

# CONFIDENTIAL

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

**- HOW PINHALENSIS AND P&A USE TECHNOLOGY TO ADD VALUE FOR CLIENTS (PAGE 3 AND 4)**

## **DISCOURAGED COFFEE GROWERS**

Stakeholders who have invested in coffee expect that many Brazilian growers will change to other products in face of the plummeting prices, an initiative that could make prices recover. Over the last two years, coffee prices fell 54%; Arabica prices at ICE Futures fell on June 12 to its lowest level since September 2009. According to growers, the reference price for Arabica is getting closer to Brazilian production cost, which is causing many of them to cancel new plantations and rationalize fertilizers. The recent fall in prices is a result of two years of increasing production in the country due to favorable prices in 2011 plus higher stocks given that growers held coffee when prices started declining in 2012. Many coffee traders estimate that prices will increase over the next three months, but some are not so sure.

Sources: Wall Street Americas / Valor Econômico

### **Bitter coffee**

Coffee prices fall as production grows



Sources: ICO, The Wall Street Journal

## **COFFEE CRISIS IN BRAZIL**

With over 20% of the 2013 crop harvested, coffee growers in Brazil complain about the lack of resources and policies to keep the activity economically viable. A recent interview with the president of the Coffee Commission at the National Agricultural Confederation (CNA) indicates that the Brazilian coffee sector faces a serious crisis amidst harvesting with very low coffee prices and undercapitalized growers. According to him, apart from Funcafé resources the sector also needs a put-and-call program and policies to guarantee income to growers.

Source: FAEMG (Agriculture and Livestock Federation of Minas Gerais)

## **MEETING DISCUSSES GOVERNMENT SUPPORT FOR COFFEE SECTOR**

Directors of the main coffee entities in Brazil met with the Production and Commercialization Secretary of the Ministry of Agriculture to discuss the scenario and difficulties of the coffee sector. The National Monetary Council has recently approved resources in excess of R\$ 1 billion (US\$ 465 million) to finance stocks and coffee purchases and R\$ 600 million (US\$ 280 million) for harvesting. Funcafé will also finance working capital for roasters, soluble manufacturers and coops.

Source: Agência Estado

## **ICE RECEIVES FIRST BAGS OF BRAZILIAN COFFEE**

ICE Futures is now accepting Brazilian washed and semi-washed coffees, which represent a little over 10% of the national production. ICE Futures received the first Brazilian washed coffee lot on June 18; 320 bags were deposited in its NY warehouse. According to CeCafé, this must be regarded as a test for the grading criteria to be adopted in the future. ICE Futures applies a discount of US\$0.09/lb for Brazilian Arabica coffees.

Sources: Agência Estado and Peabirus

## **RAINS AND STRONG WINDS CAUSE COFFEE LOSSES**

Strong rains in May and June are affecting production and quality in important Brazilian producing areas such as São Paulo, Minas Gerais and Paraná. In Araguari and Araxá, in Minas Gerais, losses represent 80% of the coffee in a few locations. Growers who were already picking their coffee or drying it had to completely stop the activity. Rains and strong winds also provoked the premature fall of ripening cherries, which affects quality.

Sources: Reuters and CaféPoint



## NEW CONILON VARIETIES TO PRODUCE HIGHER QUALITY COFFEES

Incaper, the Research, Technical Assistance and Rural Extension Institute of Espírito Santo, has launched 3 new clonal varieties of Conilon coffee, namely Diamante Incaper 8112, Jequitibá Incaper 8122 and Centenária Incaper 8132. A result of more than 20 years of research and development, the new varieties have as main feature the quality factor: they produce coffees rated as "superior" in the cup. All of the new clones are drought tolerant, pest resistant, high yielding and present different ripening stages (to allow growers to harvest over a longer period of time). Approximately 1,200 coffee growers in Espírito Santo have already received seedlings of the new varieties.

