

CONFIDENTIAL

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

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CERTIFICA MINAS COFFEE TO BE SOLD DIRECTLY TO GERMAN ROASTER

German coffee roaster Tchibo has announced that it will be the first international buyer of Arabica coffee certified by Certifica Minas, a sustainability standard created by the government of Minas Gerais. The first lot consists of 50,000 bags to be acquired with a premium above market price. Tchibo, known worldwide for its sustainability activities, operates more than a thousand stores in 8 countries. Over 1,600 growers are currently certified by Certifica Minas with a total volume of 2 million bags produced in accordance with high standards of social, economic and environmental practices.



Source: Secretariat of Agriculture, Livestock and Food Supply of Minas Gerais (SEAPA)

P&A DELIVERS STUDY WITH DEMAND AND SUPPLY SCENARIOS FOR 2020

P&A has carried out a study for CNC (National Coffee Council) to position the sector in regards to future coffee scenarios. The "position paper" analyzes trends in the world's coffee supply and demand and suggests possible strategies for Brazil. Consumption growth, expected to favor Robustas over Arabicas at a rate of 3 to 1, will pose specific challenges for Arabica growers in Brazil and elsewhere. Projections of excess supply are likely to keep prices low and to favor more efficient growers. The study was presented and discussed during a CNC meeting held on August 9 in Ribeirão Preto.

Source: CNC

LOWEST COFFEE PRICES IN FOUR YEARS DO NOT COVER COSTS

Current coffee prices, the lowest registered in the past four years, are not covering production costs for many Brazilian growers. A 60-kg bag sold for US\$309 in 2010 is today being traded for less than US\$154. Not even the minimum price stipulated by government is encouraging the sector.

Sources: Canal Rural and CaféPoint

BRAZILIAN GOVERNMENT RELEASES LARGEST SUM EVER FOR COFFEE

The federal government has released a total of R\$5.8 billion for financing of the coffee supply chain, the largest volume of resources ever directed to the sector. Apart from R\$ 3.16 billion in financing lines from Funcafé, Banco do Brasil will offer R\$ 1 billion for coffee stocks and acquisition. Funcafé's interest rate for cooperatives is 6.5%; Banco do Brasil operates with a 5.5% rate for stocks and acquisition.

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

FIRST RESULTS OF FACE PROJECT TO BE RELEASED

The initial results of the FACE* Climapest Project will be announced on September 3-4 at a workshop organized by Embrapa Environment, in Jaguariúna, state of São Paulo. The study, going on for the past two years, is the first of its kind in the world. It evaluates the impacts of the increasing concentration of CO2 in the air and future water availability for coffee, with the goal of creating adaptation measures toward climate change. The project consists of 12 plots planted with Red Catuaí IAC 144 and Obatã IAC 1669-20; half of them are kept at normal atmospheric conditions and the other half is treated with higher concentrations of carbon dioxide. Factors being monitored include diseases, plagues, invading weeds, vegetal physiology and soil attributes, among others. Partners of the experiment involve several Brazilian universities and institutions.



* FACE stands for Free Air CO2 Enrichment

Source: Embrapa

TASKFORCE ADDRESSES HIGH COSTS OF MOUNTAIN GROWN COFFEE

A taskforce coordinated by CNA (National Agricultural Confederation) is proposing measures that could help solve the crisis of the coffee sector in mountainous areas. Among their suggestions are: technological innovation for harvesting, eradication of unproductive coffee plantations, differentiated prices and help from the government to reduce labor costs. Labor represents 50% of the total production costs in areas with slopes above 25% in Brazil. In Minas Gerais, 70% of the coffee production is concentrated on the mountains, comprising over 67,000 growers and 500,000 hectares (1.2 million acres).

Sources: CNA and CaféPoint



FROST REDUCES BY 62% CROP POTENTIAL IN PARANÁ IN 2014

The frost that hit Paraná in late July was the most rigorous since 2000 and will probably affect 62% of next year's coffee crop, according to the state's Department of Rural Economy (Deral). Although losses are not expected in the current season, coffee quality may be affected due to persistent rains in the region.

Source: Agência Estado

BAHIA TO HAVE RESEARCH STATION FOR CONILON

The first research station for Robusta coffee in southern Bahia will be implemented on a 5-hectare (12 acre) plot recently donated by Ceplac, the Executive Commission in Charge of the Cocoa Plan. The state's Secretariat of Agriculture will create a center to study new varieties of Conilon adapted to the region, which will be distributed to small growers in the future.

Source: Valor Econômico

HARVESTER SALES UP BY 66% IN BRAZIL

A record national production and above average prices of agricultural products are leading Brazilian growers to renovate their fleet. Sales of mechanical harvesters, which totaled 4,442 units from January to July, grew 66% compared to the same period in 2012. Tractor sales increased 26% and amounted to 38,600 units from January to July.

