

CONFIDENTIAL

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

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PRODUCTION FALLS FOR THREE CONSECUTIVE YEARS FOR FIRST TIME SINCE 1965

Brazil, the world's leading coffee producer, may see its production fall 18% to 40.1 million bags as the harvesting season ends in September, estimates the National Coffee Council (CNC). Experts also predict that coffee growers may deliver less than 40 million bags in 2015, which could be the sharpest production fall in three decades. The deficit in coffee production worldwide may last until 2016 since Brazil represents approximately 36% of the global output. Lower production and higher consumption may cause a global shortage of 10 million coffee bags.

Source: Exame

BRAZIL RUNNING OUT OF COFFEE STOCKS

Brazilian coffee stocks have drastically diminished and the country should have difficulties to accumulate coffee inventories in the coming years after the worst drought in recent history. Brazil is expected to require 53 to 55 million bags for exports and domestic consumption in 2014 to be compared with production figures that may fall below 45 million bags. Stocks on March 31, estimated by government at 16 million bags, will just about meet the deficit and little will be left to complement the 2015 crop that is not likely to be much greater.

Source: Reuters

BRAZIL TO BEAT USA IN OVERALL COFFEE CONSUMPTION SOON

A recent survey by Euromonitor International indicates that domestic coffee consumption in Brazil in 2014 should reach 1 million tons, which is equivalent to 20.8 million bags of green coffee, a figure very close to that of the USA, the world's largest coffee consuming country today. ABIC (Brazilian Coffee Roasters' Association) confirms that estimate and mentions yet another trend based on its own surveys: the search for higher quality coffees by local consumers. While total coffee consumption grows at a rate of 2 to 3% per year in Brazil, that of gourmet coffees grows 15% per year.

Source: CaféPoint

COFFEE BERRY BORER STILL A CHALLENGE FOR GROWERS

As a means to combat the coffee berry borer, the Brazilian Ministry of Agriculture has recently authorized the imports of the active ingredient Ciantraniliprole to make insecticides to be used in the state of Minas Gerais only, on an emergency and temporary basis. There are however concerns that the product will not reach Brazil in time for production and use when it will be most needed, next January and February. Berry borer caused losses may add to drought losses already expected for 2015.

Source: Valor Econômico

25TH ANNIVERSARY OF COFFEE PURITY SEAL PROGRAM

ABIC (Brazilian Coffee Roasters' Association) is celebrating the 25th anniversary of its Purity Seal program with a new goal to collect and analyze 3,500 coffee samples per year. The seal was a pioneering certification and self-regulation program in the food & beverage industry when created in 1989. Samples of coffee brands, produced by ABIC members and non-members, are regularly collected at retail outlets by independent auditors and analyzed by accredited laboratories for their purity. There are 459 coffee companies (1,148 brands) currently participating in the Purity Seal program. The seal was part of a larger program that led Brazil's domestic coffee consumption to grow from 6.4 million to 21 million bags in the course of 25 years. Per capita coffee consumption grew from under 2 to over 6kg per person per year in the same period. P&A used the ABIC-Purity Seal-Promotion Campaigns experiences as well as those of other countries and the methodology it derived from them to create the Step-by-Step Guide to Promote Coffee Consumption in Producing Countries commissioned by the International Coffee Organization (ICO). P&A then applied the Guide's recommendations and its own know-how to orient the creation of programs



to promote coffee consumption in India, Mexico, Costa Rica, El Salvador and Colombia in this order. The Toma Café Program managed to increase coffee consumption in Colombia after it had been falling for many years.

Sources: ABIC and P&A



15 YEARS OF COFFEE RESEARCH COMMEMORATED

Created in 1999 to coordinate the Coffee Research Consortium that gathers more than 800 researchers and over 40 research institutions, Embrapa Café has supported the development of more than a thousand coffee research projects. Among the work developed by the Consortium we can highlight studies in genetic enhancement that led to the decoding of the coffee genoma, the Genoma Coffee Project, currently with more than 200,000 DNA sequences and 30,000 genes identified related to mechanisms of growth and development of the coffee tree. Dozens of Arabica and Conilon cultivars, including the recently launched Diamante Incaper 8112, Jequitibá Incaper 8122 and Centenária Incaper 8132, mentioned in Confidential No. 85, resulted from research work undertaken by the Consortium.

