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COFFIDENTIAL

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

CONAB'S 2013 "OFF-YEAR" ESTIMATE ALMOST EQUAL TO 2012 "ON-YEAR" CROP

CONAB, an agency of the Brazilian Ministry of Agriculture, has announced its first coffee crop estimate of 47 to 50 million bags for 2013, which represents a decrease of between 7.6% and 1.3% respectively in comparison to the previous crop. This decrease is a result of the Brazilian biennial production cycle but the much smaller than usual drop is yet another indication that the range of variation is narrowing, being 2013 the "off-year" (or smaller crop year). For 2013, the Brazilian Arabica production is estimated in 35 to 37.5 million bags whereas the Robusta output is expected to reach 12 to 12.5 million bags approximately.

Sources: CONAB and P&A

LACK OF RAIN WORRIES GROWERS IN ESPÍRITO SANTO

The northern region of Espírito Santo, where most Conilon is grown, suffered with no rain for more than 40 days leading to the drying of a significant amount of beans that were in formation. The excessive heat also contributed to "burn" the leaves of the coffee trees, causing experts to believe that the state's Conilon production may be affected this year, with smaller and lighter coffee beans.

Source: A Gazeta do Espírito Santo

AGRI SECTOR TO GROW EVEN MORE IN 2013

The Brazilian agricultural sector is expected to grow an impressive 8.6% in 2013 and reach 180 million tons of grains and oleaginous products, according to CONAB, and that does not include cultures such as coffee, bananas, oranges and sugar cane. The sector invested R$200 billion in 2012 (half of which in government financing) and should repeat the same this year to reach yet another record production. Favorable interest rates and high expectations about the size of the crop pulled investments in mechanical harvesters, bulldozers and tractors that grew 9% from July to November 2012, compared to the same period in 2011. Brazil is currently the world leader in several agricultural products due to high yields and advanced technologies that lead to lower costs and competitive advantages.

Sources: Folha de São Paulo and O Estado de São Paulo

COFFEE AND AGRI EXPORTS TO ACCELERATE IN 2013

After a quiet year, Brazilian agribusiness exports tend to increase in 2013 specially those of soy, beef, coffee and juice. Coffee exports should reach between 30 and 31 million bags, a 7 to 10% growth in relation to 2012 in spite of a smaller crop, with revenues of US$6.7 to US$7 billion according to CeCafé (the Brazilian Coffee Exporters' Association). Last year the coffee export sector witnessed a major drop of 27% in revenue and 15.6% in volume, the worst performance among all agricultural commodities.

Source: Valor Econômico

MORE LOANS FOR MID-SIZE GROWERS, COFFEE INCLUDED

The Brazilian Ministry of Agriculture, Livestock and Food Supply (MAPA) announced a large increase in loans for medium-size growers to finance their crops via its Program to Support the Mid-size Rural Producer (Pronamp). Between July and November 2012 the total amount of loans through Pronamp added to R$ 4.7 billion (US$ 2.35 billion), a 42% increase compared to the same period in 2011. This upward trend is mainly due to the cutback in interest rates from 6.25% in 2011 to 5% in 2012.

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

NEW IRRIGATION LEGISLATION

The National Policy for Irrigation, recently enacted by the President of Brazil, creates incentives for growers to expand their irrigated area and aims at increasing yields and reducing the dependency on adverse climate conditions in rural areas. New irrigation technologies are important to promote higher yields among small, medium and large properties while reducing the pressure to occupy new areas.

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

BULK LOGISTICS FOR COFFEE

Cooxupé, the worlds' largest coffee coop, is now transporting coffee in bulk inside its facilities. This modern approach to transportation, commonly used in the corn and soybean business, innovates by having the product moving in bulk directly from the reception in trucks to the silos or warehouses, where it is stored in big-bags of 1,200 kg each. This process makes reception, storage and distribution of coffee faster and more efficient. Cooxupé's Japy Complex, the largest coffee processing mill in the world, was the first one designed to receive coffee in bulk in Brazil, with a daily reception capacity of 35,000 bags (2,100 tons) and a dispatch capacity of 25,000 bags (1,500 tons).