Source: Folha de São Paulo

DUNKIN' DONUTS RETURNING TO BRAZIL



The Dunkin' Donuts chain, which was active in Brazil from 1980 to 2005, is preparing its comeback. The company intends to open 60 to 75 stores within 5 years, with São Paulo, Rio de Janeiro and Brasilia being the priorities. The company's vice president sees positive perspectives for its coffee and donut business in the country, although the cost of living has increased and general consumption has slowed down recently.

Source: Valor Econômico

Obituary

PASCOAL BRANDO NETO 1961-2013

Our colleague Pascoal, who was an active member of the Confidential Team since its inception, passed away on August 10th after a long illness that kept him in a wheelchair for almost 7 years. An active horse rider, quarter-horse and team penning enthusiast, and outdoor person, he never quite adapted to his limited mobility condition. Among other functions at P&A, Pascoal was in charge of the Confidential logistics - mailing lists, new members, delivery, etc - in what we saw like our "subscription department". Pascoal is survived by his wife of 20 years, Eliane, and his thirteen-year-old son Vitor.



CHERRY SEPARATION AND COFFEE QUALITY: "ONE PLOT, MANY FLAVORS"*

For over two decades Brazil has been producing pulped natural (honey) coffees *and* "late harvest" naturals *and/or* washed coffees from a single lot of cherries, that have been strip-harvested together. Today, in addition, there is technology to pulp unripe cherries approaching maturation, with a great positive impact on the cup. The same holds for over-ripe cherries, that can also be pulped.

The approach above is now being tried and adopted in other producing countries. There is much room for the quick dissemination of these techniques and practices considering that "selective" picking is no longer selective in most coffee growing areas of the world.

Coffee picking is becoming less selective as a result of labor costs and scarcity. Growers are increasingly dependent on mechanical cherry separation systems in order to produce high quality coffee. The first separation, according to density, is performed in siphons, mechanical or not, that recycle water and separate the dry and partially dry cherries that float from the denser ripe and unripe cherries that sink. The mechanical separation of unripe and ripe cherries is only possible today with the use of processes that remove the pulp and produce semi-washed or washed coffee.

In *order* to produce high quality coffees from mixed cherries, which is increasingly the case around the world, it is necessary to separate ripe from unripe cherries in a process that requires the removal of the pulp, i.e., pulping of the cherries. If the cherries without pulp, i.e., parchment, dry with some or all mucilage – pulped natural, honey or semi-dry coffee – the resulting coffee beans are likely to taste like naturals with a cup rich in body and sweetness. If all mucilage is removed, by fermentation or mechanical means, washed coffee will be produced with more intense aroma and acidity, whose sharpness will depend on the altitude of cultivation.

There are two ways to separate the unripe cherries: by pressure *during* the pulping process or by size *after* pulping. The former – *during* pulping – is much more flexible and allows cherries at different stages of maturation to produce the qualities that different markets demand. The latter – *after* pulping –, used in Costa Rica for example and now being introduced in Brazil, has a tendency to pulp the semi-ripe cherries with a risk of jeopardizing the production of high quality coffees because parchment from cherries at different stages of maturation is mixed together.

The arguments above may seem confusing in a world that has for a long time harvested and pulped ripe cherries only. But new harvesting conditions mostly everywhere are requiring or even forcing growers to consider the production of several qualities – washed, pulped natural and natural coffees – in the same property and, in turn, to cater for the demands of different markets and consumers, with coffee qualities that may range from specialty, more sophisticated and expensive, to commercial, less costly and better suited for mass consumption, especially in the producing countries themselves. The separation of unripe cherries is allowing the preparation of high quality coffees even when harvesting is not selective; the separate pulping of unripe cherries is creating good quality, less expensive coffees that help leverage local consumption.

The paragraphs above explain why it is now possible, with proper technology and equipment, to offer *single*-farm and *single*-variety blends of natural, pulped natural and washed coffees with a complexity of flavors not possible before. The slogan used by Cafés do Brasil, "one country, many flavors", created to denote its 14 coffee growing regions, may now deserve a new and universal, world-wide version: "one coffee plot, many flavors", valid for small family growers, mid-size farmers and corporate plantations alike.

* Adaptation of article to be published in Portuguese at magazine Espresso.

