P&A COFFEE NEWSLETTER
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COFFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE.
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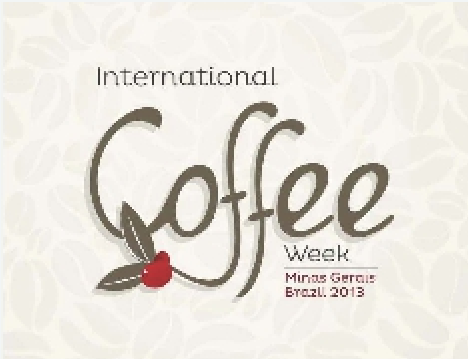
- COFFEE QUALITY AND DRYING AND WET MILLING OPPORTUNITIES: VISIT US AT SCAA (PAGE 4)

HABEMUS COFFEA

The Pope's election at the Vatican held the world's attention last March. Not everybody knows but the coffee consumed at the Vatican comes from Brazil; it is a 100% organic pulped natural Arabica, with at least 85 points at the SCAA scale, grown at the Chapada Diamantina region of the state of Bahia.

Source: Celso L. R. Vegro / Peabirus

MINAS GERAIS ANNOUNCES INTERNATIONAL COFFEE WEEK



The government of Minas Gerais has launched the International Coffee Week to be held at the Expominas Convention Center, in the state's capital of Belo Horizonte. The Coffee Week, scheduled for September 9 to 13, will include two separate events: ICO's 50th Anniversary celebration and meetings and the 8th edition of Espaço Café Brasil, a trade fair and conference usually held in São Paulo. Minas Gerais was chosen by the ICO to host this significant event due to its importance in coffee production. The state alone produces more than 50% of the total Brazilian coffee production, approximately 25 million bags per year.

Sources: Seapa, Faemg and Sebrae

STUDY HELPS TO IDENTIFY BEST MOUNTAIN AREAS TO GROW COFFEE

A study conducted by Embrapa Café at EPAMIG (Agricultural and Livestock Research Institute of Minas Gerais) analyzed thermal factors associated with the mountain side where coffee is grown. According to the researcher in charge of the study, the correct choice of mountain side to grow coffee may reduce the incidence of plagues and diseases, reduce water loss by evaporation, increase yields and improve quality.

Source: Embrapa Café

LOW-COST WASTE WATER CLEANING SYSTEM NOW AVAILABLE

A low-cost cleaning system for waste water from the wet milling of coffee has recently been developed by Embrapa Café, Incaper-ES (Research and Extension Services Institute of Espírito Santo) and EPAMIG. The system consists of three settling boxes assembled sequentially, followed by screens that filter small solid matter. After the cleaning cycle, water is pumped to a reservoir to be reused. The solid residues accumulated in the settling tanks can be used as organic fertilizer; water that has been recycled several times can be used for irrigation. This new system allows savings of up to 76% of the total water volume needed for wet coffee processing and is simple and inexpensive enough to be adopted by small growers. Building instructions (in Portuguese) and pictures of the waste water cleaning system can be accessed directly in the link "SLAR".

Source: Embrapa-Café

FAIR TRADE COFFEE CONTEST ORGANIZED BY BSCA

A project between SEBRAE-MG (Brazilian Agency for the Promotion of Small Business - Minas Gerais) and BR Fair, the Brazilian Fair Trade Growers' Association, led to the 1st Specialty Coffee Competition focused on coffees produced according to fair trade principles. The contest, organized by BSCA (Brazil Specialty Coffee Association), selected nine lots for an online auction held on March 1. The winning pulped natural lot had one bag sold for R$ 1,600 (US$ 812); the winning natural coffee lot had its ten bags sold for R$ 1,300 (US$ 660) each. Judges noted the high quality of the FT coffees sent to the contest.

