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0 NEW PROGRAM TO PROMOTE QUALITY

A new program called Círculo de Qualidade do Café - Coffee Quality Circle - has been launched in Brazil. It aims at certifying coffee shops, restaurants, hotels and other food stores that serve good quality coffee and offer differentiated services in order to guarantee a consistent standard of products and services to consumers. The stores will be classified either as Standard or Premium.

Source: Brazilian Coffee Roasters' Association (ABIC) release

0 IPANEMA COFFEES TO SUPPLY TO COCA-COLA'S GEORGIA IN JAPAN

Coca-Cola Company has recently launched in Japan a new product totally developed in Brazil together with Ipanema Coffees, one of the largest specialty coffee producers in the world. The ready-to-drink beverage, called Georgia Vintage, is sold in cans and can be drunk either hot or cold. Georgia Vintage is already available in more than 1 million vending machines around Japan. On the Brazilian front, Ipanema is about to launch a new type of coffee shop.

Source: Coffee Break

0 NESTLÉ TO INVEST IN BRAZILIAN MARKET

Nespresso, Nestlé's fastest growing business, has recently created a division of "shared coffee machines". Starting in 2008 the idea is to supply Nespresso machines to business offices around the country at no charge; the employees have only to commit to buy 300 doses of coffee per month (approximately R\$ 630.00 or US\$ 350.00). Another company strategy for 2008 will be to equip 50,000 diners, bakeries and snack bars around Brazil with a machine that serves traditional coffee, coffee mixed with milk and also espresso. Nestlé claims the "cafezinho", as Brazilians call their small cup of coffee, will cost only R\$ 1.00 (US\$ 0.55).

Sources: Agência Estado and O Estado de São Paulo

0 STARBUCKS OPENS 7TH STORE IN SÃO PAULO

Starbucks has opened its 7th and biggest store in São Paulo, the second one on the street (the others are in shopping malls). Located in the posh and busy Paulista Avenue area, the store has 300m² (3,250 sq.ft.) and offers Wi-Fi Internet connection and meeting tables for its clients. It is the second Starbucks opened in less than a month in the city.

Source: Folha de São Paulo

0 BRAZIL IMPLEMENTS EXCELLENCE PROGRAM FOR OTA ANALYSIS

Brazil is developing a new proficiency program for analysis of Ochratoxin A (OTA) in green coffee. Two national laboratories are involved in the testing of samples for the program which aims to certify the equivalence of results from both labs, no matter what method they use to detect OTA in coffee. Although OTA is not a problem in Brazilian coffees, the country wishes to assure its clients of the soundness of its product.

Source: EMBRAPA Café



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IBGE AND CONAB UNIFY CROP ESTIMATES

CONAB and IBGE, the two Brazilian institutes in charge of collecting data on agricultural production, announced that they will unify their coffee estimates from now on. The agreement should put an end to the differences in numbers reported by the two institutions. The first unified report, about the 2007/2008 coffee crop, will be out this November.

Source: Cafépoint

COFFEE PRODUCTION IN THE HANDS OF SMALL HOLDERS

Almost 90% of Brazilian coffee growers are farmers with properties in the range of 10 to 100 hectares (25 to 245 acres). Exports continue to be a profitable option for them in spite of high production costs and the unfavorable exchange rate of the Real (R\$) against the US Dollar.

Source: Diário do Comércio

PRICES ARE TOO LOW TO BOOST ARABICA PRODUCTION

According to a Santos broker, Brazil will enter the next crop year with almost zero stock. Today the country requires 45 million bags to meet its annual commitment of 27 to 28 million bags for exports and 17 to 18 million bags for domestic consumption. With the prices offered today to Brazilian growers, it is not possible to count on the expansion of the planted area, especially in the case of Arabica coffee.

Source: Comunicaffe

ROBUSTA STARTS TO WIN OVER SPACE IN BRAZILIAN ESTATES

Coffee growers in Brazil have realized that Robusta profitability is around 50 to 60% while Arabica's reaches 20% at most. A leading exporter claims that production costs for Robusta are around R\$ 130 (US\$ 75) for a 60 kg-bag, with average market prices of R\$ 200 (US\$ 114). For Arabica, production costs are around R\$ 200 (US\$ 115) per bag with market prices of R\$ 230 (US\$ 132).

Source: Valor Econômico



Robusta Crop in João Neiva, ES
Source: INCAPER

PRODUCTION COSTS IN MINAS GERAIS

A recent study indicates that total production costs in the state of Minas Gerais are in the range of R\$ 236.00 to 384.00 (US\$ 150.00 to 220.00) per bag of 60 kg, with corresponding direct costs of R\$ 218.00 to 298.00 (US\$ 125.00 to 170.00) respectively. This range covers technologies from manual to mechanized and the areas of South Minas, Cerrado and Matas de Minas. The study states that growers will face difficulties to remain in the business in the absence of policies to support their income.

Sources: Coffee Growers' Council (CNC) release and Folha de São Paulo

SIGNS OF RECORD REVENUES FOR COFFEE

Preliminary data indicate that coffee business revenues (including growers', exporters' and industry's) will reach US\$ 11 billion in the 2007/2008 crop, 13.4% bigger than in the previous coffee year (US\$ 9.7 billion). The coffee revenues will hit a new record if the 2008/2009 estimate of US\$ 12 billion is confirmed.

Source: Valor Econômico



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© DOLLAR TO RETAIN DOWNWARD TREND

Foreign exchange entered Brazil in large volumes throughout the month of October, mostly to acquire shares at the São Paulo Stock Exchange (BOVESPA). The US Dollar reached a quotation of US\$ 1.75, the lowest in several years. Experts project that the exchange rate will stabilize at 1 US\$ = R\$ 1.70 at the beginning of 2008.