Sources: Embrapa and P&A

BSCA BECOMES Q-GRADER CERTIFIER

The Brazil Specialty Coffee Association (BSCA) has established a partnership with the Coffee Quality Institute (CQI) in the United States and is now able to provide Q-Grader training and certification in Brazil. The program aims at certifying professional cuppers who are capable of evaluating specialty coffee according to international standards. From now on, BSCA will be the main office in Brazil responsible for receiving, codifying and sending the results to CQI and is ready to receive samples for Q certification.

Source: Café Editora

NEW SINGLE-SERVE PLAYER IN THE MARKET

Brastemp, part of the Whirlpool group, launched its first single-serve machine called B.blend in São Paulo on August 26. The innovative machine is capable of preparing 10 different types of beverages such as coffee, juice, tea and soft drinks, all of which will be ready for consumption without the need of heating or cooling beforehand. Consumers will be able to order B.blend capsules online or using an app with total delivery time under 48 hours in large cities. B.blend is the result of 4 years of research and development at Whirlpool; its sales are expected to start by the end of 2014. The single-serve sector has increased 46.5% in Brazil from 2012 to 2013.

Sources: Exame and Época Negócios

ATTRACTIONS FOR THE COFFEE TRAVELER

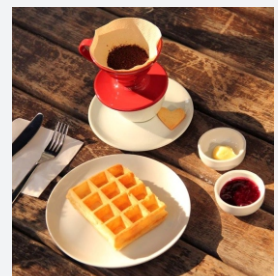
Tourists coming to Brazil and interested in learning more about coffee have good options like the Coffee Route, in the northern part of Paraná state, and the Coffee Museum, in Santos. The Coffee Route is composed of 34 sites in 9 municipalities, including historic coffee farms, museums and other landmarks. Between May and August, tourists can also participate in coffee harvesting, a memorable experience for the majority of foreigners. For more information, please access: www.rotadocafe.tur (in English and Spanish). The Coffee Museum, housed in a magnificent 1922 building where the Santos Coffee Exchange used to operate, is a symbol of the wealth brought in by coffee at the time. It receives around 20,000 visitors per month. The museum holds a permanent exhibition with pictures, objects and documents about the evolution of the coffee culture in Brazil and its contribution to the country's development. If you are interested to include these and other coffee attractions in your travel plans contact TravelBox (contato@travelbox.com.br | Facebook: [travelboxviagens](https://www.facebook.com/travelboxviagens)).

Sources: Portal Brasil and TravelBox



Pictures of the Month

SÃO PAULO COFFEE WEEK 2014



PRESIDENTIAL ELECTIONS, COFFEE SUPPLY AND PRICES

It is a well known fact that the Brazilian coffee crop moves the market price of the product because the country is the largest producer in the world. This year every single analyst is paying close attention to climate conditions in the coffee growing areas of Brazil to evaluate their possible impacts on next year's production. Since Brazil has this important role in the formation of coffee prices, it is worth investigating if other internal affairs in Brazil such as presidential elections also have any influence on the global coffee market.

This correlation is crystal clear in the local stockmarket. Presidential elections will take place next October. Since last June, every opinion poll that signalled the slightest perspective of an opposition win had a positive impact on the price of stocks. Former Minister of Environment Marina Silva, now in the opposition, is already leading in recent polls. The message is clear: the market believes that long term returns of listed companies will be better off with the Workers' Party (PT) out of office.

Graph 1 shows that after June 2014 the stock market index had gains the day before and/or on the same day that a poll was released. There were 10 opinion polls since then.

