

# CONFIDENTIAL

## YELLOW BOURBONS ARE COMING BACK

Brazilian coffee growers are planting new areas with Yellow Bourbons in response to the high prices the trade has been paying for beans of this variety in recent years. Yellow Bourbons are today ranked among the finest specialty coffees in the world. This variety, which was popular in the 1950s, was progressively abandoned due to low yields and high susceptibility to plagues and diseases. Few areas remained at the end of last century when the sweet taste and pleasant aroma of Yellow Bourbons were rediscovered as a result of new processing practices and started to attract price premiums that offset the shortcomings mentioned earlier.



Source: Valor Econômico

Yellow Bourbons are coming back

## VALUE OF BRAZILIAN COFFEE CROP TO FALL 23%

Coffee will be the only major commodity exported by Brazil whose Gross Production Value will fall in 2007 in relation to 2006, according to the National Agricultural Confederation (CNA). The expected drop of 22.7% - from R\$ 11.25 billion (US\$ 5.8 billion) to R\$ 8.70 billion (US\$ 4.5 billion) - is attributed primarily to a small crop in an environment of stable coffee prices. Experts at São Paulo State University (CEPEA/USP) informed that the quality of the current crop is good due to dry weather during the harvesting season.

Source: Gazeta Mercantil

## BRAZILIAN REAL 51% STRONGER AGAINST THE US DOLLAR

The Brazilian Rural Society (SRB) stated that the Brazilian Real has gained value dramatically against the US Dollar: 51% from September 2002 to July 2007. A US Dollar worth R\$ 1.80 to R\$ 1.90 offsets the dollar price gains of coffee in international markets and penalizes growers who saw inputs to go up by 103% while their income grew only 72% from 2000 to 2006.

Source: Informativo Rural SRB

## COFFEE PRICES TO CONSUMERS UP BY 20%

Coffee roasters have increased their prices by an average of 20% since January this year in response to higher green coffee prices. This falls short of the 2006 Brazilian Coffee Roasters' Association's estimate of a 25% increase in retail coffee prices. The traditional type blends, that account for three-fourths of Brazilian consumption, cost today an average of R\$ 9.90 per kilogram (US\$ 2.30 per pound) in the city of São Paulo.

Sources: Invest News

## MINIMUM STANDARDS FOR ROAST AND GROUND COFFEE

The Brazilian Ministry of Agriculture (MAPA) is about to define minimum quality standards for roast and ground coffee sold in the country, produced in Brazil or imported. The new regulation will make mandatory the specification of minimum quality standards on the packages sold at retail outlets with the aim of informing consumers about the products that they are buying.

Source: Revista Cafeicultura



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## PARTNERSHIPS BETWEEN SHOPS AND GROWERS BENEFIT BOTH

Coffee shops and growers are working together to guarantee higher profits for both. While coffee shops practice prices that are up to 150% higher than those in supermarkets, the farms supplying to them are getting price premiums in excess of 40%. Suplicy Cafés, a company that already owns four stores, is supplying its branded coffee to other shops, movie-theaters and other types of outlets, adding up to almost 100 clients. Suplicy coffees retail at R\$ 40.00 per kilogram (US\$ 9.30 per pound) to be compared with R\$ 9.00 to 15.00/kg (US\$ 2.10 to 3.50/lb) for popular brands.

Source: Cafépoint



## BRAZIL INCREASES PRODUCTION OF SPECIALTY COFFEES

According to the Brazil Specialty Coffee Association (BSCA), the country today produces between 1.0 and 1.2 million bags of specialty coffee per year. Practically all growing regions grow specialty coffees, whose production is led by Minas Gerais. The average price premium paid for Brazilian specialty coffees is about R\$ 25.00 (US\$ 13.00) per bag. However this premium is not fully reflected on additional profits for growers. Even though the additional cost to produce specialty coffee is small, there are marketing investments to be made to sell the product.

Source: Agência Safras

## EARLY FLOWERING AND DRY WEATHER MAY AFFECT NEXT CROP

The largest coffee cooperative in Brazil, Cooxupé, stated that 20 to 30% of the coffee trees in Southern Minas Gerais are flowering one month earlier than usual. With this early flowering, caused by an unusual rainfall pattern, beans will start to take shape and grow still this month, which is typically the driest in the year. Rain is needed in early September to ensure that these beans develop adequately. The climate remains dry in all coffee areas of Brazil. Some areas in southwest Brazil and north Paraná have not had any rain for periods longer than 30 days. Weather forecasting models do not predict rain in coffee areas in the first 10 days of September except for those closer to the ocean.

