedule.

The fact that the complete coffee mills in the table above were supplied to leading international coffee traders and prominent local exporters in countries as diverse as Mexico, Honduras, Colombia and Peru, in Latin America, Kenya, Uganda, Ethiopia and the Ivory Coast in Africa, and India, Indonesia, Vietnam and Papua New Guinea in Asia and Oceania, besides Brazil, demonstrates that coffee millers are no longer willing to “blend” equipment from several makes and / or to buy separate pieces of equipment to be laid out by themselves. The bottom line may be that buyer and seller, equipment user and supplier, decided to stick to what each does better, trade coffee and design and supply coffee mills respectively.