

# COFFIDENTIAL

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## KEY COFFEE LAUNCHES NEW PRODUCTS TO CELEBRATE JAPANESE IMMIGRATION TO BRAZIL

The Japanese company Key Coffee will launch a series of four coffees to celebrate the 100th anniversary of Japanese immigration to Brazil (1908-2008). The first product, called Kasatomaru – the name of the boat that brought the first immigrants from Japan – was launched in November 2007. The beans that compose this particular blend come from the farm where the first Japanese arrived, at the Mogiana region, in the state of São Paulo. Each of the four coffees of the series have a special theme: “period of suffering”, “period of cultivation”, “period of challenge” and “period of maturity”. The next coffees will be launched in March, July and September 2008.

Source: Ipcdigital.com



## NESPRESSO TO EXPAND CHAIN IN BRAZIL

Nestlé is speeding up its plans to expand the Nespresso chain in Brazil. A new store will be opened in Ipanema, Rio de Janeiro on January 17th and another one is being planned for Belo Horizonte, capital of the state of Minas Gerais, or Brasília. Still another store is in final negotiation to open in a shopping mall in São Paulo, in March 2008.

Source: Valor Econômico

## MINISTRY OF AGRICULTURE TO INVEST IN CERTIFICATION OF ORIGIN

The Brazilian Ministry of Agriculture will invest R\$ 430,000 (US\$ 246,000) to help 8 municipalities to obtain certificates of geographical indication (GI) for different agricultural products. One of these products is Arabica coffee from the mountains of Espírito Santo state. The funds will be used to delimitate production areas, to establish rules and regulations, and for capacity building for growers, farm employees, and industry personnel related to the products.

Sources: Cafépoint / MAPA

## RAINFOREST ALLIANCE COFFEE SALES INCREASE 47% IN BRAZIL

Sales of green coffee certified by Rainforest Alliance increased 47% in 2007 compared to the previous year. The main destinations were Europe (60%), Japan, United States, Australia and local Brazilian roasters. One of the factors that have sustained this increase is the support of big companies such as McDonald's, Tchibo, Kraft, Mitsubishi, among others, to the Alliance's Sustainable Agriculture Chain.

Sources: Coffee Intelligence Center (CIC) / Imafloira

## SOLUBLE COFFEE REVENUES GROW 20%

According to a report from the Secretariat of Production and Agricultural Energy, of the Ministry of Agriculture, Brazilian revenues from soluble coffee exports grew 19.74% in 2007, compared to the previous year. The total volume exported also increased 8.57% compared to 2006. The main destinations of Brazil's soluble coffee exports were Russia, the United States and the United Kingdom.

Sources: Conselho Nacional do Café (CNC) / Coffee Intelligence Center (CIC)



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## A BETTER BERRY BORER TRAP

Teenager students from a public school in Arapongas, in the coffee growing state of Paraná, Southern Brazil, created another trap to capture the coffee berry borer. The trap consists of a PET plastic bottle cut in half and turned upside down: the open upper part contains a small flask with a mixture of ethanol and methanol to attract the borer and the lower part is filled with water and detergent to kill the borer that falls, dizzy from the effects of the solution that attracted it. This trap, still to be further developed for wide-scale application, helps to control the borer without the use of toxic pesticides on coffee plantations.

Source: AEN - Agência Estadual de Notícias



## CROP TOTALED 33.7 MILLION BAGS

Brazil's most recent coffee crop totaled 33.7 million 60kg-bags according to the 4th and last estimate by CONAB for the 2007/2008 season. While 69.6% of the total production is composed of Arabica coffee, the remaining 30.4% is Robusta. The state of Minas Gerais remains the country's largest producer, responsible for 46% of the total crop, followed by mainly Conilon (Robusta) growing Espírito Santo. The total planted area in Brazil corresponds to 2.3 million hectares. More information on this matter can be found on CONAB's website: [www.conab.gov.br](http://www.conab.gov.br).

Source: CONAB's website

## CONAB AND IBGE TO MAKE JOINT ANNOUNCEMENT OF CROP ESTIMATES

CONAB and IBGE, the two Brazilian institutes in charge of collecting data on agricultural production, will announce on January 8th their first unified crop estimate for the coffee season 2008/2009. The announcement will take place simultaneously at CONAB's headquarter in Brasília and IBGE's head office in Rio de Janeiro. From now on, data analysis and forecasts will most likely be based on the calendar year instead of the agricultural year. CONAB has informed that it entered into partnerships with other public institutions, like INMET, the National Institute of Meteorology, in order to improve the quality of its studies.

Sources: Portal do Agronegócio / Gazeta Mercantil

## BRAZILIAN STOCKS TO FALL

Final coffee stocks from the 2007/2008 season in Brazil may total only 3.69 million 60kg-bags, a fall of 57% when compared to those of the 2006/2007 season - 8.66 million bags. Brazil's total supply in 2007/2008 is estimated to be 45.76 million bags, while total demand is indicated as 42.07 million bags.

Sources: Agência Safras / Coffee Intelligence Center (CIC)

## GOVERNMENT STOCKS TO END IN MAY

While coffee stocks continue to fall year after year, consumption doesn't stop growing. Every year world consumption increases at an average rate of 1.7 million bags, a total of more than 120 million bags of coffee being consumed per year. Official stocks in Brazil will end next May. This is the first time this happens in the history of the country. Without stocks Brazil will need average crops around 45 million bags to keep the same level of consumption and exports of recent years and to retain its share of the world market.