Sources: CIC (Coffee Intelligence Center), Cafépoint and SOMAR

## COFFEE FUND BUDGET FOR 2008 APPROVED

The Coffee Policy Council (CDPC) approved the 2008 Funcafé budget of R\$ 2.56 billion (US\$ 1.3 billion) divided in the main items summarized in the table on the right hand side. The budget was only approved after heated debates that focused mostly on the allocation of funds to the Price Equalization Premium Paid to the Producer (Pepro) Program and Put and Call Programs. These programs, which together account for 40% of the budget, divided growers on one side and exporters and industry on the other.

Item	2007		2008	
	R\$ mi	US\$ mi	R\$ mi	US\$ mi
Promotion Abroad	5,0	2,6	5,0	2,6
Promotion in Brazil	8,0	4,1	8,0	4,1
Research and Development	12,0	6,2	12,0	6,2
Management of Fund	3,4	1,7	3,8	1,9
Management of Stocks	9,6	4,9	9,2	4,7
Financing Program	2106,0	1080,0	1471,0	754,4
PEPRO Program	-	-	300,0	153,8
Put and Call Program	-	-	750,0	384,6
Others	2,0	1,0	2,0	1,0
<b>TOTAL</b>	<b>2146,0</b>	<b>1100,5</b>	<b>2561,0</b>	<b>1313,3</b>

On a separate decision, the National Monetary Council (CMN) approved a reduction of interest rate on Funcafé loans, from 9.5 to 7.5% per year, for contracts signed after July 01, 2007.

Source: Valor Econômico and Coffee Break

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## MINAS GERAIS LAUNCHES INTERNATIONAL COFFEE EVENT

The state capital, Belo Horizonte, will host the International Coffee Meeting (Fest Café) on November 20 to 22. Promoted by the Minas' coffee community with the support of the National Coffee Council (CNC) and the state and federal governments, Fest Café will cover a wide array of subjects, ranging from grower to consumer issues. There will be a coffee quality competition and a showcase of the state's best coffees which will be presented to international buyers.

Source: Press release



## Brazilian prices

August 31, 2007

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	248,00
Mogiana-SP fair average quality T.6	248,00
South Minas fair average quality T.6	248,00
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	260,00
South Minas	260,00

Conilon/ Robusta (R\$/ 60 kg bag)	
Vitória-ES fair average quality	198,00

BM&F (US\$/ 60 kg)	
Sep 2007	138,50
Dec 2007	143,30
Mar 2008	146,00

Dolar US\$/ Real R\$	
August 31	1,97

## Outlook Carlos H. J. Brando



### CHERRY MATURATION AND ADSTRINGENCY IN THE CUP

Brazilian Yellow Bourbons did not receive much attention from coffee quality experts until a few years ago. As a result, the area planted with this low-yielding variety was shrinking.

It is no coincidence that Yellow Bourbons started to catch the attention of specialty coffee cuppers after the use of the pulped natural (semi-washed) post-harvest processing system became widespread in Brazil. The immature cherry separators used in this new process made it possible to separate unripe cherries from the ripe ones, which could not be done visually for Yellow Bourbons. The immediate impact was a greatly improved cup with features that repositioned the variety in the market and attracted growing demand and price premiums. New areas are now being planted with Yellow Bourbon.

The increasing rejection of fully washed coffees from many origins due to adstringency in the cup is a repetition of the phenomenon described above, now in relation to red rather than yellow coffee varieties. An adstringent cup may be caused by unripe or only partially ripe cherries that are pulped together with fully ripe cherries. Whereas unripe cherries can be visually separated at harvesting or after, cherries that are already partially ripe cannot. They are pulped together with the fully ripe cherries and impart adstringency to the beverage.

This problem has been solved by new technology that pulps only fully ripe cherries and rejects all other cherries, whose degree of maturation is less than optimal. Growers who have used this new technology in recent years have not only sold their coffees at premium prices but won quality awards and competitions.

The evidence above brings to question how selective selective harvesting is. The quest for an ever higher cup quality has shown that the visual criterion used in selective picking is not enough to ensure that cherries are fully ripe. This can only be ensured by mechanical means that introduce criteria other than the visual identification of the color of the coffee cherry.

