

CONFIDENTIAL

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

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COFFEE IS 5TH LARGEST EXPORT PRODUCT OF BRAZIL'S AGRIBUSINESS

Brazilian coffee exports from January to October 2014 totaled more than 30.2 million coffee bags, an increase in volume of 15.65% compared to the same period of 2013, according to data released by the Ministry of Agriculture, Livestock and Food Supply (MAPA). Total export revenues of US\$ 5.36 billion were 20.75% higher than in the similar period of last year. Coffee is the 5th largest agribusiness product exported by Brazil, after soybeans, meat, sugar & ethanol and timber products. The biggest importers of Brazilian coffees are Germany, USA, Italy, Belgium and Japan.

Source: CaféPoint



STRAUSS / 3CORAÇÕES ACQUIRES CAFÉ ITAMARATY

3Corações group, the leading coffee roaster in Brazil, has taken a step forward in the national market by purchasing Café Itamaraty, a leading brand in northern Paraná state. Itamaraty has diversified operations in the food sector; its coffee segment is of medium size, with significant presence in both Paraná and some regions of São Paulo. 3Corações plans to expand its market share in southeast Brazil by buying important regional brands, a strategy that may bring faster results than introducing its own brands.

Source: Valor Econômico

MASTER BLENDERS AIMING FOR HIGHER SALES IN BRAZIL

Master Blenders is working to regain leadership of the Brazilian R&G market; since 2012 this position has been occupied by its close competitor 3 Corações, according to Nielsen. The multinational has invested R\$ 30 million (US\$ 11.2 million) in advertising for its top selling Pilão brand in 2014, along with other actions. Its expansion strategy includes consolidating Pilão in states other than São Paulo and Rio de Janeiro, where it is market leader, and also investing in coffee shops. Master Blenders has an estimated total share of 18% of the Brazilian coffee market today, with the Pilão brand alone accounting for 12.3% of the market.

Source: Valor Econômico

SINGLE-SERVE SALES ALSO EXPANDING ONLINE

Brazil has surpassed France and now ranks second in Delta's online sales of single serve coffee. The country is only behind Portugal, where Delta is headquartered. Delta arrived in Brazil in 2012 and so far has sold over 50,000 capsule machines. The company has partnered with local retailers to sell its coffee machines and capsules and is also supplying the equipment to hotels in São Paulo.

Source: Folha de SP

FIRST 100% ROBUSTA GOURMET COFFEE LAUNCHED

The first 100% gourmet Conilon R&G coffee was launched in São Gabriel da Palha, a town in Espírito Santo state, in early November. The project is an initiative of six Robusta/Conilon coffee cooperatives that have been working to break the paradigm of Conilon as a low quality coffee or a mere raw material for blends. According to experts, the new product presents chocolate aromas and mild flavour. The group is launching the coffee initially in its home state of Espírito Santo and will later push it in the national market.

Source: Peabirus



EFFECTIVENESS OF NEW TECHNOLOGY FOCUSED ON WATER SAVINGS CONFIRMED

A new technology called "hidroretentor polymer" being researched by the Federal University of Lavras (UFLA) since 2009 has already been validated for eucalyptus and now its effectiveness and applicability to coffee are also being confirmed. The gel that is placed inside the pits where coffee seedlings are planted serves as water supply during drought periods and soil conditioner. The research project, focused on water savings and sustainability, aims to support coffee growers with technologies that contribute to the rational use of water in agriculture.

Source: CaféPoint

OUTSTANDING PARTICIPATION OF MINAS AT 24th ILLY QUALITY COMPETITION

The 24th Ernesto Illy Quality Competition for Espresso Coffee announced the 40 finalists of the contest: 38 coffee growers come from Minas Gerais and only 2 are from São Paulo state. The results of the competition will be released in March 2015 when the five winning coffees will be known as well as the regional champions.