Source: Escritório Carvalhaes

## INDUSTRY UNIMPRESSED BY LOW OFFICIAL STOCKS

Brazilian government stocks add up to only 865,000 bags of coffee today. These stocks were ten times larger in 1999 and 20 times larger in 1989, when the Brazilian Coffee Institute was closed. Even with the latest estimates that stocks will actually end in 2008, exporters and the local industry are confident that there will be no harm to the market because government stocks have already been small for some years now.

Source: Valor Econômico

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## Outlook Carlos H. J. Brando



### CROP ESTIMATES: SHORT AND LONG TERM

A heated argument about the size of the next Brazilian crop is now taking place as it usually happens when large production figures are expected. In spite of the impact that the estimates of the next crop may have on price formation, investment decisions by growers and exporters are much more affected by the size of future crops and prices in 3 to 4, years which is the average time for coffee to reach full commercial production. Difficult as longer term estimates are, they should deserve more attention than they presently do.

Investment decisions cannot ignore major current trends such as the growth of consumption at a higher pace than before, the increasing role of soluble, espresso and out-of-home consumption, the growing share of robustas in the "world blend" and the effects of the strong Brazilian currency on supply growth. These trends will affect not only how much coffee will be planted in coming years but, most importantly, whether Arabica or Robusta and where it will be planted.

What size, composition and geographical distribution of the world coffee crop should be expected in five years? The structure of supply will undergo large changes in quality and geographical distribution that will in turn affect not only prices but also the flow of investments and, why not, the geopolitics of coffee.

The recent developments in crop forecasting in Brazil – the CONAB-IBGE collaboration, stronger scientific support and better knowledge of planted areas – will create a more solid base for short and mid term estimates. However the large size of the Brazilian crop itself will always leave room for arguments due to factors like hulling losses (possible discrepancies of up to 6 million bags as per Outlook in Confidential No. 1, July 07) and the growing impact of droughts.



It is not an exaggeration to say that Brazil may lose one half to a full crop due to droughts every five years, with the further adverse effect that droughts do not cause prices to increase the way frosts do. That is why I like to joke that Brazilian coffee growers do not have dreams but nightmares: from frost to droughts to strong currency to droughts and strong currency... Further comments about droughts in Brazil will appear in a coming issue of Confidential.

## Brazilian prices

January 04, 2008

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	265,00
Mogiana-SP fair average quality T.6	265,00
South Minas fair average quality T.6	263,00
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	275,00
South Minas	270,00

Conilon/ Robusta (R\$/ 60 kg bag)	
Vitória-ES fair average quality	204,00

BM&F (US\$/ 60 kg)	
Mar 2008	164,70
May 2008	168,00
Sep 2008	168,20

Dolar US\$/ Real R\$	
January 04	1,75

## MUCILAGE REMOVER DMP

Much has been written and said about whether mechanical removal of mucilage and fermentation in tanks with or without water produce the same results aspect and quality wise. However, the argument should be approached from a different direction: protection of the environment.

It is well known that fermentation of parchment coffee to remove the mucilage accounts for over 70% of water consumption and at least 50% of the pollution load in wet milling. At a time when the protection of the environment and the sustainability of the coffee growing activity gain the limelight, it is highly advisable to seek alternatives to fermentation.

Faced with the need to use mechanical removers of mucilage, the first question that usually haunts coffee processors is whether they will be able to produce the same quality product they do using fermentation. The correct reply to this question is that each grower should use mucilage removers in a way that minimizes water contamination, improves control of the process and delivers the quality the client wants. In order to do this mucilage removers can fully replace fermentation but can also be combined with it in ways that reduce water contamination. Pinhalense's advice to clients acquiring a mucilage remover for the first time is that the latest generation DMP machine may be used in different ways: to wash fermented coffee, to remove the mucilage of partially fermented coffee and to remove mucilage mechanically without any previous fermentation.

The new DMP mucilage remover launched by Pinhalense results from over 25 years of research in this specific area. This development effort produced three earlier types of machines that were in themselves big sales successes, specially the DFA model that preceded the DMP and sold thousands of units around the world.

The DMP model departs substantially from the DFA. Even though the upward flow feature has been retained, the DMP has a simpler internal design that is both more efficient and more durable. A stainless-steel screen is now a standard feature. Clients who have the old DFA and the new DMP mucilage removers working side by side have stated that although they were happy with the DFA, the DMP surpassed their expectations.

The advantages of using a DMP mucilage remover are many:

- control of water consumption and contamination, as explained earlier;
- labor savings, as workers are released from the tedious manual washing of coffee in fermentation tanks;
- continuous flow;
- better control of the process, avoiding the need to wash coffee by hand at odd hours, whose failure to do often causes unwanted fermentation and the development of stinker beans;
- consistency of quality, as required by roasters of all sizes, specialty and commercial, and as allowed by a mechanical process that does not depend on either temperature or the rather subjective decision of when to stop fermentation;
- possibility to leave some mucilage behind, if required, to increase the body of washed coffees; and, last but not least,
- weight gains that range from 1 or 2% to as much as 5 or 6% depending on the temperature prevailing in the area, the higher the larger the weight gains.

Pinhalense's DMP mucilage remover is an important asset to growers and processors in today's coffee business which is marked by high quality requirements, sustainability concerns and reduced profit margins.



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