Source: Incaper

Conilon Variety	Harvesting time	Average Yield	Deficit of water	Coffee leaf rust	Cup Quality
Diamante Incaper 8112	May	81 bags/ha	Tolerant	Moderate resistance	Superior - 77.5 points
Jequitibá Incaper 8122	June	89 bags/ha	Tolerant	Moderate resistance	Superior - 79 points
Centenária Incaper 8132	July	82 bags/ha	Tolerant	Moderate resistance	Superior - 78 points

## COMMODITIES SUFFER GREATEST FALL IN 18 MONTHS

The Fed's latest announcement that it will reduce its stimulus to the US economy still in 2013 has led to strong falls in commodities negotiated in US dollar. Gold has reached its lowest price in over two years and oil is down by 3%. Corn, wheat and soy are also falling and sugar and coffee are in their worst lows of several years.

Source: Reuters

## COFFEE STORE ON WHEELS FRANCHISE

Barisly Móvel (Mobile Barisly) is a new option for Brazilian entrepreneurs willing to start a new business in coffee. Assembled on a small pick-up truck, Barisly Móvel is equipped with coffee machines, a microwave oven, a fridge and its own energy source. The vehicle can easily be moved around to reach clients and is able to offer different coffee beverages. The franchise requires an investment of R\$ 65,000 (US\$ 30,000); one unit has just started operating in Sorocaba, in the state of São Paulo.

Source: TUDS - Sorocaba



## SINGLE SERVE COFFEE SALES GROWING IN BRAZIL

The single serve coffee market is growing fast in Brazil. Coffee capsules sales have increased from only R\$ 24.5 million (US\$ 11.4 million) in 2008 to R\$ 206.4 million (US\$ 96 million) in 2012, an eightfold growth. Nespresso and Dolce Gusto, both Nestlé brands, hold together a 98.2% share of this market. Euromonitor estimates that the single serve category will grow 18% per year in volume in Brazil until 2017.

Source: O Globo

## Pictures of the Month

### STRONG RAINS AND COLD WEATHER AFFECT COFFEE FARMS IN ITAMOGI, MINAS GERAIS



Sources: Coffee Break and O Tempo

## Brazilian Prices

June 28, 2013

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	295,00 =
Mogiana-SP fair average quality T.6	290,00 =
South Minas fair average quality T.6	290,00 =
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	320,00 ↑
South Minas	315,00 ↑

10.3%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	257,00 ↓
BM&F (US\$/ 60 kg)	
Jul 2013	145,70 ↓
Sep 2013	145,80 ↓
Dec 2013	149,60 ↓
Real R\$/ Dolar US\$	
June 28	2,22 ↑

Source: www.qualicafex.com.br

## HOW PINHALENSE AND P&A USE TECHNOLOGY TO ADD VALUE FOR CLIENTS

As manufacturers and suppliers of coffee processing equipment and traders and consultants in the area of post-harvesting technology, marketing and promotion of coffee consumption, Pinhalense's and P&A's activities are closely related to coffee science, product development and innovation in many different ways, from the transformation of basic and applied research results into actual machines to the inducement of research in areas where the two companies detect the need for new products and solutions. Pinhalense has its own highly specialized research and development team that is devoted to post-harvesting processing. Pinhalense and P&A also have an important role in the introduction and dissemination of technologies and habits, from new processing techniques to coffee consumption. A few examples of Pinhalense's and P&A's involvement with coffee science are found below.

**A NEW PARADIGM IN WET PROCESSING: high quality washed coffees that derive from 100% ripe cherries irrespectively of the harvesting system; processing coffee that is free from adstringency and other defects for a new world of high pressure extraction and new coffee products.**

Pinhalense and P&A are pioneering efforts to wet mill coffee not only to obtain top quality parchment but also other product fractions that are processed to maximize their qualities for specific markets. This ensures maximum returns for growers and processors in spite of the fact that the selectivity of harvesting is falling as a result of labor costs and scarcity. Pinhalense and P&A are spear-heading efforts to ensure that grower and labor incomes are protected and enlarged with the use of modern appropriate harvesting and post-harvesting technology.