Source: CaféPoint

SPECIALTY COFFEE SECTOR INVESTS IN SOUTH KOREA

Brazilian specialty coffee growers and traders that attended the Cafe Show that took place in Seoul, South Korea in November, came back home with estimated business deals of approximately US\$ 10 million, including immediate transactions and futures contracts for the next 12 months. Twelve Brazilian companies sold 30,000 specialty coffee bags during the event, which represents 50% of what Brazil exports to South Korea annually. Brazil organized 18 cupping sessions of 15 different coffee lots for local buyers and opinion makers. South Korea is a strategic market for Brazil's specialty coffees. Brazilian coffee exports to the country totaled US\$ 55.6 million in 2013.



Source: CaféPoint

COFFEE PRICES INCREASED WELL BELOW INFLATION IN 20 YEARS

A study done by Fipe, São Paulo State University's Economic Research Foundation, covering Brazilian retail prices of different food items over the last 20 years indicates that shrimp registered the highest price increase in the period, with a hike of 1,254%; tomato comes in second place, registering a 700% increase. Sugar and coffee, two very important agri-products in Brazil's food basket faced difficulties to transfer price increases to consumers. Coffee prices only increased 107% in retail, compared to the total average inflation of 278% of the food sector in the 20-year period. Coffee consumers may experience a boost in prices over the next few months in face of reduced world coffee stocks and estimates of a lower Brazilian crop in 2014/15.

Source: Folha de SP

SPECIALTY CONILON AWARD CEREMONY IN ESPÍRITO SANTO

Fifteen years ago nobody would have thought that Conilon could have a place between quality coffees. However the recent Prêmio Conilon Especial (Specialty Conilon Award) has proved everybody wrong as samples of Conilon were graded as fine coffees during the Espírito Santo State Conilon Quality Competition. The contest, divided in Natural and Pulped Natural categories, selected the best Conilon coffees of Espírito Santo and offered awards of up to R\$ 50,000 (US\$ 18,000) to growers. Conilon coffee is the main agricultural product of the state with an output of 8.7 million bags in 2013. Nescafé/Nestlé participated in the event by evaluating the 50 finalists on the item sustainability of production.

Source: CaféPoint

Pictures of the Month

SPECIALTY CONILON AWARD CEREMONY IN ESPÍRITO SANTO



COFFEEONOMICS – HOW INCENTIVES SHAPE THE COFFEE MARKET AND CULTURE

Economists like myself like to analyze incentives (hidden or visible) that people face when taking decisions. Incentives are the basis for economic analysis and policy evaluation. Since we are constantly exposed to many kinds of incentives it would not be exaggeration to say that they shape our daily life and habits.

Sometimes public policies create incentives that backfire the original intentions of policy makers. A classic example is the law that makes the use of seat belts mandatory. Once using a seat belt, the driver feels safer and has the incentive to speed up. The probable outcome is the increase of car accidents in the area when compared to the period prior to the seat belt law.

Most of the time the market creates those incentives. That is not different in the coffee world. So let's take a look at some of the incentives and their outcomes that are currently affecting the coffee market and the way we drink coffee.

Starting on the consumption side of the value chain, today it is usual to see coffee trucks in big cities serving a whole menu of hot beverages just like any retail coffeehouse. This is a trend that already affects the supply chain, machines and equipment manufacturers in particular, and consumers that now have a new option for convenience. I am convinced that the idea of a coffee truck was not conceived inside a marketing department but in the financial department of those coffee companies. Real estate prices in big cities are creating huge incentives for coffeehouses to leave their actual buildings and move to the street literally.



That is the reason we do not see the food truck fever hitting smaller cities or areas where real estate prices are not a cost issue. You may ask why this did not happen before when real estate prices were rocketing in the developed economies. The reason is that disposable income was then higher both for coffee shops and their consumers.

