

CONFIDENTIAL

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

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EFFICIENCY AND CREDIBILITY ATTRACT PRIVATE FINANCING TO COFFEE

Private banks in Brazil have increased their credit lines to the coffee business, production included, as the sector reaches maturity: efficiency, good management, and sound credit and risk profiles. The Coffee Fund (Funcafé), that used to handle most financing to growers, now shares this function with a host of private banks that are by law obliged to direct a percentage of the deposits they hold to agribusiness financing. Private sources estimate that financing for the current coffee crop will add up to about US\$ 3.5 billion, less than one-third of which will come from Funcafé.

Source: P&A

BRAZIL AIMS TO INCREASE YIELDS BY 50% IN TEN YEARS

Brazil can increase average coffee yields by 50%, from 21 to 30 bags per hectare, and produce much more coffee over the next ten years in the current planted area of 2.2 million hectares says the National Coffee Council (CNC). This yield jump would be caused by new varieties resistant to weather change and pests and diseases, better husbandry, greater density of planting and mechanization even in sloped areas. This will be one of the major objectives of the 2012-2015 Plan for the Coffee Business.

Source: Agência Safras



BRAZILIAN 2012 CROP TO SURPASS 50 MILLION BAGS

The second official crop estimate released by CONAB on May 10 indicates that Brazil may harvest 50.45 million bags of coffee in 2012 of which 38.1 million bags will be Arabica and 12.3 million bags will be Robusta (Conilon). The figure represents a 16% increase over the 43.5 million bags harvested in 2011. This year is considered a high crop year in the biennial production cycle in Brazil.

Source: CNC



MECHANIZATION IN RESPONSE TO LABOR SCARCITY

Mechanization is one of the alternatives for coffee growers in Minas Gerais, specially during the harvesting season that starts by mid-May and continues through October. Growers complain about the scarcity of skilled labor to pick coffee – many workers are migrating to areas where construction is booming – and the rising labor costs which are causing growers to adopt small hand-held harvesters and also large self-propelled harvesting machines to do the work.

Source: Canal Rural

PRICE DIFFERENTIALS TO KEEP BRAZILIAN GROWERS AWAY FROM ICE-NY

Although ICE Futures Coffee Exchange in New York begins to certify this June the first samples of Brazilian coffee for delivery in March 2013, industry representatives believe that the discount of US\$ 0.09 per pound should make the operation not attractive and keep Brazilian growers away.

Source: Canal Rural

IRRIGATED COFFEE VIABLE IN BRAZILIAN SEMI-ARID

The first technical meeting to discuss irrigated coffee production in the Jaíba region of North Minas Gerais was held in May. The event examined the technical and economic feasibility of intercropping corn, beans, papaya and pineapple with coffee and highlighted the results of research carried out by Epamig (Agricultural and Livestock Research Institute of Minas Gerais) since 2008 on the cultivation of irrigated coffee in the Brazilian semi-arid region.

Source: O Norte de Minas



CERTIFICA MINAS ESTABLISHES PARTNERSHIP WITH UTZ

The Department of Agriculture, Livestock and Food Supply of Minas Gerais (Seapa) and the international sustainability platform UTZ Certified entered into an agreement to coordinate their certification actions in coffee estates belonging to the "Certifica Minas Café" program. The idea is for Certifica Minas to have easier access to the Utz label. Since the two programs have a lot in common, Certifica Minas will be an entry door to the Utz system that will in turn bring international recognition to the Minas Gerais sustainability program.

Source: Globo Rural



WOMEN DETAIN 10% OF PRODUCTION IN MINAS GERAIS



Approximately 10% of the coffee production in Minas Gerais comes from farms led by female growers. In towns like Alfenas and Guaxupé, in the South Minas area, the participation of women in the coffee business is gradually increasing. Women act either as growers themselves or support their husbands' or fathers' work. Women growers are noted for their persistence, care, attention to detail and organization, and management skills which are all highly appreciated in coffee.

