

# CONFIDENTIAL

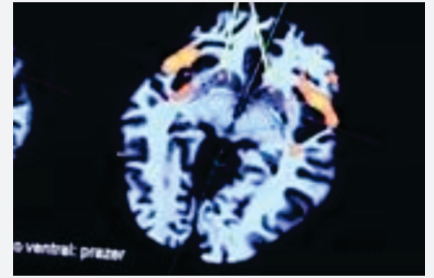
**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:**

- TRANSFERRING INCOME TO (SMALL) GROWERS: EFFICIENCY OF COFFEE CHAIN, YIELDS AND FARM SIZE\* (PAGE 3)
- DRIERS FOR SMALL GROWERS (PAGE 4)

## **COFFEE AND BRAIN RESEARCH UNIT CREATED IN RIO DE JANEIRO**

The 1st "Thinking about Coffee" forum held in Rio de Janeiro, promoted by the D'or Institute of Research and Education, consolidated the creation of a research unit dedicated to "coffee and brain" studies. The new unit will study the relationship between coffee aromas and the pleasure generated by the beverage among other reasons in order to facilitate the development of new coffee products based on neuroscientific parameters. Previous research has already shown that coffee consumption stimulates vital regions of the limbic system in humans causing pleasant sensations similar to those of love and friendship.

Source: ABIC



## **ICE FUTURES GETTING READY FOR BRAZILIAN COFFEES**

ICE Futures NY has announced that it will start receiving samples of Brazilian washed coffees for certification in June. Certification of the lots is mandatory for the physical delivery that will only begin after March 2013 when Brazilian coffees will be included at the "C contract".

Source: Valor Econômico

## **COOXUPÉ: 80 YEARS AND NEW RECORDS**

Sales by Cooxupé, the world's largest coffee growers cooperative, reached the historical record of R\$ 3 billion (US\$ 1.6 billion) in 2011. The sales of 5.1 million bags of coffee were 68% higher than in 2010. Cooxupé celebrated its 80th anniversary on April 24th; during the occasion the grower members of the cooperative received in cash their R\$ 9 million (US\$ 4.8 million) share of Cooxupé's 2011 profit.

Source: Valor Econômico

## **IPANEMA TO GROW WITH NEW PARTNERS**

Ipanema Coffees, one of the largest specialty coffee producers in Brazil, sold a 36.5% share of the company to Japan's Mitsubishi Corporation and Germany's Tchibo after 18 months of negotiations. The remaining original shareholders are Norwegian roaster Friele and two Brazilian groups. Ipanema plans to expand its average production of 120,000 bags/year by investing over R\$ 20 million (US\$ 11.1 million) in irrigation besides R\$ 5 million (US\$ 2.8 million) in harvesting equipment over the next four years. Most of the coffees produced by Ipanema (80%) are currently exported to 25 countries.

Source: Valor Econômico

## **SPECIALTY COFFEE BLEND WITH CONILON TO BE LAUNCHED IN JUNE**

The launching of a specialty coffee blend using pulped natural Conilons (Robusta) produced in the state of Espírito Santo and Minas Gerais Arabica was announced during the 24th SCAA event in Portland, USA. The new blend will be released at the International Conference on Coffea Canephora to be held in the city of Vitória, the capital of Espírito Santo state, in June. The new product will be offered by a member of the Brazilian Specialty Coffee Association (BSCA).

Source: Seag - Espírito Santo



## **"DIFFERENTIATED COFFEE" SHIPMENTS RISE IN FIRST QUARTER OF 2012**

The volume of coffee shipments fell 20.6%, to 6.5 million bags, in the first quarter of 2012. The highlight for the period was the significant growth in the volume of "differentiated" high quality Arabica coffees exported, 1.75 million bags, which accounted for about one-third of sales from January to March this year. The average price for differentiated Arabica was US\$ 315.66 per bag to be compared to US\$ 267.62 for average quality beans. In 2011, exports of higher quality "differentiated" coffees were just over 8 million bags, a 24% share of the total of 33.5 million bags exported by Brazil.

Source: Valor Econômico

**CLIMATE THREATENS 2012/13 BRAZILIAN COFFEE CROP**

Debates on the size of the next Brazilian coffee crop are still influencing international coffee prices. According to the last survey by the Institute of Rural Extension and Technical Assistance of Minas Gerais (EMATER-MG), the total production of the state will be 24.6 million bags in 2012/13, almost 10% smaller than the 26.3 million bags in CONAB's estimates. According to EMATER, a severe drought in 2011 caused problems in flowering and bean formation. Another dry period in February 2012 affected the development of the beans. The drought also affected the highlands of Bahia state, where production is expected to be 30% smaller than the 1.3 million bags expected earlier.

Source: Valor Econômico

**INTERCROPPING AS OPTION FOR WEED MANAGEMENT**

According to a recent study by Embrapa Café, the cultivation of leguminous plants such as lablab, sirato, Hybrid Java or peanut can be incorporated into integrated crop management practices. These species can replace or complement traditional methods of weed control in coffee plantations. By using one of these herbaceous leguminous species as soil cover it is possible to avoid the growth of weed; they also contribute to reduce soil compaction, to control erosion and to incorporate nitrogen into the soil. As a result organic matter and biodiversity increase and help produce truly sustainable coffees.