For the coffee market such correlation is non-existent or random. Graph 2 shows that coffee prices were up on 7 out of 10 days preceding an opinion poll release. On the same day of the poll release prices were up only 5 times (against 8 such occasions in the case of stocks).

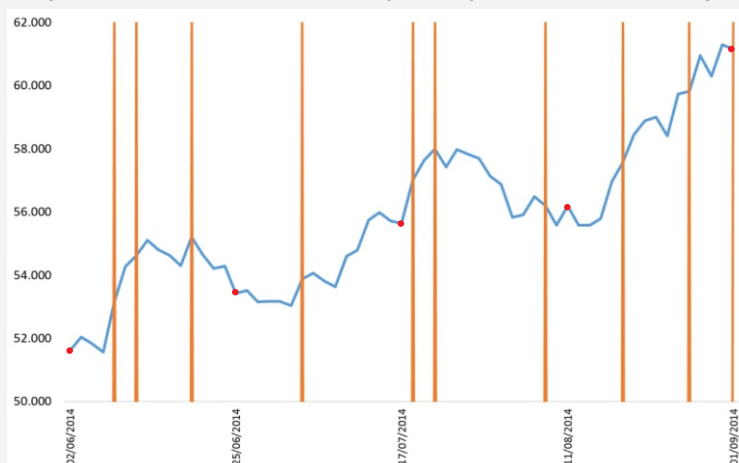
But this lack of correlation is questionable when one notes that in the two recent polls that show Marina Silva with greater possibilities of winning the elections the price of coffee went significantly up. For the last poll the price change was only perceived the day after due to the Labor Day holiday in the US. Since Marina has had historical environmental quarrels with the agriculture sector in Brazil, these price changes may signal market worries that Brazil's future supply of coffee may be curbed by government intervention or regulation.

It is a small sample and more opinion polls will be released along September to test this hypothesis. I particularly think it is a mere coincidence. In my opinion a few factors contribute to the lack of correlation hypothesis:

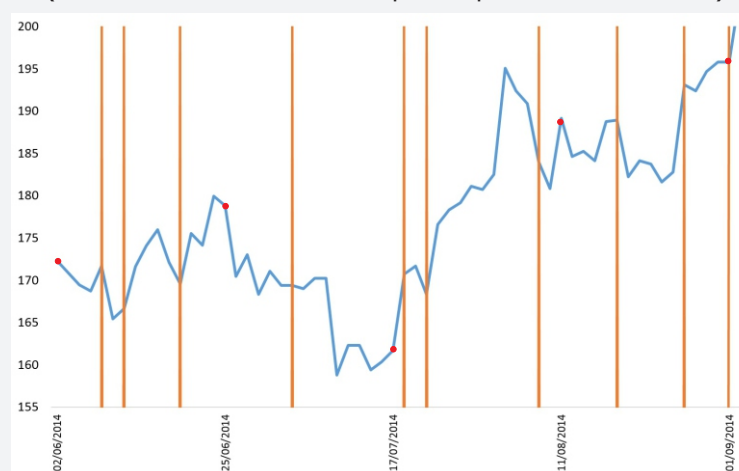
- Brazilian agriculture has historically returned good performance and huge productivity gains in spite of the local government's political agenda;
- Price formation in the coffee market (and commodities in general) is near-sighted, short term. The current crop, next year's crop, current consumption and change in stock levels are more important factors than political shifts (not disruption) in local governments that may have an indirect impact on supply only in the medium to long term.

- Specifically in the case of Marina Silva, the environmental and sustainability agendas are not expected to impact the Brazilian supply of coffee. Coffee farming and processing in Brazil are considered of low environmental impact. There is margin to expand productivity and most potential new areas of production do not impose threats to native vegetation or indigenous communities.

