

# CONFIDENTIAL

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

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- CREATING OPPORTUNITIES AND ADDING VALUE WITH DRY CHERRY HULLERS (PAGE 4)

## **COFFEE CONSUMPTION GROWS STEADILY IN BRAZIL**

Brazilian coffee consumption continues growing now at a rate of 3% per year according to the Brazilian Coffee Roasters' Association (ABIC). The latest data released by the association shows that the major factors behind this expansion are out-of-home consumption, new and innovative coffee products and higher quality options available to the consumer (differentiated coffees). The goal of 21 million bags consumed will probably be achieved in 2013.

Source: ABIC

## **COFFEE COOP IS 130TH LARGEST ENTERPRISE IN BRAZIL**

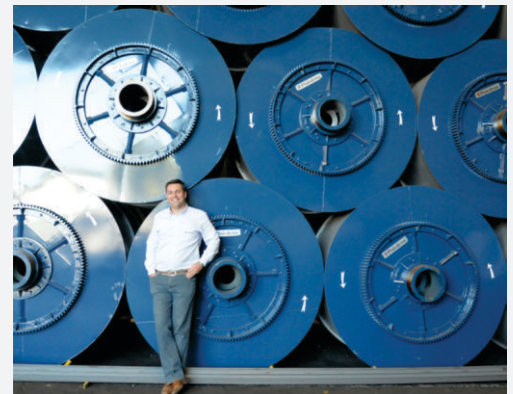
Cooxupé was highlighted in the Valor 1000, the annual publication of Valor Econômico newspaper that ranks the thousand largest Brazilian companies in 25 business sectors. Cooxupé, with 12,000 members, was ranked as the 4th largest company in the agriculture and livestock sector in southeast Brazil according to criteria such as net income, generation of value and profitability, among others. In the overall rank, Cooxupé climbed 70 positions and now holds the 130th position among the thousand largest companies in Brazil.

Source: Valor Econômico

## **PINHALENSE SALES GROW THREE TIMES SINCE 2009**

After a slight fall in sales of coffee equipment during the first semester of 2012 due to decreasing coffee prices, Pinhalense reports a new period of growth. Many Brazilian growers are buying modern machines to replace older models and are also investing to support production growth. The company has recently invested R\$ 6 million (US\$ 3 million) in the expansion of its third manufacturing plant in the city of Pinhal, state of São Paulo, to support the three-fold sales increase since 2009. P&A manages exports for Pinhalense, with sales in 90 countries. Today one out of every three green coffee processing machines exported in the world is Pinhalense.

Source: Valor Econômico



Pinhalense's national sales manager in front of rotary driers ready to be delivered.

## **MINAS GERAIS PLANS TO HOST ICO'S 50TH ANNIVERSARY CELEBRATION**

The International Coffee Organization (ICO) will celebrate its 50th anniversary in 2013 with a series of important workshops and meetings. Minas Gerais will officially offer to host the festivities due to the importance of coffee to the state. The proposal will be presented during the ICO meetings from 24 to 28 of September.

Source: Portal do Agronegócio

## **TECHNOLOGY TO STIMULATE CONILON PRODUCTION IN RONDÔNIA**

Rondônia, located in the northern part of Brazil, is the country's second largest Conilon (Robusta) producer. Characterized by small holders, the state is currently undergoing a process of modernization of the coffee sector supported by research and technology transfer initiatives by Embrapa Rondônia and the Coffee Research Consortium. The package includes the BRS Ouro Preto high-yield cultivar specially developed for the climate and soil conditions of Rondônia and spacing and pruning technology adapted to Conilon. The yields of up to 70 bags/ha obtained in experimental plots are extremely promising when compared to the state current average of 10 bags/ha.