Source: BSCA

ROBUSTA COFFEE PRODUCTION FALLING IN RONDÔNIA

Local authorities in Rondônia are concerned with the state's decreasing coffee output; over the last 20 years Conilon production in the region feel by approximately 3 million bags. One of the reasons is the migration of growers to other crops. According to IBGE (the Brazilian Institute for Geography and Statistics) the state expects to produce around 1 million bags in 2013.

Source: CaféPoint

PRICE OF AGRICULTURAL LAND SKYROCKETS IN BRAZIL

Investments in agricultural land in Brazil had greater returns than the US dollar, stocks and even gold in the past five years. A recent survey by Informa Economics/FNP indicates that average land prices grew 227% from 2003 to 2012, an annual growth of 12.6%, almost twice the average inflation of 6.4%. Soy, sugar cane, cotton and maize land are the most valuable ones. In Piracicaba, countryside of São Paulo state, for instance, one hectare of land for sugar cane is priced at R$ 41,000 (US$ 20,800), a 305% rise over the past 10 years. Prices of coffee land remain high although the number of actual transactions has fallen substantially as a result of lower coffee prices.

Sources: O Estado de S.Paulo and P&A

PINHALENSE LAUNCHES COMBINED HULLER FOR SMALL GROWERS

Pinhalense has launched a combined machine that cleans, destones and hulls coffee developed specially for small growers during the XII Femagri Trade Show, held in Guaxupé in March. Already available for exports, the equipment consumes less energy and incorporates the same technology used in larger machines.

Source: Cooxupé's website

FREIGHT ON THE RISE IN BRAZIL

Higher fuel (diesel) prices and a recently approved law that regulates the working time of truck drivers in Brazil – after 4 hours of driving, they are now required to rest for at least 30 minutes – are causing freight prices to go up. Growers are facing increases of as much as 28% in freight expenses compared to last crop year.

Source: CaféPoint

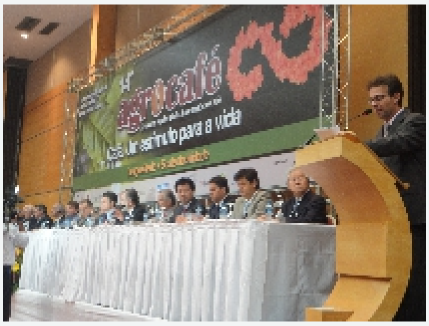
BSCA IMPROVES PROCESS TO GRANT ITS CERTIFICATE

A new method to issue and control the BSCA (Brazil Specialty Coffee Association) coffee quality seal is being developed in partnership with Safe Trace Café. Some of the advantages of this new process include greater safety, a more transparent audit system and the possibility for consumers to access information about coffee lots through mobile phones and tablets.

Source: BSCA

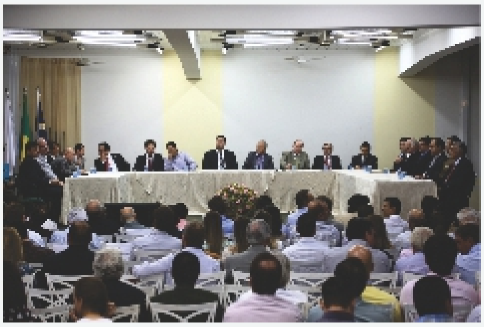
Pictures of the Month

COFFEE EVENTS IN BRAZIL: AGROCAFÉ, FEMAGRI AND FENICAFÉ



AGROCAFÉ 2013 - Held in Salvador, Bahia

FEMAGRI 2013 - Held in Guaxupé, Minas Gerais



FENICAFÉ 2013 - Held in Araguari, Minas Gerais

NEW DYNAMICS IN COFFEE CONSUMPTION AND IMPACTS ON SUPPLY

The International Coffee Organization (ICO) has recently held a seminar on trends in new coffee consuming markets. The event identified relevant issues that will definitely shape the future of coffee consumption and possibly affect supply. Please find below many surprising and interesting facts about fast expanding markets such as Korea, Russia, Vietnam, China and Colombia shared by professionals* directly involved with the coffee business, and Brazil, added by us, which provide a background for important discussions about the types and qualities of coffees to be demanded in the near future.

