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COFFIDENTIAL

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

CONAB LOWERS CROP ESTIMATE

Brazilian coffee production of Robusta and Arabica should add up to 44.6 million bags in the 2014/15 crop according to Conab's new estimate released in May. The volume is 8.7% lower than its first estimate announced in January. For Arabica, the 32.2-million-bag projection represents a drop of 15.8% and for the 12.3 million bags of Robusta it represents an increase of 13.5%, both compared to last year's coffee crop.

Sources: Folha de São Paulo and Valor Econômico

PHYSICAL COFFEE MARKET SLOW IN BRAZIL

The Brazilian physical coffee market has been unusually quiet for this time of year. Volatile prices and uncertainties about the real impacts of the worst drought in 50 years have almost paralyzed coffee trade in Santos. Prices of futures contracts have oscillated as much as 10% in one day due to doubts about crop estimates. Green coffee exports are currently flowing at a rate of 2.5 to 3.3 million bags per month; increasing demand should empty stocks and eventually force new sales until September, traders believe.

Source: O Estado de São Paulo

GOVERNMENT STOCKS NOT TO BE SOLD NOW

The Brazilian government will not sell its public stocks of coffee, especially now that growers are starting to harvest, says the Ministry of Agriculture. The selling of public coffee stocks by the world's largest producer and exporter could pull prices down. Growers' opinion is that public stocks should be sold at the beginning of 2015 when coffee flows are likely to be smaller.

Source: Reuters

NEW MINIMUM PRICE RELEASED

The Brazilian Ministry of Agriculture has just released the minimum price for coffee set at R$ 307,00 (US$ 133.50) per bag of Arabica, roughly US$ 1.00/lb, and R$ 180,80 (US$ 78.60) per bag of Conilon (Robusta), about US$ 1,300.00/ton, to be effective until March 2015. The Conilon price increased 15.48% from R$ 156,58 (US$ 68.40). Arabica's price was adjusted last year, after being frozen at R$ 261,70 (US$ 114.30) since 2009, which did not cover production costs according to the National Coffee Council (CNC).

Source: O Estado de São Paulo

COFFEE COSTS ON THE RISE DUE TO HIGHER WAGES

Adjustments in workers' wages in the coffee sector have led to a general increase in production costs, especially in areas highly dependent on labor, such as Manhumirim in the Matas de Minas region and Conilon growing areas of Espírito Santo state. Arabica production costs have gone up an average of 3.4% whereas Robusta/Conilon production costs increased 5.6%. The study that analyzed the recent changes in production costs was developed by CNA (National Agricultural Confederation) in partnership with the University of Lavras (UFLA).

Source: Valor Econômico

RAIN TO BENEFIT COFFEE AND SUGARCANE EVEN DURING HARVESTING

Recent scattered rains in the Central-Southern part of Brazil at the end of May are more beneficial than harmful for sugarcane and coffee plantations, both of which have suffered a lot from the dry months at the beginning of 2014. Although it is harvesting season for both cultures, a little rain is welcome to humidify the soil. The atypical drought from February to April is expected to cause reductions in sugarcane grinding by 3% this year; coffee losses are estimated at almost 10% compared to last crop.

Source: O Estado de São Paulo

NEW TECHNOLOGY FOR ARABICA PRUNING RELEASED

A new technology for the pruning of Arabica trees called "Planned Arabica Pruning", already used for Conilons, is being developed by researchers at INCAPER (Research and Rural Extension Institute of Espírito Santo). Results of tests conducted at an altitude of 640m (2,100ft) proved very satisfactory. Some of the positive results identified were: more uniform cherry ripening, lower production costs and yield increases of as much as 50%. The Institute will now validate the technology by carrying out further tests at different altitudes in several municipalities of Espírito Santo.

Source: Incaper

NEW RURAL EXTENSION AGENCY TO BE CREATED

The Brazilian government has recently issued a decree creating the National Agency of Technical Assistance and Rural Extension (Anater) intended to work as a development agency similar to Sebrae, the Brazilian Agency for the Promotion of Small Business. Anater will be supervised by MDA, the Ministry of Agrarian Development. The idea behind the new agency is to improve the articulation between rural extension services and agricultural research in order to promote technological innovation and to disseminate scientific knowledge for growers to achieve higher yields, have improved access to public programs and increase their incomes.

Source: Valor Econômico

LEADING COFFEE ROASTER PLANS EXPANSION

Apart from the consolidation of its coffee brands in the Southeast and Southern regions of Brazil, 3Corações now plans to expand to other countries in South America. The company expects to grow 11% in 2014 after a 7% growth in 2013. The roaster has successfully launched its single-serve machine called TRES and plans to build a capsule factory in Brazil by the end of 2015. 3Corações is currently the national market leader, with a 21% share of the R&G segment.

Source: Valor Econômico

MECHANIZATION IS HIGHLIGHT AT EXPOCAFÉ 2014

The 17th issue of Expocafé, the largest coffee trade fair in Brazil, had substantial space devoted to the mechanization of coffee cultivation and harvesting. Attendance was smaller than last year perhaps due to the lower crop, whose harvesting started earlier than usual, and worries about price volatility. However this did not prevent a lot of business to be transacted again with emphasis on the equipment above. One of the highlights of the fair was the launching of Pinhalense's first self-propelled coffee harvester.