Sources: Invertia and O Estado de São Paulo

Outlook Carlos H. J. Brando



Domestic Consumption, Exchange Rates and Coffee Prices

The standard arguments in favor of the promotion of coffee consumption in producing nations focus on benefits to growers and their countries themselves. Growers benefit from opportunities to add value to their coffee, to integrate vertically and, most importantly, to have captive clients for their product irrespectively of what happens in international markets. The countries, in turn, benefit from taxing value-added products sold in the local market instead of the lower-value green coffee exported, not to mention employment generation and economic development. What happened in Brazil in recent years shows that protection from an overvalued currency can be added to the usual arguments above.

The dollar prices of Arabica naturals compiled by the ICO increased 107% from September 2003 to September 2007. However the equivalent prices in Brazilian currency went up by only 36%, which represented a real increase of less than 15% after correction for inflation. In the same period, the ICO Robusta prices increased 148% in US Dollars and 63% in Brazilian Reals, with an inflation corrected increase of 40% to growers.

Brazilian Naturals

SEPTEMBER	US cent / lb	Exchange Rate (R\$)	R\$ / lb
2003	55.05	2.889	1.59
2004	68.46	2.903	1.99
2005	88.23	2.301	2.03
2006	96.51	2.153	2.08
2007	113.90	1.902	2.17

Source: ICO

107%

36%

Robusta

SEPTEMBER	US cent / lb	Exchange Rate (R\$)	R\$ / lb
2003	37.65	2.889	1.09
2004	33.42	2.903	0.97
2005	47.10	2.301	1.08
2006	78.08	2.153	1.68
2007	93.50	1.902	1.78

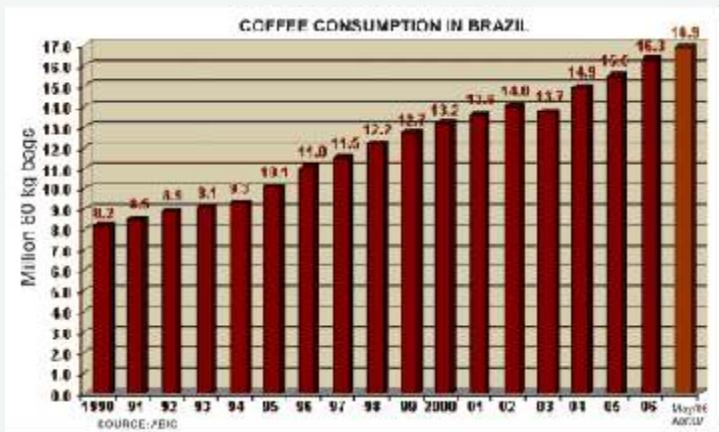
Source: ICO

148%

63%

The stronger Real is curtailing the income of Brazilian coffee growers, who are becoming less competitive in relation to other origins. But, contrary to expectations, the area under coffee in Brazil is not falling. The explanation lies in the strong domestic demand. In the same period mentioned above, domestic consumption went from 13.5 to 17 million bags per year. Today, practically 100% of the Brazilian Robusta (Conilon) production is traded in the local market, 3 to 4 million bags to the soluble industry and the rest to roasters that also buy about 30% of the Arabica crop to make the blends offered in the domestic market.

With domestic demand so strong, it comes to no surprise that there were occasions in the recent past when Conilons sold in the local market at prices well above those that could be obtained from exports. The same is true for some Arabica types demanded by local roasters. Were it not for the domestic demand, Brazilian coffee growers, specially Arabica ones, would be in greater trouble and the planted area could be indeed falling as a result of the strong Real. Instead, the prices and costs of coffee prevailing in Brazil today point to a scenario where a sizable increase in Robusta production is likely to take place and to continue until domestic prices are aligned with international ones.



WET POLISHER FOR ROBUSTA AND ARABICA COFFEE

Polishing, i.e., the removal of the silver skin, of Robusta coffee has always been more challenging than in the case of Arabicas. The silver skin is much more firmly attached to Robusta than to Arabica beans.

Pinhalense has developed a special polisher for green Robusta coffee that (a) moistens the beans, (b) removes the silver skin, (c) polishes coffee and (c) dries it back to its original moisture level. The equipment is available in several configurations and capacities from 1 to 4 tons/hour for a single machine. The polisher may have its own drier and cooler or be associated with new or existing rotary driers.

The benefits of wet polishing green robusta coffee beans involve not only their aspect - polished beans change from brown to light green as shown in the picture below - but also their cup quality. Wet polishing of Robustas tends to remove the earthy taste and bitterness often found in this type of coffee.

It is known that wet polished Robustas can be used to increase the share of Robustas in Arabica-Robusta blends without affecting the cupping features of the blends and with substantial gains to roasters. This in turn reflects on higher prices for wet polished Robustas. Price premiums of US\$ 100.00 to US\$ 150.00 per ton have been reported for wet polished Robustas.



Pinhalense wet polishers have paved the way for the creation of several types of Robusta specialty coffees offered today in the market. Trials are currently under way with different qualities of Arabica to evaluate the potential benefits of wet polishing green Arabica beans. The preliminary results are quite positive.



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Brazilian prices

October 31, 2007

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	245,00
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	265,00

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

Vitória-ES fair average quality	202,00
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BM&F (US\$/ 60 kg)

Dec 2007	152,45
Mar 2008	157,80
May 2008	160,50

Dolar US\$/ Real R\$

October 31	1,74
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