Korea

· The Korean coffee market, a US$ 3.7 billion business, is driven by three main trends: instant coffee (39% share), coffee shops (37%) and ready-to-drink coffee preparations (24%).
·Roasted coffee which used to represent only 5% of the total consumption in 2007 already represents 15%.
· Coffee culture is rapidly expanding among youngsters; there are already 16,000 coffee shops in the country, the vast majority owned by local brands and not part of chains or franchises.

Russia

· Coffee consumption in Russia grew 11% in the last 8 years.
· Consumption totals 3.6 million bags; per capita consumption is estimated to be 800 grams per year, with a lot of growth potential.
· Soluble coffee corresponds to 70% of the market, with massive preference for freeze dried products and "3 in 1" coffee mixes.
· Roast & ground coffee is still perceived as a gourmet product, and expensive for the majority of the Russian population.

China

· Consumption grows fast driven by soluble coffee and coffee shops.
· Soluble coffee responds for almost all coffee consumption at home.
· In 2000 there were roughly 2,000 coffee outlets in China; today there are approximately 15,000 shops, between domestic and international chains.

Vietnam

· Economic development, an expanding middle class and a young population contribute to coffee consumption growth, specially of "3 in 1" instant coffee mixes.
· Although established local coffee chains like Trung Nguyen have strong presence, international chains opened many stores in Vietnam in recent years, including Coffee Bean & Tea Leaf, Gloria Jean's and Starbucks (the latter opened its very first outlet in Ho Chi Minh City in February).

Colombia

· Domestic coffee consumption, which declined since 2000, resumed growth since 2010 greatly due to the efforts of Toma Café, a promotional program being implemented by a coalition of companies (based on strategic guidelines designed with the assistance of P&A).
· Consumption is consistently growing 1% per year.
· Although R&G is the choice for the majority of Colombians, soluble coffee continues to gain share.

Brazil

· Today the world's second largest consuming country (over 20 million bags) and not a new market but consumption expands at emerging market rates of 3% per year.
· The market is vastly dominated by R&G and there is rapid growth of out-of-home consumption.
· Espresso is the fastest growing beverage due to its ubiquitous presence in neighborhood bakeries, coffee shops and offices.
· Single dose machines are aggressively entering the market and being adopted by the middle and upper classes.

The trends above – greater consumption of Robustas in soluble than Arabicas in coffee shops – show that there are fertile grounds for the expansion of the Robusta supply in the near future. However, a word of caution, these emerging markets still respond for a relatively small portion of global coffee demand and soluble coffee accounts for less than one sixth of world consumption. Nevertheless the tendency to consume more Robusta is compounded by its increasing participation in R&G blends in order to not increase coffee prices, especially in countries still affected by the economic crisis like the traditional markets of the US, EU and Japan. The growth of Brazilian consumption, today equally divided between Arabica and Robusta, also contributes to push the demand for Robusta coffee up.

A bright prospect for Robustas does not necessarily mean a bleak prospect for Arabicas. World consumption is expected to continue to grow at a solid rate of 2% per year or more and although Robusta demand may grow faster, the smaller growth of Arabicas will be on a larger base. Since Robustas replace primarily lower quality Arabicas, the supply scenario is set for now and the immediate future: a permanent search for quality in Arabicas and Robustas, in the former to guarantee its space and to conquer new consumers and in the latter to ensure that substitution can continue even after soluble consumers eventually migrate to R&G.

