

# CONFIDENTIAL

**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS. THIS ISSUE:**

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## **NEW TECHNOLOGY USES ROAST-AND-GROUND COFFEE TO EVALUATE CUP QUALITY**

Embrapa has developed an artificial intelligence system that uses roast-and-ground coffee to determine cup quality. The Brazilian Coffee Roasters' Association (ABIC) has signed a cooperation agreement with Embrapa during GCP's Global Coffee Sustainability Conference held in Belo Horizonte last November to improve and disseminate this technology among companies that are members of ABIC's Coffee Quality Program. The digital system recognizes the quality of the product on the basis of the chemical and physical composition of coffee. This new tool will enable growers to determine quickly the quality of coffee produced, coffee cuppers will have an extra tool, and consumers will be sure that the product bought is indeed of the quality offered.

Source: G1

## **RECORD PRICE OF US\$ 18,916 PER BAG FOR 2018 COE WINNER**

The winning coffee lot in the 2018 Cup of Excellence Pulped Natural Category, produced by Fazenda Primavera, in the Chapada de Minas Gerais region, was auctioned for US\$ 143.00/lb, which corresponds to US\$ 18,916 per 60kg-bag. This is the highest price ever paid for a coffee cultivated in Brazil. All coffee lots auctioned were sold for a record turnover of US\$ 271,418.59. The average bid was US\$ 9.37/lb that corresponds to US\$ 1,239.46 per bag. According to the Brazilian Specialty Coffee Association (BSCA), the amount paid for the winning coffees shows that the education, improvement and promotion work carried out by the Association and its partners has been generating good results.

Source: BSCA

## **INTERNATIONAL COFFEE WEEK BREAKS NEW RECORDS**

The 6th edition of the International Coffee Week that took place in Belo Horizonte, Minas Gerais, from November 7 to 9, 2018 was a great success and broke records! The event was attended by 20 thousand visitors and a total of US\$ 11 million in business transactions were initiated which represents an increase of 20% compared to 2017. Over 50 thousand coffees were cupped by more than 250 international buyers from 60 different countries and the trade fair had over 160 exhibitors. The program included 190 hours of presentations and workshops, more than 200 cupping sessions, and technical events such as the Global Coffee Platform's Global Coffee Sustainability Conference, the DNA Coffee International Seminar, the Educampo Meeting and the Model Coffee Shop.

Source: International Coffee Week

## **GCP'S GLOBAL COFFEE SUSTAINABILITY CONFERENCE AND THE FUTURE OF COFFEE SUSTAINABILITY**

More than 340 participants from 15 countries including representatives of all 9 countries where the Global Coffee Platform (GCP) is active attended the Global Coffee Sustainability Conference (GCSC2018) held during the International Coffee Week in Belo Horizonte, Brazil, on November 8 and 9, 2018. The keynote speech was very well received and the choice of subjects covered was well accepted. In the occasion the Brazilian Member Initiative on the Responsible Use of Agrochemicals was officially launched. The country presentations / local action forum in the second day showed great progress and more tangible results. The Membership Assembly (MA), also held in the second day, included a keynote speech by the chairman of the Better Cotton Initiative (BCI), and a presentation on how to create Member Initiatives, besides the report on 2018 and outlook for 2019. The event ended with a Field Trip with 46 mostly foreign participants held on November 11 and 12. Not only participants had the opportunity to visit a large and a small sustainable coffee farm in Minas Gerais but also to see how the App to monitor the Coffee Sustainability Curriculum Indicators actually works. The visit to the small grower demonstrated very closely that the Economic Viability of Coffee Farming requires increases in productivity



Launching of the Responsible Use of Agrochemicals Member Initiative

to an optimum level as well as an efficient supply chain with high levels of the FOB export price reaching growers. The Paraguaçu Coop visit completed the life-scale presentation of what GCP Brazil is doing to promote sustainability.