In a similar way other cost pressures are creating incentives for coffeehouse chains to change their menu affecting the habits and typical profile of consumers in those places. In 2014 there were huge increases in the prices of coffee, milk and cocoa. All of them when combined are significant to the cost structure of a hot beverages menu that is the main pillar of any coffee shop. So to increase prices in the hot beverage menu can be really harmful for short term demand and long term prospects of a coffeehouse. This fact is creating incentives for managers of those companies to seek alternatives to retain margins without increasing the prices of coffee beverages.

That is the reason whole menus of coffeehouses are being changed with a noticeable expansion of food menus. Coffee shops are "dinerizing" their menus and pushing foods with higher prices (and margins). It is expected that the demand for food in a coffeehouse is more price inelastic than the demand for coffee itself. So this move towards the food menu has the expected outcome to keep the coffee shops' margins without the need to increase the price of the beverages. It is the so called product cost cross-subsidization.

As shown above, prices are the main drivers of incentives in the economy. Moving away from the end user in the value chain towards the production side, what are the incentives being created by this year's increase in the price of coffee?

One obvious incentive is to increase new plantings of coffee which will affect total production in the medium-term. But will higher prices also create incentives to increase yields? That is something to be further studied. On the one hand the coffee producer facing higher prices tends to have more disposable income to invest in productivity increase. On the other hand a higher price delivering a good profit margin may satisfy the grower up to a point that he does not have many incentives to increase his margin even more by increasing yields. If that is the case, a depressed price market environment may be better for coffee yield increases than a good price scenario like the one we saw in 2014.

Brazilian Prices

November 28, 2014

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	465,00 =
Mogiana-SP fair average quality T.6	460,00 =
South Minas fair average quality T.6	460,00 =
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	535,00 =
South Minas	530,00 =

+ 16.3% !

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	280,00 ↑
BM&F (US\$/ 60 kg)	
Dec 2014	224,75 ↑
Mar 2015	226,75 ↑
Sep 2015	237,10 ↓
Real R\$/ Dolar US\$	
November 28	2,56 ↑

Source: www.qualicafe.com.br

DUAL-PURPOSE COMBINED HULLER FOR PARCHMENT AND CHERRY COFFEE

Demand has been increasing for flexible hullers that can handle micro, small and mid-size coffee lots for exports and growing domestic markets. Such combined hulling units are demanded not only by large farmers and small traders but also by large millers who want to create separate processing lines for specialty and certified coffees or to supply the local roast-and-ground and soluble industry.

Pinhalense responded to this demand by adding a new parchment huller-polisher DCP to its state-of-the-art combined hulling set CON. The new machine, identified by the code CON-DCP, is offered with capacities in the range of 600 to 1,200kg of green coffee per hour.



DCP PARCHMENT HULLER-POLISHER



CON-6-DCP

In addition to the parchment huller-polisher and the cold huller for cherry coffee, the CON-DCP combined hulling unit for parchment and dry cherry coffee incorporates all the features of the CON line, namely:

- precleaner (optional),
- floating-bed destoner,
- oscillating screen to separate unhulled coffee and to separate hulled coffee in two sizes,
- built-in repassing facility and
- catador to separate defects (the less dense fractions).

As a result the CON-DCP also incorporates all the advantages of the CON line:

- 100% hulling,
- higher hulling yields,
- low energy consumption,
- reduced space, etc.

The CON-DCP is a compact coffee mill itself that can deliver finished run-of-the-mill (ungraded) coffee to local roasters and specialty coffee buyers. If the client requires, the CON-DCP can be followed by a compatible size PFA size grader and/or MVF gravity separator thus creating a small coffee mill that can respond to quality and grading requirements of nearly any market: micro and small specialty lots, local and foreign roasters and all types of gourmet, fine and commercial coffees.

In the case of even smaller capacities, Pinhalense offers the 300kg/hour C2DPRC huller-polisher and grader for parchment and cherry coffee that uses pneumatic elevators and has its own size grader. With fewer features than the CON-DCP, but with a built-in grader, the C2DPRC also meets the needs of growers, small millers and traders, and many markets.



C2DPRC