Source: Dinheiro Rural

SOLUBLE INDUSTRY ENDURES ANOTHER DIFFICULT YEAR

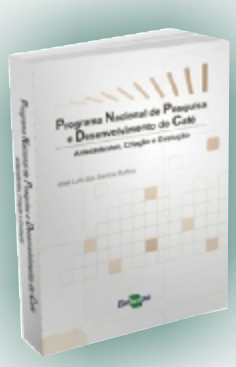
The Brazilian soluble coffee industry is losing competitiveness with only 3.3 million bags exported in 2012, approximately one million bags less than India. Local legislation does not allow imports of green coffee to be industrialized and later exported, leaving the companies with the single option of buying Brazilian Conilons, which are much more expensive than foreign Robustas due to the demand by local roasters. The sector also faces commercial barriers such as the high tariffs for Brazilian soluble in important markets like Russia. Local consumption of soluble is low, accounting for no more than 5% of the total market. The industry, stagnant for over a decade, does not foresee growth in the coming years. There are currently 7 soluble companies in Brazil, a situation that has not changed in over 40 years.

Source: Valor Econômico

EMBRAPA'S COFFEE R&D BOOK NOW AVAILABLE ONLINE

The book "National Coffee Research and Development Program – Antecedents, Creation and Evolution", published by Embrapa, is now available in an electronic version on the Internet. The publication offers a broad approach to Brazilian coffee research, including its conception, management, history, technology transfer and investments made by Brazil in R&D.

Source: Embrapa



Pictures of the Month

BULK LOGISTICS FOR COFFEE




Sources: Pinhalense and Folha Rural

SUSTAINABILITY BEYOND FARM GATE

There is a lot of effort going into making coffee growers more sustainable today, specially at farm level, within farm gate. However actions beyond farm gate are required in many if not most countries to ensure that economic sustainability is fully achieved and retained. The lack of such actions explains why in many countries that have persistently low average yields there are a few growers or groups of growers who have high yields but whose practices and technology are not transferred to and used by the majority of growers. These "islands of excellence" remain "outliers", with productivities well above their country's average, because there are institutional barriers beyond farm gate that prevent other growers from adopting their efficient techniques and solutions.

Why isn't the technology available locally transferred to other growers? The reasons abound but let's address a few here. First, high yielding pest and disease resistant varieties may not be fully tested and certified by credible agencies and/or financing is not available to renew plantations with the new varieties. Second, inputs – e.g., fertilizers and pesticides – may be required but they are not available or there is no financing mechanism to make them accessible. Third, equipment – e. g.: sprayers and post-harvesting processing equipment – may be necessary but again it is either not available or, more often, there is no mid-to-long-term financing to enable its acquisition. Fourth, financing may be there but the income that reaches the grower is not enough to motivate the change of technology and/or to enable him or her to effectively pay back the loans. Fifth, production itself may be efficient but logistics – how to get from farm to export harbor – is inefficient. The list may go on... It is easy to blame extension services or their absence for the confinement of sustainability to "islands of excellence" but the problem is more complex than this and has to do with supply chain management and improvement.

It is obviously much more difficult to act on the supply chain beyond farm gate: availability of inputs and equipment, access to credit, ability to sell coffee for future delivery, trading efficiency, access to information and logistics. To expect that extension services will address these issues is naïve to say the least. The problem is more complex and often extrapolates the coffee business itself and requires changes in the way the country's agribusiness is organized. That failing, it is up to all interested parties to address the problems beyond farm gate from the coffee business perspective alone.

Market instruments should be favored: to organize (small) growers in groups to gain economies of scale in buying inputs, processing and marketing their coffee, to make trading and pricing information available to all, to create futures markets schemes to finance growers, etc. But however much these actions may complement they cannot replace government programs to finance coffee growers for their role in the generation of foreign exchange and employment, to streamline the markets for inputs, equipment and services required by the coffee business, to ensure that coffee taxes are invested in infrastructure to support the coffee sector and to improve logistics, among others.