Graph 1 – Brazilian stock market index since June 2014
(Bars indicate dates when opinion polls were released)



Graph 2 – NY ICE Coffee Contract since June 2014
(Bars indicate dates when opinion polls were released)



Brazilian Prices

August 29, 2014

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)

| | | |
|--------------------------------------|--------|---|
| Cerrado-MG fair average quality T.6 | 475,00 | ↑ |
| Mogiana-SP fair average quality T.6 | 470,00 | ↑ |
| South Minas fair average quality T.6 | 470,00 | ↑ |

Arabica Pulped Naturals (R\$/ 60 kg bag)

| | | |
|-------------|--------|---|
| Cerrado-MG | 555,00 | ↑ |
| South Minas | 550,00 | ↑ |

+ 18.1%

Conilon/ Robusta (R\$/ 60 kg bag)

| | | |
|----------------------------------|--------|---|
| Colatina-ES fair average quality | 253,00 | ↑ |
|----------------------------------|--------|---|

BM&F (US\$/ 60 kg)

| | | |
|----------|--------|---|
| Sep 2014 | 235,40 | ↑ |
| Dec 2014 | 243,25 | ↑ |
| Mar 2015 | 249,75 | ↑ |

Real R\$/ Dolar US\$

| | | |
|-----------|------|---|
| August 29 | 2,24 | ↓ |
|-----------|------|---|

Source: www.qualicafe.com.br

EFFICIENT AND SUSTAINABLE BULK CONTAINER LOADING

Pinhalense's line of CPC blowing machines to load containers with coffee in bulk has become state-of-the-art around the world. It is not an exaggeration to say that today CPC machines load more green coffee into containers than any other competing equipment. The reasons for this leadership are many.

First and foremost comes efficiency: the CPC loads a 20' container with up to 350 bags of 60kg (21 tons) in less than 20 minutes to be compared with at least twice that time for most other machines. In addition, not all machines in the market can load 21 tons of coffee into a 20' container.

Coffee bean spillage is zero with the CPC machines, which means a better ability to deliver what has been contracted and the lack of need to sweep and reload coffee, with obvious labor and time savings. Minor as this point may seem, it is relevant on financial and profitability grounds when one realizes that in order to account for spillage exporters often add more coffee than actually sold to avoid clients' claims.



The CPC's fan and the shape of its adjustable-height coffee spout were especially designed to avoid damage to beans; it does not occur at all. The fan is also compatible with dust suction by the cyclone that may or may not be operated depending on the type and cleanliness of coffee being loaded, exporter and importer requirements, and strategies to ensure that the contracted weight is delivered.

Loading efficiency is complemented by the CPC's rotary-tower structure that allows the machine to spin around itself and the coffee outlet to rotate almost instantly from the container just loaded to an empty container already positioned at right angles or at the opposite side of the container just loaded. Down-time between container loads is so small that efficient equipment layouts and good truck-container logistics may enable the CPC to load up to three containers per hour!

Last but not least, let's address energy and labor costs. The high performance, low-power fan coupled with its high output render the CPC the machine with the lowest power (HP) requirement per ton of coffee loaded in the market. This means lower electricity costs in a world of escalating energy prices and growing concern over scarce resources. Labor requirements are also the lowest in the market because the CPC is operated by a single worker who both activates the mechanical controls and supervises the operation.

In a nutshell, the CPC is unbeatable when proper net present value (NPV) and return on investment (ROI) calculations are duly made. If the CPC's high efficiency makes it sustainable in the economic front, what about its standing in the environmental and social pillars of sustainability?

The CPC requires little energy to operate and as such conserves scarce resources. Its cyclone ensures a dust-free work environment and the adjustable-height coffee spout eliminates the need to have workers manually maneuver the coffee outlet in order to fill the container. Competing "technologies" often require workers not only to direct the spout manually exposing them to dust and physical risk but also have workers to stand on the narrow sides of mobile feed hoppers with high risk of falls and accidents. It is not unusual to see the mobile hopper and blower being pushed around manually while workers stand on its top and electric cables lie on the floor... The CPC blowers have been designed to comply with the labor and environmental legislations of all countries, including those that have especially rigorous requirements, and the regulations of highly responsible companies. Pinhalense's CPC bulk container loaders comply with the three pillars of sustainability: economic, social and environmental.