Brazilian Prices

August 30, 2013

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	300,00 ↓
Mogiana-SP fair average quality T.6	295,00 ↓
South Minas fair average quality T.6	295,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	325,00 ↓
South Minas	320,00 ↓

+ 10.2%

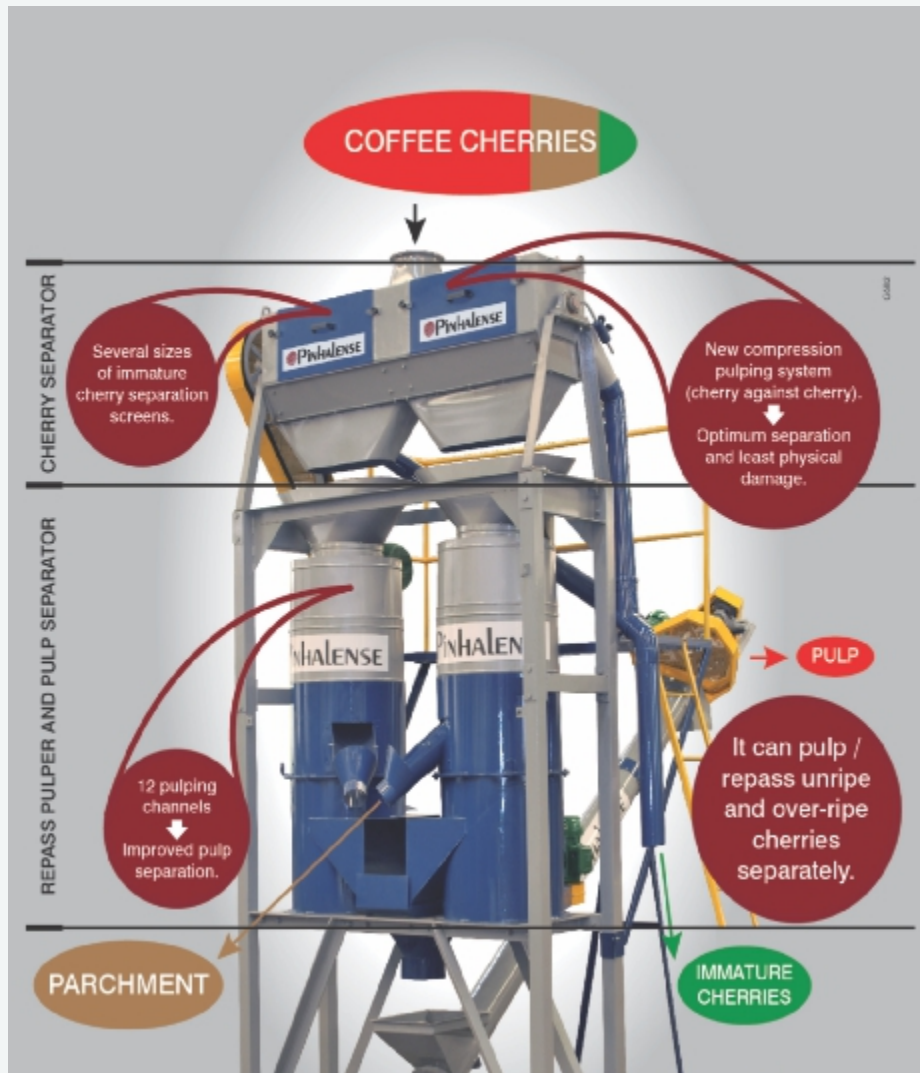
Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	257,00 =
BM&F (US\$/ 60 kg)	
Sep 2013	133,80 ↓
Dec 2013	139,95 ↓
Mar 2014	143,30 ↓
Real R\$/ Dolar US\$	
August 30	2,37 ↑

Source: www.qualicafex.com.br

ecoflex PULPERS WITH IMMATURE CHERRY PRESSURE SEPARATORS

Pinhalense's line of **ecoflex** coffee pulping machines with immature-cherry-separators pulper have always offered growers the unique ability to produce the coffee qualities that markets require, especially high quality washed coffees, irrespectively of the degree of selectivity of incoming cherries.

Pinhalense's recent break-through is the new immature cherry separation system based on *pressure* that replaces the earlier method of forcing the cherries though slots that tore and removed the pulp. The new pressure system brings water consumption to a minimum while preserving the greatest advantage of cherry separation *before* the (repass) pulper and pulp separator: the ability to separate cherries at different stages of maturation for the benefit of quality and in response to market requirements.



The advantages of the new system therefore are:

- reduced water consumption;
- longer useful life for the components of the cherry separator: screens and rotor;
- reduced damage to parchment, as a result of a *pressure* rather than a *forced screening* system;
- easier separation of pulp from parchment; and
- higher output,

besides the earlier advantages of:

- adjustable separation of cherries at different stages of maturation enabling
- the separate pulping of these cherries to obtain the highest quality available in each cherry fraction including semi-ripe cherries and over-ripe cherries that can be pulped in the same machine with different adjustments or in different machines in larger facilities.

In spite of all these advanced features, designed to cope with a coffee world where the selectiveness of harvesting is becoming worse year after year, the new **ecoflex** pulpners perform equally well and require even less water when 100% ripe cherries are received.

Please contact P&A or the Pinhalense/P&A agent nearest you to learn how the new **ecoflex** pulpners can help you get the best out of each and every type of cherry harvested and to increase your income and profits.