Sources: ADS and P&A

### ① FIRST DULCERRADO COFFEE SHOP IN SÃO PAULO

Expocaccer's Dulcerrado Coffee Shop will open its first store in São Paulo at Jardim Sul Shopping Mall. The Dulcerrado Shop, today only present in the Cerrado's center town of Patrocínio, brings together two strong links in the coffee chain: production and consumption. The Cerrado Mineiro region store in São Paulo follows the same business model of the original Dulcerrado shop in Patrocínio, where the São Paulo team will be trained to acquire in-depth knowledge about the product, the region and its growers.

Source: Expocaccer

### ① NEXT COFFEE CROP ESTIMATED AT 55 MILLION BAGS

Brazil is expected to produce 55 to 56 million bags of coffee in the next coffee crop, according to Rabobank. Arabica production may reach 37 to 38 million bags in 2019/20, a decrease of about 10% in relation to the current season. Conilon production, in turn, may recover and reach 17 to 18 million bags in 2019/20, an increase of about 10% compared to the current crop. Conilon production should be however monitored closely due to indications of a great possibility of the occurrence of El Niño phenomenon. Conab and USDA estimated a production of 60 and 64 million bags respectively for the current season to be compared with Rabobank's 56.8 million.

Source: Valor Econômico

### ① 2018 BRAZILIAN COFFEE EXPORTS MAY INCREASE 15% PUSHED BY CONILONS

Brazil is expected to export a total of 34.5 million bags in 2018 (including green, soluble and R&G coffee) according to CeCafé. If this figure is confirmed, the volume will be almost 13% higher than that of 2017 (30.7 million). The country's share in the global coffee exports that stood at 25.8% in 2017 may reach 30% in 2018 still below 32% in 2015. Brazilian coffee exports have already totaled 27.5 million bags between January and October 2018, an increase of 10.3% compared with the same period of 2017. Arabica exports grew 2.6% and Conilon's grew an impressive 874.5%, in the same period.

Source: Valor Econômico

### ① COOXUPÉ TRADES 275,000 BAGS IN ONE SINGLE DAY

Cooxupé will receive a record volume of coffee in the 2018 coffee season. The initial goal of the largest coffee cooperative in the country was to receive 5.75 million bags but this volume is now expected to reach 6.4 million. The on-year in the biennial production cycle, the increase in the number of coop members and the lack of liquidity of other players in the segment explain the result. The coop received only 4.6 million bags in the last coffee season due to the off-year in the biennial cycle and climate problems that affected several coffee regions. The previous record of coffee reception was registered in 2016, when Cooxupé received 6.3 million bags. The foreign exchange situation helped Cooxupé to strike another record and trade a total of 275 thousand bags in one single day when the dollar hit R\$ 3.73 on October 15.

Source: Valor Econômico

### ① BRAZILIAN SOLUBLE COFFEE EXPORTS INCREASE 5%

Brazil exported 3 million bags of soluble coffee in the first ten months of 2018. The result is 5.1% higher compared to the same period in 2017 when 2.86 million bags were exported. Brazilian soluble coffee shipments generated revenues of US\$ 493.9 million this year, a decrease of 6.4% compared with the previous year.

Source: Estadão Conteúdo

## Brazilian Prices

Main Producing Regions / Farm Gate

November 30, 2018

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	415,00 ↓	Colatina-ES fair average price	321,00 ↓
Mogiana	410,00 ↓		
South Minas	410,00 ↓		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	445,00 ↓	Dec 2018	121,40 ↓
South Minas	440,00 ↓	Mar 2019	127,10 ↓
		Jul 2019	129,45 ↓
		Real R\$ / Dolar US\$	
		Nov 30, 2018	3,85 ↑

+ 5.8%

Source:  
www.qualicafex.com.br

## THRIVING BRAZILIAN CONSUMPTION AND THE ECONOMIC VIABILITY OF COFFEE FARMING

Figures released by Euromonitor International at the 26th ENCAFÉ, the annual conference of the Brazilian Coffee Roasters' Association (ABIC), indicate that Brazil is today the largest coffee consumer in the world, ahead of the US. These figures, that do not include ready-to-drink coffee beverages, contradict the numbers of the International Coffee Organization (ICO), the US Department of Agriculture (USDA) and ABIC itself all of which use different methodologies that still show the US as the leading coffee consumer in the world followed by Brazil.