Source: Coffee Research Consortium / Embrapa

**NESTLÉ LAUNCHES "HYBRID" OF R&G AND SOLUBLE COFFEE IN BRAZIL**



Nestlé has recently launched a new type of coffee in the Brazilian market after more than 3 years of research and development. The new Nescafé DuoGrão combines the taste and smell of conventional roast-and-ground coffee with the preparation method of soluble coffee. DuoGrão aims to attract young consumers that are entering the market and to expand Nescafé's presence in the Southeast region, specially São Paulo and Minas Gerais states, where consumers are more resistant to instant coffee.

Source: Agência Estado

**BRAZILIAN DELEGATION VISITS SPECIALTY ROASTERS AND OUTLETS IN PORTLAND**

As part of an initiative led by OCEMG, the Association of Minas Gerais Cooperatives, and Sebrae, the Brazilian Agency to Support Micro and Small Enterprises, a Brazilian delegation composed of ten presidents and directors of coffee cooperatives from Minas Gerais visited the SCAA Trade Fair held in Portland on April 19 to 21. After the event, the group participated in a series of meetings with specialty coffee roasters and importers located in the Portland area in order to better understand the requirements and needs of high-quality-coffee buyers in the United States. The program, organized by P&A, was complemented by visits to different coffee shops and retailers around the city.

Source: P&A



**RECORD SALES OF PINHALENSE DRIERS AT SCAA TRADE FAIR**

Over 50 SRE rotary driers of all sizes were sold to clients from different countries on three continents during the SCAA trade fair. The sales of another 50 driers, many ecological wet mills and three large dry mills were closed as a result of negotiations initiated at the SCAA event.

Source: P&A

**Pictures of the Month**

**PINHALENSE AT 2012 SCAA TRADE FAIR**



## TRANSFERRING INCOME TO (SMALL) GROWERS: EFFICIENCY OF COFFEE CHAIN, YIELDS AND FARM SIZE\* - as presented at SCAA Symposium

Is it a fortunate coincidence or an actual causal relationship that several coffee growing countries that expanded production recently and are well positioned to continue doing so have managed to transfer a greater part of the FOB export price to their growers? In fact, Arabica growers in Honduras, Peru and Ethiopia and Robusta growers in Indonesia have all benefited from government, NGO, marketing and/or trading actions that have caused more income to be transferred to growers. There seems to be a strong causal relationship here that must be further investigated and benchmarked in order to make coffee growers and the coffee business more sustainable.

If today Brazil and Vietnam transfer between 85 and 90% of the FOB price of coffee to growers, if the average figure for the coffee producing world is around 65% and if there are countries that transfer only 25 to 30%, there is a great opportunity to improve the living conditions of coffee growers in many countries. The barriers to transferring more income to growers are many: regulation, taxation, inefficiencies in the coffee chain, lack of growers' knowledge about coffee prices and qualities, and poor infrastructure, to mention only the ones found more frequently. To investigate these barriers and to address them should also be the scope of sustainability initiatives that have so far concentrated mostly on what happens before farm gate and have often ignored what happens beyond farm gate which is where the opportunities above lie.

It is an oversimplification to believe that higher coffee prices will alone and by themselves cause coffee production to increase uniformly in all countries and benefit growers in the same way in all of them. That a small group of Arabica producing countries – the ones mentioned above – concentrated the bulk of the recent production increases in spite of having lower price differentials for their coffees, as shown in the table on the right-hand side, supports this. The information in this table, that also shows Arabica coffee yields as compared to the ones prevailing in Brazil – similar (“=”), smaller (“-”), much smaller (“--”) and smallest (“---”) – can be used together with average coffee yields and average cost of production estimates in a few countries to arrive at other interesting conclusions.

Costa Rica has the best of the two worlds – high price differentials and high average yields – and its growers have the highest gross profits per hectare. In spite of its much lower price differentials, Brazilian growers earn more per hectare than their Colombian and Kenyan colleagues whose coffees command a much higher price. As discussed at the beginning of this article, the difference between “gross” profit – FOB export price minus costs of production – and “net” profit – price that reaches the grower minus costs of production – is not uniform across countries. For example, because Kenyan growers have a smaller participation at FOB export prices than growers in the other three countries in this comparison, their income and profit become even smaller.

Last but not least, the average farm size greatly affects the welfare and economic sustainability of coffee growers. The average coffee farm in Brazil is 5 to 10 times larger than in Colombia, Kenya and Indonesia. As a result the average Brazilian grower earns many times more than in the other three countries and is much better equipped to deal with rising costs of living and expectations that are today a reality and concern in all producing countries, including Vietnam. The economic sustainability of small growers in most producing countries will have to involve doing things together to share costs, achieve economies of scale, etc. using existing models (e.g.: cooperatives and associations) and other innovative ways still to be developed. This is yet another challenge for the sustainability of the coffee business.