Sources: Coffee Break and Jornal O Tempo

HIGHLY COMPETITIVE MARKET CAUSES SPECIALTY NICHES TO EXPAND

Consumption trends towards specialty coffee have influenced many growers and entrepreneurs to open specialty roasting companies in Brazil over the last three years. According to ABIC (the Brazilian Coffee Roasters' Association), there are roughly 1,200 roasters in the country, 450 of which are in the fine and specialty segments. Small companies that roast small lots of high quality coffee have been more successful in market niches such as coffee shops than medium-sized roasters who suffer under increased competition from big coffee groups.

Sources: Valor Econômico and P&A

MORE ROAST AND GROUND COFFEE ENTERING BRAZIL

Brazilian imports of industrialized coffee have reached 328 tons in the first 4 months of 2012, a 47% rise compared to the same period in 2011. The main part of the imports comes from Switzerland and the United Kingdom, home to large coffee multinationals. Italy which used to be the leading exporter of specialty coffee to Brazil is now in third place. The average price for a kilogram of imported industrialized coffee fell to US\$ 36 after reaching US\$ 51 last year.

Source: Folha de São Paulo

NORTH PIONEER IS THE NEWEST BRAZILIAN COFFEE GI

The North Pioneer is the first region of Paraná state to receive a geographical indication (GI) certification for its coffees. The certification represents the recognition of particular coffee qualities and features that create a site specific identity. The project was developed by the Specialty Coffee Association of the North Pioneer of Paraná Region (ACENPP) and the local branch of Sebrae (Brazilian Agency for the Promotion of Small Business).

Source: Agência de Notícias do Paraná



Pictures of the Month

MAY 24 - NATIONAL COFFEE DAY AT P&A



COMMUNICATING SUSTAINABILITY: GMP AND TECHNOLOGY

The way sustainability is presented to consumers often leads to associations with charity, poverty, family farming and deforestation. Although some of these associations are not fully wrong, the main point missed is that at the core of sustainability are good management practices (GMP) which endow growers of all sizes with the ability to produce more efficiently and to increase their income and profit that in turn ensure the ability to be socially responsible and to protect the environment. Sustainability – *the ability to produce now without compromising the ability to produce in the future* – starts with good management practices that, yes, combat poverty and pave the way for forest preservation but are not the sole realm of small family farmers and are very far away from charity.

Using images of poverty, child labor, and deforestation to try to convince consumers to favor sustainable agriculture and to pay for sustainable products such as coffee and cocoa may backfire altogether because, first, it encloses the risk of framing the growers of these products as mostly unsustainable and therefore turning consumers away from them and, second, it may create a relationship of charity and dependence – “I only buy to help” – that perpetuates poverty and unsustainable practices. Reality is that these products are mostly grown by farmers who naturally and intrinsically share sustainability values but sometimes lack either the knowledge or the means to grow them in a sustainable way. What sustainability codes and platforms propose is to create awareness, to disseminate knowledge and to supply the means “to raise the bar” and to promote permanent improvement to ensure future production in a more challenging world with more people and fewer natural resources available per capita. Practices that were acceptable in the past are no longer so now because of better scientific knowledge of how they may affect our future. Of course sustainability codes condemn child labor, deforestation and other bad practices but this is not to say that these practices are the norm. Much to the contrary they are the exception that should indeed be condemned.

The right, sound way to communicate sustainability is therefore positive and not negative, to present good management practices instead of exposing the exception of bad practices that may have stronger impact but also pose higher risks. The emphasis on good *management* practices goes beyond good *agricultural* practices because it includes social and environmental practices that transcend agriculture, e.g., preservation of the natural flora and paying fair wages. It is by communicating good management practices in the economic, social and environmental fields that sustainability must engage consumers concerned with the future of mankind. Sustainable management should be at the forefront of communication about sustainability and that inevitably includes technology. It is not by protecting, promoting and presenting old-fashioned inefficient production and management practices and systems that agricultures will play its role in a world that requires more production with the use of fewer resources.