In spite of the economic crisis, now several years long, and the political uncertainty typical of a year marked by presidential elections, coffee consumption is expected to grow between 3 and 3.5% in 2018 in relation to the previous year adding up to 22.9 million bags according to the same Euromonitor study. According to its speaker in the event, this growth in demand is associated with neither a change in the GDP tendencies nor prices practiced but instead with the industry's ability to adapt to changing market conditions with the launching of new products and diversification of marketing channels.

The Euromonitor study also shows that roast-and-ground coffee is losing market share for whole grain with current rough proportions of 80% and 20%. Soluble consumption is estimated at under 5% and capsules at about 2% but both with higher growth rates expected than the average, especially capsules.

Consumption of coffee in capsules is expected to expand in the range of 5 to 7% per year depending on the Brazilian region, still high but much lower than the 10 to 15% of a few years ago. This growth will be sustained by the leading brands – Nespresso, Dolce Gusto and 3 Corações – and the entrance of other companies like Melitta. According to Euromonitor, 8% of Brazilian homes have capsule machines today compared with 5% in 2015 and 15% expected in five years.

The success story of Brazilian coffee consumption growth does have positive impacts for the economic viability of farming (EVoF) the product in Brazil. There is a captive demand within the country for about 40% of its coffee production which decreases growers' dependence on international markets and foreign exchange fluctuations. But the advantages do not stop here.

Coffee growers have a sizable local market for lower quality coffees that result from non-selective manual or mechanical harvesting that substantially lowers the costs of picking coffee in spite of the requirements of the very strict labor laws. Brazilian coffee growers also benefit from the possibility, especially at times of low prices but also at other times, to add value to their product by roasting and selling in their towns and regions. This value addition possibility applies not only to common quality coffees but also to specialty ones whose growers tend to have more durable strategies and occupy a sizable share of shelf space in supermarket/retail chains and independent stores. There is a surprising number of growers who today offer their own coffees in capsules compatible with Nespresso machines.

Other coffee producing countries should look more closely at the benefits of local consumption and its positive impacts on EVoF at a time when the subject is mentioned so much. If per capita coffee consumption is increased by one kilogram in the ten largest coffee producers in the world except Brazil and Ethiopia – Vietnam, Colombia, Indonesia, Honduras, India, Uganda, Peru and Mexico – total world coffee demand would increase about 20% not only affecting international prices but also creating a very sizeable local market in these eight countries with all potential benefits listed above. Brazil and Ethiopia have been excluded because they already have relatively high per capita consumption roughly at 6 and 2 kg respectively. These consumption figures themselves show that an increase of 1kg per person year in the eight countries mentioned above may not be very ambitious, except for perhaps India.

It is high time that the promotion of domestic coffee consumption is emphasized in the EVoF agendas of not only these but all other coffee producing countries.

## THE ROLE OF COFFEE PROCESSING IN THE ECONOMIC VIABILITY OF COFFEE FARMING

Coffee processing plays many roles that help the economic viability of production, namely:

- on-farm wet processing to sell parchment rather than cherry coffee,
- separation of mixed cherries for separate processing of different qualities, and
- on-farm dry processing to sell green rather than parchment or cherry coffee,

with value addition in all cases. Roasting may be added in the last case to transform green coffee in a consumer product. On-farm processing can also have positive impacts on returns with the use of by-products like coffee pulp and husk as fertilizer or fuel for drying respectively.

Pinhalense supports coffee growers with its technology and processing equipment in all three cases above.

Pinhalense ecological mechanical siphons LSC and pulpers with unripe cherry separators ECO SUPER enable the separation of cherries at different degrees of maturation so that different qualities may be processed separately and supplied to different markets both locally and abroad.



Pinhalense ecological wet mills and driers may be used by coffee growers themselves or by groups of micro and small growers in central mills to deliver different types and qualities of value-added parchment processed in a sustainable way.



Small wet mill in Brazil



Wet, drying and dry mill for micro lots in Guatemala

Last but not least, Pinhalense compact dry mills and micro lot units can be used to add value by processing dry parchment or cherry into green coffee that can be sold locally, exported or even roasted by the growers themselves.



Dry mill for micro lots with roaster in India