\*Based on ideas developed by the author at his presentation at SCAA's 2012 Symposium. You may request the PowerPoint of the presentation from [peamarketing@peamarketing.com.br](mailto:peamarketing@peamarketing.com.br).

### Price Differentials 2011/2012 and Yields

COUNTRY	Q3 2011	MAR 2012	YIELDS
	ICE 2.20/lb	ICE 1.80/lb	
Kenya	+80	+1.15	- - -
Colombia	+38	+41	-
Costa Rica	+39	+42	=
Guatemala	+28	+26	-
Peru	+12	+7	- -
Honduras	+17	+15	- -
Mexico	+24	+17	- -
El Salvador	+24	+16	- - -
BR Specialty	+25	+15 to 20	Other countries ↑ vs. ↑ Brazil ↓
BR Pulped Natural	+10	+8 to 10	
BR Fine Cup	+6	0 to +5	
BR Good Cup	-5	-5 to 0	

## Brazilian Prices

April, 30, 2012

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	390,00 ↑
Mogiana-SP fair average quality T.6	385,00 ↑
South Minas fair average quality T.6	385,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	400,00 ↓
South Minas	395,00 ↓

+ 3,9%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	252,00 ↑
BM&F (US\$/ 60 kg)	
May 2012	218,00 ↓
Sep 2012	228,50 ↓
Dec 2012	230,40 ↓
Real R\$/ Dolar US\$	
April 30	1,89 ↑

Source: [www.qualicafe.com.br](http://www.qualicafe.com.br)



## DRIERS FOR SMALL GROWERS

In today's competitive world small growers have to resort to advanced technology much in the same way that large farmers do. Gone are the days of "home-made" artisanal solutions. It is the duty of processing equipment manufacturers to make available to micro and small growers the same technological solutions that they supply to estates and plantations. That is exactly what Pinhalense has been doing and is excelling in doing as it sells an ever higher share of its production abroad to countries where growers are small and in large numbers.

Pinhalense is at a unique position to devote substantial resources to research and development of equipment for small growers. Being today the largest coffee equipment manufacturer in the world, Pinhalense can channel enough resources to, first, create specific solutions for small growers and, second, to ensure that the technical solutions used by larger growers are also made available for small growers, with coffee quality, equipment durability and efficiency in the forefront.

Adequate drying to produce high quality coffee efficiently in an environment of reduced labor and climate change is a major challenge today for growers of all sizes and specially so for small growers. Although conventional sun drying may still be perceived as the ideal solution, it is labor intensive and depends on the availability of direct sun light, two requirements that are becoming progressively scarce, not to mention areas where harvesting traditionally falls in the rainy season.

Pinhalense today offers a complete line of small rotary driers that cover the needs of a wide range of small growers and offers the very same technology and technical features found in its larger driers that have today become the state-of-the-art in coffee drying. Pinhalense has sold over 20,000 rotary driers in more than 50 countries on the 5 continents to Arabica and Robusta growers of all sizes who produce washed, semi-washed (pulped-natural) and natural coffees.



DRIER	AVERAGE STATIC CAPACITY (WET PARCHMENT OR CHERRY)*		
	CUBIC METERS	KILOGRAMS	QUINTALES
SRE-016X	1,6	960 to 1,280	21 to 28
SRE-025X	2,5	1,500 to 2,000	33 to 43
SRE-033X	3,3	1,980 to 2,640	43 to 57
SRE-050X	5,0	3,000 to 4,000	65 to 86
SRE-075X	7,5	4,500 to 6,000	98 to 130
SRE-150X	15,0	9,000 to 12,000	196 to 260

\* The actual static capacity depends on the moisture of coffee. The figures in the table above were calculated for wet parchment with mucilage with density of 0.8 tons/cubic meter (UPPER END OF RANGE) and "wet" cherry with density of 0.6 tons/cubic meter (LOWER END OF RANGE). **Static capacities fall when the driers are loaded with partially dry, less dense coffee.**

The SRE rotary driers 016X, 025X and 033X were specially developed for micro and small growers and offer the very same features – full preservation of the intrinsic quality of coffee above all – found in the larger models 050X and 075X as well as in the largest 150X model used in coffee estates, large plantations and export mills. In some cases as many as 50 or 60 SRE-150X driers are found in one single large drying facility. Like the mid-size and large models, the SRE 016X, 025X and 033X are equipped with the high efficiency heat exchangers FCCI which are compatible with a wide range of solid fuels (timber and a variety of husks), gas and oil, and can be used with an optional coffee husk feeder. These driers can receive fully washed (fermented or mechanically demucilaged) wet parchment directly from the wet mill after the surface water is drained. Semi-dry (pulped-natural) coffee will have to be pre-dried under the sun up to the point that the remaining mucilage is no longer "sticky" before it may be fed to the drier. Coffee cherries (to produce naturals) can be fed to the drier drum immediately after harvesting.

Pinhalense's SRE line of rotary coffee driers is well-known around the world for the quality of the final product it dries (uniform color and moisture content and no damage to parchment, cherry or bean), the accurate temperature control, the efficiency of the process, and the ability to burn coffee husk besides fossil fuels (gas and oil). All these features are within full reach of micro and small coffee growers.