Technology is often wrongly associated with large-scale farming. It is true that it is harder to develop technology



for small growers but this is no to say that small farming should be condemned to use old-fashioned techniques. A farmer can be small and still use cutting edge technology because there is less and less room for labor intensive production. That is why contrary to what we see today technology should be an active part of communicating sustainability in opposition to a romantic view of farming as an old-fashioned labor intensive activity. If sustainability is to be positioned as and associated with efficiency and not charity, good management practices and modern technology must be at the core of the message to consumer. The challenge for marketing is to position things the way they are or should be and not the way it is easier for consumers to be impressed... and deceived!

Brazilian Prices

May 31, 2012

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	395,00 ↑
Mogiana-SP fair average quality T.6	390,00 ↑
South Minas fair average quality T.6	390,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	415,00 ↑
South Minas	410,00 ↑

+ 6.4%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	270,00 ↑
BM&F (US\$/ 60 kg)	
Jul 2012	202.00 ↓
Sep 2012	203.07 ↓
Dec 2012	206.00 ↓
Real R\$/ Dolar US\$	
May 31	2,02 ↑

Source: www.qualicafex.com.br

BEYOND COFFEE: EQUIPMENT FOR COCOA, MACADAMIA, BRAZIL NUTS, BLACK PEPPER, BEANS AND OTHER SEEDS AND GRAINS

Well-known for its coffee processing machinery, Pinhalense also makes complete lines of equipment for products like cocoa, macadamia and Brazil nuts besides drying, cleaning and grading equipment for seeds and grains, e.g., black pepper, sesame seed, quinoa, beans of all types, corn and rice.

The Pinhalense line of **cocoa processing equipment** starts with a very innovative cocoa pod breaker, a machine developed and patented by Pinhalense that has far reaching social and safety impacts because it eliminates the need to break cocoa pods by hand with large knives. A cocoa mucilage remover is now undergoing tests. Standard components of the cocoa line are the best-selling rotary driers, that come in sizes from 1 to 13 tons of wet cocoa, pre-cleaners, destoners, size graders, gravity separators and ancillary equipment (elevators, conveyors, silos, dust suction, etc).



COCOA POD BREAKER

One of the “stars” of the **line of equipment for macadamia** is the nut cracker that is said to be one of the most efficient machines in the market today. Pinhalense designs and supplies complete mills for macadamia nuts, including driers, crackers with shell separators, and cleaning and grading machines besides conveyance and storage equipment.

The **Brazil nut line** also includes a unique nut cracker, again developed in-house and known for its high efficiency. Brazil nut processing poses special challenges because it requires either freezing or boiling the nuts and delicate handling throughout cleaning, grading and separation in order to avoid damage that causes the quick formation of mould in the affected areas of the nut.

Pinhalense **rotary driers** have specific versions not only for the products listed above but also for black pepper, palm oil, quinoa, beans, corn and others grains. The specific features required for each product may be combined into one single drier to handle for example cocoa and coffee or black pepper and coffee that are popular combinations. Another frequent use of cocoa, black pepper and coffee driers is to process grains (e.g., beans, corn or rice) off season.

The Pinhalense lines of **pre-cleaners and size graders** have models with specific features developed for each product. Not only screen sizes and hole shapes change from product to product but also the speed and frequency of vibration and the way dust is extracted. The same thing happens with **destoners and gravity separators** whose deck design, pressure system and vibration change to handle each seed, grain or nut efficiently. These Pinhalense cleaning, grading and separation machines can be sold separately or as part of lines that include elevators and conveyors with specific features for each product (e.g.: low impact or food handling capability), silos, dust control and others items. Pinhalense is well-known today for specific solutions for specific products such as sesame seed, quinoa and other local grains, mixed beans, etc. besides grains and seeds from around the world.

Please contact the Pinhalense / P&A agent in your country or P&A directly if you have specific processing challenges for the products mentioned above. P&A and Pinhalense engineers will be pleased to identify and recommend the equipment you require or to develop solutions to meet new challenges.



MACADAMIA NUT CRACKER - QM-300