Sources: Coffee Research Consortium and P&A

**GEOPROCESSING TO IMPROVE GROWERS' LIVES**

Cooxupé, Brazil's largest coffee cooperative, developed a geoprocessing system to help growers make more informed decisions and to enable traceability of their product. The project, initiated ten years ago, has an important database that can be used by growers to better plan their activities on the field. Data like coffee area, production, temperature, hydrography and preserved area will be available for each coffee grower at his/her personal page in the cooperative's website.  
Source: Phábrica de Ideias



Conventional treatment: lower side of the coffee leaf



Homeopathic treatment: lower side of the coffee leaf

**HOMEOPATHY TO CONTROL LEAF RUST**

Despite the efficiency of chemical control of the coffee leaf rust, product application costs can reach as much as 20% of total production costs. A recent study conducted in the Alta Mogiana region of the state of São Paulo showed that alternative homeopathy methods are also efficient. Beyond controlling the disease, they offer positive side results like higher vegetative vigor of the tree. Research results indicate that leaf rust was still under control after a three-month period without application of the homeopathic solution.  
Source: Homeopatia Brasil

**7TH EDITION OF COFFEE SCIENCE MAGAZINE PUBLISHED**

The Coffee Research Consortium has recently released the 7th edition of its Coffee Science, a scientific publication specialized in coffee. Coffee Science is the only technical-scientific magazine of the Brazilian coffee business that is distributed free of charge. The magazine, also available online at <http://www.coffeescience.ufla.br/index.php/Coffeescience/issue/view/27>, offers a complete range of scientific articles in Portuguese and English. The magazine is indexed at the AGRIS-FAO (International Information System for the Agricultural Sciences and Technology), among other systems, and is currently accessed by readers in 150 countries.  
Source: Embrapa Café

**RECORD GRAIN PRODUCTION IN BRAZIL**

Brazil should have the largest grain crop in history in 2011/12 with 165.9 million tons harvested in a total area of 50.8 million hectares. The estimate, part of a survey by Conab, indicates a 2% growth over the output of 2010/11. Corn was one of the cultures that contributed the most to the rising crop numbers according to the Ministry of Agriculture.  
Source: Folha de São Paulo

**BRAZILIAN IMPORTS REACH 24% OF TOTAL CONSUMPTION**

According to the Federation of Industries in the State of São Paulo (FIESP), 24% of all products consumed in Brazil are imported, a historical record. This situation resulted primarily from recent exchange rates that favored imports in different categories. In the coffee sector, national roasters are facing difficulties due to increasing imports of roasted coffee, especially in the premium/gourmet category.  
Sources: Canal do Produtor and P&A

**Pictures of the Month: Chocodential?**

**P&A at the Brazilian Chocolate Fair and Latin American Chocolate Congress – Gramado/RS – 2012**





## COFFEE AS A NEW LUXURY PRODUCT: TRENDS AND OPPORTUNITIES



While there are rumors and perceptions that coffee consumption is slowing or even decreasing in traditional markets such as Italy and the United States due to several factors including the recent crisis, there seems to be an opposite movement in emerging markets and developing countries like Brazil, Mexico, Colombia and Indonesia where the consumption of coffee keeps growing.

There are clear indications that the coffee business is undergoing major changes in many countries of Europe and North America. Consumers seem to be shifting coffee consumption habits, sometimes moving towards less expensive options such as private coffee brands of retailers (Costco, Wal Mart, Carrefour) or choosing to go to coffee shops fewer times per week than before. Imports of coffee by relevant markets like Spain, Italy and France have decreased in the period from October 2011 to May 2012 when compared to the same period in 2010/2011, according to the International Coffee Organization (ICO). ICE certified Arabica stocks have reached record high levels whereas the stocks of Robusta at LIFFE-London have witnessed major downturns, indicating a weakening demand for Arabica and the growth of Robusta in roast and ground blends of major players.

A different picture is painted in traditional coffee producing countries across Central and South America and Asia where coffee consumption is booming not only in terms of escalating figures but also in regard to vibrant and dynamic trends. The fast expansion of the middle class in countries like Brazil, Mexico and India brought millions of consumers to coffee, among other products. There are more people with more disposable income willing to buy things and try new experiences that engage them or make them feel better about themselves. There is a movement towards better goods and services in general and coffee is no exception.