Source: P&A

Pictures of the Month

17th EXPOCAFÉ - TRÊS PONTAS - MINAS GERAIS STATE









Brazilian Prices

May 30, 2014

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	425,00 ↓
Mogiana-SP fair average quality T.6	420,00 ↓
South Minas fair average quality T.6	420,00 ↓

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	445,00 ↓
South Minas	440,00 ↓

+ 6.0%

Conilon/ Robusta (R$/ 60 kg bag)	
Colatina-ES fair average quality	245,00 ↓

BM&F (US$/ 60 kg)	
Jul 2014	212,20 ↓
Sep2014	216,70 ↓
Dec 2014	222,25 ↓

Real R$/ Dolar US$	
May 30	2,25 ↑

Source: www.qualicafex.com.br

NEW HARVESTING OPTIONS*

Although most coffee is still harvested manually, there are several ways to harvest coffee by hand and different mechanical harvesting technologies are available. Manual harvesting can be either (1) selective (only ripe cherries are finger picked) or by (2) stripping (most or all cherries on a branch or part of it are hand collected together). Mechanical harvesting may be performed with the help of (3) hand-held machines, larger machines towed by tractors, or large (4) self-propelled machines that have their own cherry cleaning systems.

On average, a person stripping coffee harvests 3 to 5 times more coffee than a person selecting mostly ripe cherries. Hand-held harvesters enable a picker to harvest 20 times more coffee than a person performing selective harvesting. Finally, a large harvester on wheels can pick up to 500 times more coffee than a single person resorting to selective harvesting. Not all above-mentioned technologies can be applied in coffee producing areas where the coffee trees have ripe and unripe cherries, cherries under development, flowers and flower buds at the same time on different branches or at different points of the same branch. However, localized stripping and hand-held harvesters can be used in these areas as described below.

Manual stripping can be performed in just 2 to 4 rounds, instead of the 8 to 12 rounds that are typical of selective picking. Stripping should be concentrated on the parts of the tree with the highest percentage of ripe cherries, with due attention devoted to the preservation of flower buds, flowers themselves and small cherries. Additional efficiency can be gained by covering the ground with plastic cloth, so that the harvested cherries can be dropped on the cloth rather than placed in baskets or bags.

Hand-held mechanical harvesters with their own single-stroke engines or battery-powered electric motors can also be directed at branches where cherries are mostly ripe in order to drop then onto plastic cloths covering the ground. Since they are more aggressive than human hands performing a stripping operation, these tools should be kept away from branches with flower buds and flowers.

Traditional selective harvesting should be replaced by modern systems whenever the cost savings introduced by the new harvesting techniques offset the losses in product price due to cherries that are not ripe. The choice of on-farm processing technology compatible with the harvesting of mixed cherries helps to reduce the losses caused by cherries that are not ripe and paves the way for the adoption of modern harvesting systems.

You may judge that what is written above is applicable in Brazil but not in other countries. You will be surprised to learn that trials and even actual commercial use of the concepts above are taking place in countries as diverse as Mexico, India and Colombia, let alone the cases of Brazil, Hawaii and Australia where these practices are routine today.

Another probable concern is that if selectivity falls, less quality coffee will be produced. This can be easily solved by producing more coffee altogether, be it by increasing yields, which is preferable, or by planting more coffee. Growers' income will increase in either case.

Still another doubt regards the fear that mechanical sorting of cherries may cause indiscriminate increase in the percentage of unwanted cherries that are harvested. This may be easily avoided by using incentive and pay schemes for pickers to harvest as many ripe cherries as possible.

Finally, you may affirm that mechanical harvesting will create unemployment in coffee areas. Shortages of labor to pick coffee already seem to affect many coffee producing countries, including Central America and even India, where the large population would indicate otherwise. In addition, labor that remains in coffee will have higher incomes and offer better chances to their children. Others who leave will seek better wages than they had before, with or without government help.

The likelihood is that all — growers and labor — will be better off if proper conditions are created to facilitate the transition from an archaic to a modern coffee harvesting system. This paves the way for economic sustainability and poverty reduction!

** This Outlook is a consolidation and update of the ones found in Coffidential Nos. 03 and 23 dated October 03, 2007 and June 02, 2009, respectively. Please refer to them for further information.*

PINHALENSE SELF-PROPELLED COFFEE HARVESTER P1000

At first sight the machine below, the P1000 coffee harvester just launched by Pinhalense, may not find applications in countries other than Brazil, Hawaii and Australia. On closer analysis the story may be different. There are unshaded coffee growing areas in many producing countries whose slopes below 30% would allow mechanical harvesting by the new Pinhalense harvester. The P1000 is the machine currently in the market that can handle the steepest slopes and is one of the narrowest too, meaning it can harvest coffee rows that are closer together.

A lot of coffee is currently being replanted and large areas are being renewed due to the strong outbreak of coffee leaf rust in Latin America and old age coupled with low productivity elsewhere. This is a unique opportunity to plant the renewed areas with a coffee tree pattern/layout that is compatible with mechanical harvesting by large self-propelled machines like Pinhalense's P1000.

Coffee areas with densities as high as 7,000 coffee trees per hectare can be replanted with coffee rows 3.0m (~10ft) apart and trees spaced 0.5m (1.6ft) in the row. This spacing and "hedge" planting are fully compatible with mechanical harvesting by the P1000!

The price of a machine like Pinhalense's P1000 may be considered a huge barrier for the use of mechanical harvesting by small growers. The Brazilian experience demonstrates otherwise. Not only mechanical harvesters are purchased by groups of small growers who share their use but also there are persons and companies that rent the machines to growers or perform harvesting themselves for the growers.

Last but not least, the purchase of the P1000 can be financed by Pinhalense to be repaid in up to 5 years with very competitive interest rates and a grace period to start payment. Talk to the Pinhalense agent closest to you or ourselves (P&A) to learn how you can transform your mechanical harvesting dreams in reality!