

# CONFIDENTIAL

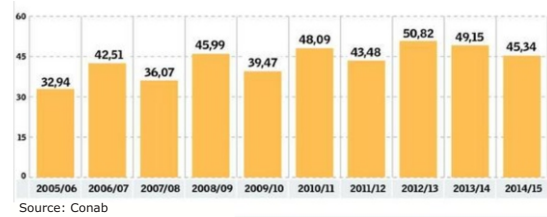
**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE AND COCOA BUSINESS... AND MUCH MORE. THIS ISSUE:**

- CLIMATE CHANGE AND THE AVAILABILITY OF ARABICAS (PAGE 3)
- COCOA PROCESSING EQUIPMENT (PAGE 4)

## **BRAZILIAN COFFEE CROP ESTIMATED AT AROUND 45 MI BAGS**

The first 2015 crop estimate recently released by Conab indicates that Brazil may harvest between 44.1 and 46.6 million bags of coffee, Arabica and Conilon. Conilon (Robusta) production may fall due to climatic conditions such as the intense drought in most of 2014 and cold temperatures during the flowering period. In Arabica, there may be a production increase of up to 6% reflecting growth in Zona da Mata in Minas Gerais and in Paraná state. Accounting for 75% of the total coffee produced in Brazil, the estimate for Arabica ranges from 32.3 to 33.6 million bags this year whereas for Conilon's is 11.6 to 12.2 million bags. Although a good deal of the coffee in Minas Gerais is showing signs of recovery, rainfall volumes since October 2014 are still below historic average and the 2015 coffee crop may still suffer from adverse climate and have smaller/underdeveloped beans.

**Brazilian Coffee Production**  
(in millions of 60kg bags)



Source: Conab

Sources: Conab and Valor Econômico

## **RECORD GREEN COFFEE EXPORTS; R&G AND SOLUBLE RESULTS DISAPPOINT**

Brazilian exports of green coffee presented a significant growth in both volume – 33.1 million bags in 2014 against 28.3 mi bags in 2013 – and revenue, reaching US\$ 6 billion or 31.84% more than last year. According to data by the Secretariat of Production and Agroenergy of the Ministry of Agriculture, the main buyers of Brazilian green coffee are the United States and Germany which have increased imports by 19.5% and 21.4% in volume, respectively. On the other hand, exports of roasted and ground coffee registered a drop of 21% in volume and 28% in revenue in 2014 compared to the previous year, with only 1,586 tons exported. The United States was the main buyer of Brazilian R&G, followed by Argentina and Japan. Brazilian soluble coffee exports also suffered a slight fall in both volume exported and revenue, with 74,894 tons and US\$ 563.3 million (compared to 79,782 tons and US\$ 649.7 million in 2013). There was a drop in volumes imported by relevant markets such as Argentina (-56%), Indonesia (-33%), Saudi Arabia (-24%) and the United Kingdom (-22%).

Sources: Agência Estado and CNC

## **COFFEE PRICES RISE WHILE OTHER COMMODITIES STRUGGLE**

The Brazilian agribusiness has started 2015 with bad news. The soybean complex, the sector's flagship, responsible for 14% of all agro exports last year, has been facing a sharp decline with soybean currently traded at prices 25% lower. Coffee goes in the opposite direction: due to production losses and the downsizing of the world's coffee stocks in 2014, coffee prices have increased 55% over the past 12 months. Data from the Secretariat of Foreign Trade (SECEX) indicate that a bag of Brazilian coffee is now traded at US\$ 205 compared to US\$ 133 in the same period of 2014, a 54% increase.

Source: Folha de SP

## **NEW RECORD BY WINNER OF 2014 CUP OF EXCELLENCE NATURALS**

Coffee grown in a 5-hectare farm in the municipality of Cristina, Minas Gerais, is the winner of the 2014 Cup of Excellence Naturals, dedicated exclusively to natural coffees ("late harvest") and held only in Brazil. The winning lot reached 95.18 points, a record since the competition started four years ago. The jury composed of coffee importers, roasters and coffee shop owners from North and South America, Europe, Asia and Oceania evaluated the coffee samples from January 19 to 23 in Araxá, MG. The event also registered the highest historic average punctuation for this type of contest, with 88.24 points for the group of naturals analyzed.



Sources: CNC and BSCA

**CERTIFICA MINAS FARMS MAY REQUEST EQUIVALENCE WITH UTZ**

Certifica Minas Café, the state of Minas Gerais sustainability standard that has been working in partnership with UTZ Certified for several years, is now equivalent to UTZ Certified – Year 1. All coffee farms already certified by the Certifica Minas Café (CMC) program are now able to request equivalence without the need of going through a new auditing process. CMC growers will gain access to international markets thus unlocking larger volumes of sustainable coffees for the industry and consumers worldwide.