**THE PULPED NATURAL / SEMI-WASHED PROCESS: coffees that dry with part of or all the mucilage, gain body and sweetness, and have become a key component of espresso and other blends.**



Pinhalense in Brazil and P&A abroad were instrumental in the creation of this new, intermediate processing system that enabled, first, the repositioning of Brazilian coffees as a high quality product and then moved abroad to change and modernize the concept of wet milling elsewhere.



**COFFEE DRYING TECHNOLOGY: world leadership in the drying of parchment, cherry and green coffee.**



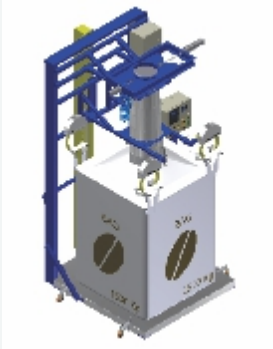
A lot of research and development has gone into perfecting the line of SRE rotary driers that are today the world's best selling drying machines, with over 25,000 units sold in over 55 countries. Today Pinhalense can produce one large SRE-150X drier per hour with the help of computer-operated machine tools and robotics. Pinhalense is now launching a new line of vertical heat exchangers with different options of fuels in order to supply hot clean air to dry quality coffee efficiently.

## PROCESSING GREEN COFFEE ACCORDING TO MARKET REQUIREMENTS: providing the grades and qualities that clients require.

The lines of Pinhalense size and shape graders and MVF gravity separators make use of the latest scientific findings and the company's own research to prepare any type of product the market requires with the highest efficiency. Pinhalense and P&A have helped introduce size grading and size-dedicated densimetric separation in several countries in order to meet the demands of both the specialty and commercial markets, with important gains for traders and processors.



## LOGISTICS AND PROCESS FLOW IN A COST-CONSCIOUS ENVIRONMENT: big-bags scales, bulk-handling, mechanization and automation.



Not only processing machinery has benefited from coffee science but also coffee handling equipment, with the introduction of big-bag weighers and fillers, bulk-handling, full mechanization and even automation in high labor cost environments. CAD (Computer Aided Design) has greatly empowered Pinhalense's long-standing and well-known expertise to conceive and design process flows that meet the specific needs of all clients and markets. It has never been so true that the success of a coffee mill depends both on the quality of the machines and the efficiency of the design flow and equipment layout. Pinhalense has already designed over 18,000 coffee plants of all sizes and types and for all needs in over 90 producing and importing countries on the five continents.

## SUSTAINABILITY - A BETTER ENVIRONMENT INSIDE AND OUTSIDE: dust aspiration, noise reduction, energy conservation and control of contamination.

Coffee science has greatly enhanced Pinhalense efforts to create a better environment for workers in coffee mills, for the mills' neighbors, and for the wider environment that has to absorb water and air emissions from the mills. Pinhalense machinery is also well known for its low energy consumption. A wide array of environmental protection items has been added to Pinhalense's product line in recent years besides energy-saving machines: water filters, dust suction hoods, cyclones, air filters, low-noise fans, etc.



## CREATING SUSTAINABLE BUSINESSES: expanding markets and developing uses for all types of coffee.



P&A created the ICO Guide to Promote Coffee Consumption and applied its recommendations to develop programs in Colombia, India, Mexico, Costa Rica and El Salvador. Both the ICO Guide and the techniques that P&A has been using in its Consumption Workshops incorporate a scientific marketing approach to promote coffee consumption that P&A developed based on the experiences of Brazil and other countries. P&A has been recently combining its expertise in both coffee processing technology and consumption development to create an integrated approach that uses promotion in

producing countries as a means to add value to coffee and to create markets for the different coffee qualities that derive from less selective harvesting. P&A is currently involved with or coordinating sustainability initiatives in different areas with emphasis not only on environmental protection and social responsibility but also better farm management, productivity increase and higher incomes to all involved in the coffee production chain.