The technology to increase the economic sustainability of coffee growers is mostly available within the countries themselves and the way to transfer income to growers, i. e., to maximize the percentage of the FOB export price that reaches the grower, has been mastered by countries like Brazil and Vietnam. The challenges are how to incorporate these improvements into the mainstream coffee business of most producing countries. A substantial part of these challenges lie beyond farm gate and require the involvement and participation of governments. Often exasperated by the scale and complexity of the challenges, well-intentioned benefactors try to by-pass the existing institutional set-up and create parallel channels and services. Some of these initiatives are effective, e. g.: barter deals of inputs and equipment for coffee, but others only reach niche markets. Truly pervasive solutions often require private intervention to improve the institutional set-up and the provision of government services in order to ensure that the ensuing benefits reach all growers. Let's not ignore or disregard the sustainability related actions that lie beyond farm gate bearing in mind that a blend of market instruments and government services may be the ideal solution.

Brazilian Prices

January 31, 2013

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	345,00 ▲
Mogiana-SP fair average quality T.6	340,00 ▲
South Minas fair average quality T.6	340,00 ▲

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	365,00 =
South Minas	360,00 =

7.3%

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	282,00 ▲

BM&F (US$/ 60 kg)	
Mar 2013	181,30 ▼
May 2013	185,30 ▼
Sep 2013	191,85 ▲

Real R$/ Dolar US$	
January 31	1,98 ▼

Source: www.qualicafex.com.br

FINANCING POST-HARVEST PROCESSING EQUIPMENT

The road towards sustainability passes through access to efficient coffee processing equipment, specially at farm level. The benefits are multiple, lower production costs and better coffee quality at the forefront. However, financing is a common barrier to acquire modern machinery. Pinhalense has in the past joined hands with private companies, cooperatives, aid and development projects, and governments to facilitate financing of its equipment to growers of all sizes.

One proven scheme is the supply of Pinhalense equipment to coffee traders and cooperatives that in turn transfer the machines to their own coffee suppliers by means of barter deals. Another is refinancing: P&A has over the years developed the expertise to support traders, cooperatives and growers in this type of operation carrying out the upraisal of needs, recommendation and specification of machines, bundling of equipment in one single package, and supply and assembly of the machinery. Easy as this may seem at first sight, it often requires customizing the layouts and equipment to deliver the coffee qualities required by end clients. At other instances it involves the design of central facilities to be shared by groups of micro and small growers.

Because traders, cooperatives and governments use the equipment itself as a guarantee for payment in either barter or financing deals, it is critical to have machinery that is durable (specially so in the case of mid-to-long term deals), efficient and easy to operate and maintain, and designed for the specific needs of growers and trade. Pinhalense equipment meets all the requirements above. In addition, in the case of barter deals, the equipment must deliver the quality(ies) expected by both the trade and the end market as a necessary condition to ensure that the coffee delivered by the grower as payment is considered fair "currency". Again, Pinhalense equipment meets this requirement.

In the case of clients with established credit ratings and/or access to guarantees, Pinhalense may go one step further and try to identify Brazilian government finance or export insurance with repayment time of 2 to 5 years, 180-day grace period and competitive interest rates or premiums. In this type of operation the equipment is resold by the Pinhalense buyer to the final clients and users, i. e., coffee growers, by means of a barter deal or refinancing with the inclusion of conditions that protect the trader, cooperative or government agency involved.

Please contact P&A or the P&A / Pinhalense agent in your area of the world to learn how Pinhalense may facilitate financing to make on-farm coffee processing equipment available to growers and groups of growers of all sizes. We will be pleased to describe to you similar operations already performed and to discuss the specific characteristics of your own potential deal. The reliability and efficiency of Pinhalense equipment are basic requirements for the operation to work in the first place. Likewise, the durability of Pinhalense machines and the worldwide service available are necessary conditions to ensure the flow of payments and the resale and relocation of equipment in case of non-payment.