Source: CaféPoint

**FRAN'S CAFÉ CHAIN EXPECTS TO GROW 10% IN 2015**

Despite the recent retail slowdown, the Brazilian coffeehouse chain Fran's Café did not feel much of this impact and plans to expand even faster than before with 25 new stores to be opened across the country in 2015. The openings will be in cities such as São Paulo, Rio de Janeiro, Brasília, Palmas, Foz do Iguacu and Maceió. With 150 stores in 16 different states, Fran's Café believes that there is great potential for growth in the Northeast. The company also plans to expand its presence in airports where it will offer alcoholic drinks and snacks.

Source: Folha de SP



**SINGLE-SERVE CAPSULES ATTRACT SMALLER COMPANIES**

Portuguese capsule maker Kaffa, that opened a manufacturing plant in Brazil in July 2014, has already closed deals with 36 Brazilian coffee brands, including small and medium-sized companies willing to sell their coffees in the capsule format. ABIC, the Brazilian Coffee Roasters' Association, indicates that at least six companies are currently offering their coffees in capsules, apart from leading roasters such as Nestlé, 3Corações, Master Blenders and Delta. The volume of coffee capsules sold in the Brazilian market has increased 52.4% from 2013 to 2014, according to Nielsen. The same survey indicates that 25% of the Brazilian upper class (around 8.5 million people) already own a single-serve coffee machine. Kaffa, whose demand has been higher than expected, is already expanding its Brazilian branch, with a new building to store raw products and plans to open a roasting plant in the coming months. The company plans to close February with a production of 1.3 million capsules to grow to 2 million by April 2015.

Source: Valor Econômico

**COFFEE STREETCAR STARTS OPERATION IN SANTOS**

The "Bonde do Café" (Coffee Streetcar), a new touristic tram in Santos, has attracted hundreds of passengers in its first weekend of operation that marked the celebration of the city's 469th anniversary in January. The 24-seat air-conditioned streetcar, equipped with a coffee shop, multimedia system and a ramp for people with disabilities, has an onboard tourist guide that explains details about the attractions along the route. A coffee break stop is one of the most expected moments for visitors. The initiative resulted from a technical cooperation among Santos' City Hall, the city's Traffic Engineering Company (CET) and the Coffee Museum.

Source: A Tribuna On-line



**Brazilian Prices**

January 30, 2015

**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	515,00 ↓
South Minas	510,00 ↓

+ 12.0

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	300,00 ↑
BM&F (US\$/ 60 kg)	
Mar 2015	201,00 ↓
Sep 2015	207,90 ↓
Dec 2015	210,75 ↓
Real R\$/ Dolar US\$	
January 30	2,75 ↑

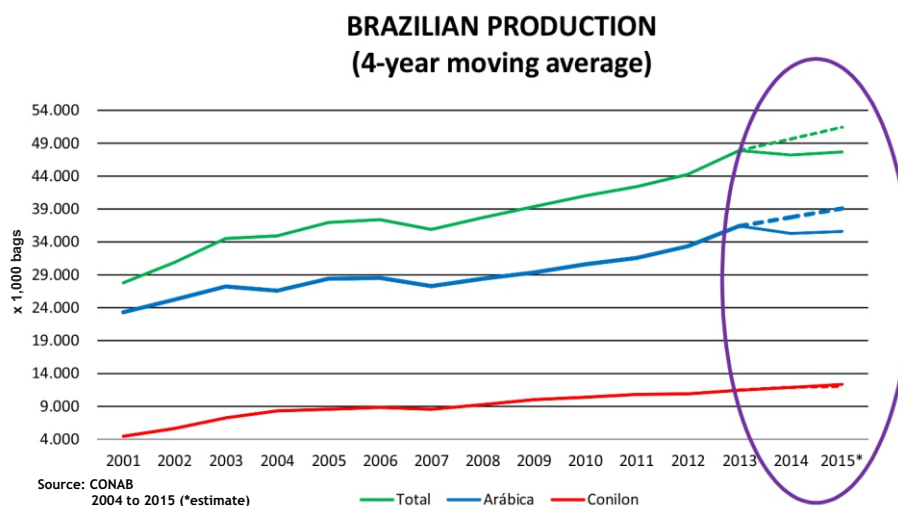
Source: www.qualicafex.com.br

## CLIMATE CHANGE AND THE AVAILABILITY OF ARABICAS

Recent years have witnessed climate-change induced losses in Arabica production in several areas of Latin America while Robusta production has grown continuously. Key Arabica grower Colombia has only now started to benefit from a renovation plan that coincided with adverse climate that hampered flowering for years in a row. Costa Rica, Guatemala and other Central American countries, Mexico and Peru squeezed the specialty and washed Arabica markets when they were affected by coffee leaf rust ("roya") induced by warmer and wetter climate starting in 2011/12. Most of these countries are yet to reach "pre-roya" production levels. Brazil's 2014 drought came next with the loss of 5 million Arabica bags and further losses expected in 2015 due to the previous drought and perhaps a milder one and high temperatures now.