The availability of this new technology opens up interesting possibilities to improve coffee quality and, at the same time, to lower harvesting costs.

## PULPING TECHNOLOGY

Coffee quality requirements are constantly pushing technology into new directions. Whereas the separation of unripe / green cherries has sufficed in the recent past, problems with astringency now require that only 100% ripe cherries be pulped. This means that it is no longer acceptable to pulp slightly unripe / not fully ripe cherries to prepare a top class coffee that is free from the astringency imparted to the cup by the slightest hint of unripeness.

In response to the demand above, Pinhalense has gone beyond green cherry separators and developed technology that may pulp only 100% ripe cherries to produce top quality parchment coffee. Partially ripe and unripe cherries are processed separately to yield second and third quality parchment. This can be done irrespectively of the selectivity of harvesting and the quality of the incoming cherries.

This new pulping technology is available in both individual pulpers and the so called eco units, that combine pulpers and mucilage removers, as shown in the tables below.

### SUGGESTED DC and ECO LINE

	Capacity kg of cherries / hour	Mechanical Siphon	Standard Ecological DC Models			Mucilage remover	Pulp Conveyor
			Components:	Inmature Sep.	+ Pulper + Rotary Screen		
DC LINE	2000 to 2250	LSC-5P	DC-3 =	1 SV-080 +	1 DC DPV S +	2mx0,60m	1 DMP-0 (5HP) 6" x 5 m
	2250 to 3000	LSC-10P	DC-6 =	1 SV-110 +	1 DC DPV S +	2mx0,60m	1 DMP-0 (5HP) 6" x 5 m
	3000 to 4500	LSC-10P	DC-6D =	1 SV-160 +	2 DC DPV S +	2mx0,70m	1 DMP-3 (7.5HP) 9" x 5 m
	4500 to 6000	LSC-20P	DC-6DD =	1 SVD-110 +	2 DC DPV S +	2mx0,70m	2 DPM-3 (5 HP) 9" x 5 m
	6000 to 9000	LSC-20P	DC-12 =	2 SV-160 +	4 DC DPV S +	3mx0,80m	2 DMP-3 (7.5HP) 9" x 5 m
	Capacity kg of cherry / hour	Mechanical Siphon	Standard Ecological ECO Models				Pulp Conveyor
ECO LINE	2000 to 2250	LSC-5P	ECO-0 =	1 SV-080 +	1 DC DPV S +	1 DMP-0 (5HP)	Part of ECO model 6" x 5 m
	2250 to 3000	LSC-10P	ECO-1 =	1 SV-110 +	1 DC DPV S +	1 DMP-0 (5HP)	Part of ECO model 6" x 5 m
	3000 to 4500	LSC-10P	ECO-2 =	1 SV-160 +	2 DC DPV S +	1 DMP3 (7.5HP)	Part of ECO model 9" x 5 m
	4500 to 6000	LSC-20P	ECO-3 =	1 SVD-110 +	2 DC DPV S +	2 DPM3 (5HP)	Part of ECO model 9" x 5 m
	6000 to 9000	LSC-20P	ECO-4 =	2 SV-160 +	4 DC DPV S +	2 DMP3 (7.5HP)	Part of ECO model 9" x 5 m

NOTE 1: Suggestions are for locations with enough slope to allow gravity feeding from one machine to the other. Flat areas will require conveyance equipment.

NOTE 2: The vertical pulpers model DC DPV Super have nominal capacity up to 3.0 tons of cherries per hour and may be used alone and can be powered by gasoline or diesel engines inclusive.



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**IMPORTANT NOTE:** In case you have not received the first issue of Confidential (available at [www.peamarketing.com.br](http://www.peamarketing.com.br)), you may be interested in the text below, which introduced our newsletter launched last month.

P&A is often contacted by foreign clients seeking information about the Brazilian coffee business. Inquiries become more intense at times of turbulence, e.g. when a frost or a change in government regulation happens. In spite of the flood of on-line information about Brazil available today in the coffee news services, we gather from clients' inquiries that what they demand is the view of an insider who understands not only the Brazilian coffee business but also how it may affect their own business. This is what we propose to do with our Confidential newsletter.

Confidential will be sent to you at the beginning of each month with the following sessions: a summary of the relevant news published by the Brazilian press the previous month, prices prevailing in Brazil at the end of the month, an article - the Outlook - with our opinion about a variety of subjects, and a short piece about coffee processing - the Machine of the Month. We hope you like it!