* ICO Seminar speakers: Ross Colbert, Rabobank Intl / Lee Yunson, Terarosa Coffee / Ramaz Chanturiya, "Rusteacoffee" Association / Marcela Jaramillo, FNC

COFFEE QUALITY AND DRYING AND WET MILLING OPPORTUNITIES: VISIT US AT SCAA

Even though the usual reaction to lower coffee prices is to cut down on investment, coffee processing machinery included, Pinhalense's experience of past price crises shows that investment on equipment has even better results under these circumstances. When coffee prices are low the return on machinery investment is greater because gains in efficiency become more important in order to lower processing costs and the price premiums related to quality tend to be proportionally larger.

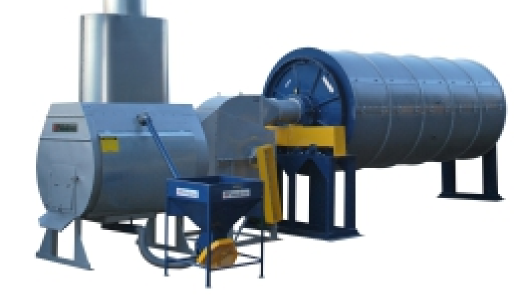
Knowing this but sensible to the smaller available farm income for investment, Pinhalense will launch a special promotion at the SCAA trade fair in Boston. The primary focus of the campaign will be coffee driers but it will also include wet milling.

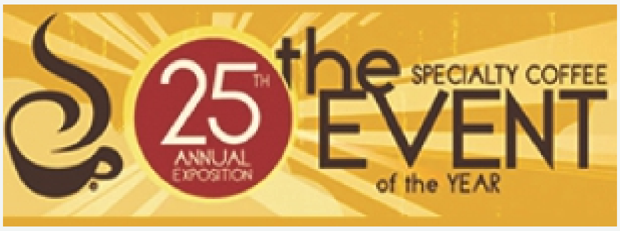
The decision to focus the promotion on SRE rotary coffee driers is due to their two-fold impact on growers' income. First, Pinhalense high-efficiency driers help to decrease the costs of the most expensive operation in green coffee processing. Second, if not properly done in adequate machines, coffee drying causes more damage to coffee quality than most other processing operations. Pinhalense has sold over 20,000 SRE rotary coffee driers to clients in over 30 countries on the 5 continents because of their positive impacts on quality and costs besides their ease of maintenance, availability of local service and durability. “If they ever break, there is local service and skilled technicians to fix them quickly”, said one important client.

Even though it is fully accepted around the world today that Arabicas should be dried in rotary driers, this is not yet the case for Robustas. However drying of Robustas in rotary driers should be favored at the expense of vertical grain-type driers that tend to overheat coffee beans and dry them too fast. It is no wonder that some of the best, highest price-premium washed Robustas are dried in Pinhalense rotary driers. Producers of natural Robustas are also finding how much Pinhalense rotary driers have to contribute to the quality and prices of their coffees.

Wet milling can also cause substantial damage to coffee beans if not properly performed. Pinhalense wet milling lines do not strive to eliminate water consumption at the cost of quality. As the wet mills become larger, Pinhalense offers larger pieces of equipment instead of installing a large number of small units, one next to the other. Mid-size and large growers deserve specific technical solutions that are different from those that work for small growers! Likewise, Pinhalense has been able to master the wet milling of Robusta coffee in ways that are surprising even to the most skeptical clients.

PINHALENSE AND P&A TRADERS AND AGENTS FROM AROUND THE WORLD WILL BE WAITING FOR YOU AT BOOTHS 522/524 AT THE SCAA TRADE FAIR TO GRANT SIZEABLE DISCOUNTS IN ROTARY DRIERS AND WET MILLING EQUIPMENT.





Brazilian Prices

March 28, 2013

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	305,00
Mogiana-SP fair average quality T.6	300,00
South Minas fair average quality T.6	300,00

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	315,00
South Minas	310,00

5%

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	268,00

BM&F (US$/ 60 kg)	
May 2013	162,70
Sep 2013	171,25
Dec 2013	175,50

Real R$/ Dolar US$	
March 28	2,01

Source: www.qualicafex.com.br