If Colombia's losses affected the market for quality washed Arabicas, Central America's the specialty markets and Peru's and Mexico's the organic market, Brazilian losses were by far the largest in one single year with impacts not only on the naturals market but also on prime-washed / pulped natural supply. Although Brazilian inventories made up for the Arabica losses – the country had a record export year in 2014 and occupied space left by Arabica losses elsewhere – the picture may be very different in the 2015 whose crop is likely to be similar to 2014 for the reasons above but in a scenario of depleted Brazilian stocks.

The graph below, with 4-year average production since 2001, shows that a 2015 crop similar to 2014's will reinforce a marked departure from the average growth pattern of total and Arabica production in well over a decade. The 4-year average losses in 2014 and 2015 shown in the graph, of about 2 to 3 million bags per year, are of course smaller than the actual annual losses that may border on 5 million bags.



Theories to explain the 2014 drought have ranged from a one-of-a-time exceptional phenomenon, to a cyclical occurrence likely to repeat itself at about every 40 years, to a series of succeeding droughts of losing intensity over 3 to 5 years. Brazilian climate last January – rainfall and temperatures – may be hinting at a phenomenon that goes beyond one single year and may fit into the third pattern just described. It may be too early to say this but there is good reason to speculate. How will Brazilian Arabica growers react if drought-caused losses happen again in 2015 and the probability of losses in 2016 increases?

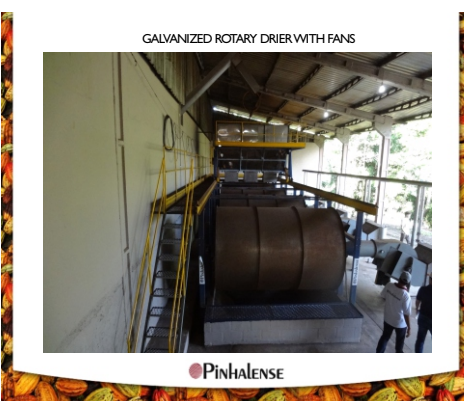
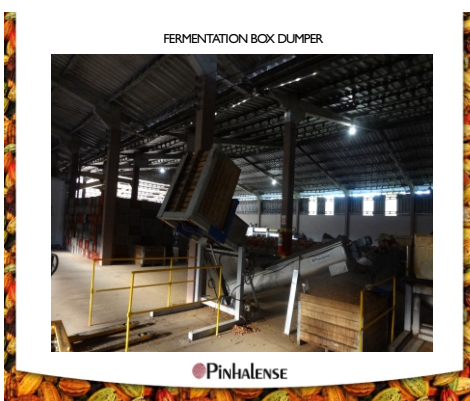
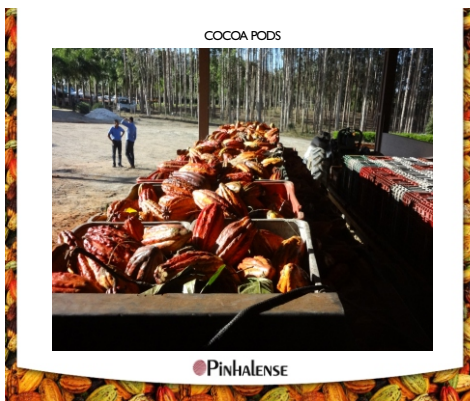
The most immediate answer is irrigation but this faces growing hurdles: availability of water, the cost of water rights, and the need to adapt husbandry to irrigation, not to mention the costs of implementing and running irrigation systems. In addition, in some areas even irrigated coffee suffered from high temperatures. Should the tendency toward drip irrigation be reviewed in favor of spray irrigation if it has the side-effect of lowering temperatures in irrigated coffee fields?

Using shade trees in existing plantations may help conserve moisture and lower temperatures but productivity will fall and mechanical harvesting may be hindered. Coffee quality may however improve as cherries will take longer to ripe which has a positive correlation with acceptable cup features.

Drought and high temperatures resistant varieties are a longer term solution that should not be discarded considering all indications of global warming available today. It may be too early to expect the migration southward of Brazilian coffee plantations; the high costs and difficulties of this option render it to be the last resort, to be used after all other possibilities are exhausted.

Since except for irrigation all solutions are mid to long term and a drought pattern may be in the making in important Brazilian coffee areas, I close this Outlook asking, first, which origins are going to replace Brazil's in the short run grabbing this opportunity and, second, how will the Brazilian government and private sector react to the challenge: policies, financing, research, technology transfer, insurance, etc.?

## COCOA PROCESSING EQUIPMENT



- cocoa pod breaker
- cocoa bean pulper
- drier SRC
- precleaner PL
- size grader PI
- gravity separator MVF