Consumers are willing to pay more for products that offer them benefits, technical, functional or emotional. In coffee, consumers are looking for a nice experience, be it at a café or at home. Coffee shops are rapidly expanding in India, China, Mexico and El Salvador and are often seen as aspirational places to be, specially among middle class consumers. At these outlets, youngsters and adults can try more expensive options such as high quality espressos, lattes and machiattos in an engaging ambience. For the home and office segment, single-dose coffee machines – Senseo, Nespresso, Dolce Gusto – are now an object of desire. Pods and capsules offer the consumer a whole new coffee experience: quality consistency, convenience and innovation that can be shared with friends and family. These coffee products represent a new wave of consumption: the accessible luxury.

More and more, middle market consumers have the means and the yearning to buy premium goods. The so called “new luxury” consumer wants more quality of products and services at an accessible price. He/she will go for them once they realize the benefits of that premium price. It is a pattern visible in several categories from yogurt to beer, from cell phones to refrigerators. For every consumer there is one or more categories where he or she feels it is worth spending more. For some it may be a high-tech washing machine, for others a cruise abroad and for others it can be a coffee machine with an innovative design.

In most coffee producing countries where drinking coffee has been a traditional habit, a family ritual that brings comfort, the movement in the direction of “new luxury” brings many possibilities for the business. The category often considered popular, with few differentials and fierce price competition, can be literally transformed into a premium one with value-addition to the industry, attractiveness to the consumer and benefits for the whole coffee chain.

### Brazilian Prices

August 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	425,00 ↓
South Minas	420,00 ↓

+ 9%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	300,00 ↑
BM&F (US\$/ 60 kg)	
Sep 2012	204,45 ↓
Dec 2012	212,10 ↓
Mar 2013	215,00 ↓
Real R\$/ Dolar US\$	
August 31	2,04 =

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

## CREATING OPPORTUNITIES AND ADDING VALUE WITH DRY CHERRY HULLERS

As domestic coffee consumption develops in producing countries (see Outlook in previous page), the use of dry cherry hullers is no longer restricted to natural Arabica and Robusta growers. On the one hand, new markets in producing countries require different raw materials, natural coffees included, even in countries that traditionally produce washed Arabicas. On the other hand, as the selectivity of harvesting falls, more naturals tend to be produced in all countries and have to find their way into the market, specially local markets in the producing countries themselves. Finally, the market is usually less regulated for natural Arabicas than for their washed counterparts which creates specific business opportunities. In summary, the ability to hull natural dry cherry coffee has become an interesting business and a unique opportunity to add value to coffee in many if not all producing countries.



**CON-8**

Aware of this trend for many years, Pinhalense already has a good track record of selling dry cherry hullers in countries that produce washed Arabicas besides its strong sales of such hullers in countries that produce Arabica naturals and Robustas. Pinhalense's CON line of coffee hullers is now used in most producing countries irrespectively of the type of coffee that they offer.



**C2DPRC**

The CON line of combined hullers includes in one single structure a pre-cleaner (optional), a fluid-bed destoner, a cold huller with a built-in separation and repassing system, and a catador that processes small and large beans separately. The CON's unique concept and design make it possible to increase hulling yields by up to 2% when compared with conventional hot friction hullers. The CONs deliver green coffee that may be sold directly to roasters without any need for further processing. If export quality is required the CONs may have to be followed by size graders and/or gravity separators depending on the quality of the incoming dry cherries.

The CONs are available with capacities ranging from 600 to 1,800kg of green coffee per hour in stationary and mobile versions, the latter assembled on a truck bed or trailer and driven by a diesel engine with clutches. A lower capacity (300kg/hour) simpler version is available, the C2DRC, which is equipped with its own 3-size grader.

The Pinhalense cold hullers described above can be used for parchment coffee as indeed they are in several countries with the advantages of avoiding overheating and increasing hulling yields. If the removal of the silver skin is required, the CON hullers may be coupled with special polishers that may or may not be installed in the same structure. The small C2DPRC has a built-in polisher.



**CONAN**