

# CONFIDENTIAL

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## CONAB TO RELEASE NEW ESTIMATES IN MAY AND JUNE

CONAB, the Brazilian agency in charge of collecting data on agricultural production, will announce its second estimate for the 2008/2009 coffee crop on May 8th. Information about private stocks is also being collected and will be released on June 6th.

Source: Coffeekbreak

## IBGE CONFIRMS CONAB'S CROP ESTIMATE

As of March, with cherries entering the maturation stage in Brazil, IBGE estimates that the coming Brazilian crop will be 44.2 million bags, with yields of 19.7 bags per hectare (8 bags per acre). Perspectives for both domestic and external markets remain positive due to the low levels of world stocks.

Source: Cafépoint

## ARABICA HARVEST ANTICIPATED IN BRAZIL

Harvesting will start earlier in the main producing states of Brazil due to the rainy months in the beginning of the year that favored maturation of the cherries. The Arabica harvesting season, which usually begins in May, is already taking place in some regions since mid-April.

Source: Gazeta Mercantil

## NEW APPROACH TO RENOVATE COFFEE PLANTATIONS

Of the 240,000 acres of coffee producing area in the state of Paraná, 44% of the trees are planted in the traditional way, 48% are high density plantations and 8% are cultivated according to the new "dobra" ("double") method. The latter consists of "intercropping" coffee trees between the lines of older trees. This is a strategy to renovate coffee plantations without having to stop production.

Source: Gazeta do Povo (Paraná)

## NEW CAPACITY AT IPANEMA TO PROCESS EQUAL PARTNERS' COFFEE

In order to meet its own demand and that of partners, Ipanema expanded its coffee processing infrastructure: 4 new mechanical harvesters were bought, Pinhalense washers and pulpers had their capacity doubled, 4 additional fermentation tanks and 8 new Pinhalense dryers were installed. The total processing capacity of the plant went from 14 to 30 tons/hour. Of the total 150,000 bags of coffee that Ipanema expects to supply this year, 32,000 will be supplied by members of the Equal Partners Program which aims at creating opportunities for small coffee growers to export their product with added value.

Source: Cafépoint

## ASIC RECEIVES RECORD NUMBER OF PAPERS

The International Conference on Coffee Science (ASIC 2008), to be held in Campinas, Brazil, in September 2008, received a number of papers that is 40% higher than last event held in Montpellier, France, where 250 studies were presented. This high interest bears witness to Brazil's importance and role in the worldwide coffee scenery, coffee science and research included.

Source: Coffeekbreak



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## ☉ FIFTEEN YEARS WITHOUT GENETICIST ALCIDES CARVALHO



SOURCE: IAC

April 18th 2008 marked the fifteenth anniversary of Dr. Alcides Carvalho's death. Dr. Carvalho dedicated 52 years of his life to studying the genetics of the coffee plant. The results of his work were translated into many varieties that today account for 90% of coffee plantations in Brazil as well as a substantial share of those in other important producing countries. His studies led to the varieties Mundo Novo (in the 50's), Acaiá (in the 60's) and, specially, the Red and Yellow Catuaí (in the 70's). The latter have small size and produce high yields. Dr. Carvalho was responsible for positioning Brazil as a leader in the development of more competitive and resistant cultivars and by organizing one of the most complete germoplasm collections in the world. In 1992, one year before his death, Dr. Carvalho led the team that launched the new Icatu cultivars that are resistant to coffee leaf rust.

Source: Embrapa Café

## ☉ GROWERS MODERNIZE COMMERCIAL STRATEGIES

Recent research has shown that the use of financial instruments like the futures market and the agricultural product bond (CPR) is increasing among coffee growers in the state of São Paulo. They are not only using new strategies to add value to their coffee but also seeking innovative ways to sell their product. The study reveals that the preference for these financial instruments is larger among coffee growers that have completed high school or university. Another issue analyzed in the study was the commercial channel used by the grower; the results indicated that the choice of channel is closely related to the grower's age. An interesting finding is that 68% of growers in São Paulo receive technical information about coffee from the Secretariat of Agriculture, 32% contact cooperatives and associations, and 21% participate in field days to get information.

Source: IEA (Institute of Agricultural Economics)



## ☉ HISTORICAL RECORD IN GREEN COFFEE EXPORTS

Revenues deriving from Brazilian coffee exports of 27,838,352 bags set a historic record of US\$ 4 billion between April 2007 and March 2008. Revenues from exports increased 15% from January to March 2008 compared to the same period in 2007 and generated US\$ 1 billion for the country. Germany is still Brazil's main export destination followed by the United States and Italy. Belgium became the fourth biggest client and imported 75% more coffee in the first quarter of 2008 when compared to last year.

Source: Cafépoint

## ☉ HIGH GROWTH IN ROBUSTA EXPORTS

Brazil exported 89% more Robusta coffee in the first quarter of 2008, with a total of 233,800 bags to be compared with only 123,700 bags in the same period of 2007. With high Robusta prices in international markets, the local industry was not able to beat importers' offers and to avoid Conilon coffee from leaving the country.

Source: Gazeta Mercantil

## ☉ EXPORTS OF ROASTED COFFEE GROW 145%

Brazil had an increase of 145% in exports of roasted and roast and ground coffee in the first quarter of the year. A total of 1,700 tons of coffee were sold. Sales reached US\$ 26 million in 2007, compared to only US\$ 4 million in 2002. Prices increased from US\$ 4.36 to US\$ 5.45 per kilogram (US\$ 1.98 to 2.48/lb).

Source: Revista Cafeicultura

## BRAZIL, A COUNTRY OF SMALL GROWERS AND THE WORLD'S SECOND LARGEST PRODUCER OF WASHED COFFEE!

Contrary to the usual perception that Brazil is a country of large coffee estates, the average coffee farm is under seven hectares (about seventeen acres). Although much larger than small growers in most countries, "small" Brazilian coffee growers may have an important role in preserving the competitiveness of the country's Arabica coffee production in an unfriendly macroeconomic environment marked by a strong local currency, high interest rates and rising labor costs.

Small Brazilian coffee growers are more competitive than mid-size and large farmers not only because of lower labor costs but also due to "other" production costs that are also lower in their case. If out-of-the-pocket (cash) coffee production costs (i.e., costs without depreciation, interest and return to capital) are divided into labor, inputs (fertilizers, pesticides, etc), harvesting and post-harvesting processing, mechanization, and "other" (management, accounting, utilities, fuel, etc), recent figures show that whereas small growers allocate only 15 to 20% of their total costs to labor and other costs, mid-size and large growers need 35 to 40% of total costs to cover these items. Therefore it is not surprising that a small grower with high yields may produce a bag of coffee at a cost that may be 40% lower than a mid-size to large grower.

Over and above the cost advantage in the previous paragraph, small coffee growers fall under what the Brazilian government defines as "family agriculture", small holders who grow any agriproduct, do not employ more than two permanent workers and have an annual gross income under US\$50 thousand. Small coffee growers may qualify for loans at preferential terms and other types of government support coordinated by the new Ministry of Agricultural Development (MDA) besides the other coffee specific programs managed by the Ministry of Agriculture, Livestock and Food Supply (MAPA).

If "Brazil, a country of small growers" may be novelty to many, the same may hold for the fact that Brazil may have become the second largest producer of washed coffee in the world, next only to Colombia. The introduction of the pulped natural (semi-washed) post-harvest processing system in the late 1980s and early 1990s has progressively endowed a large number of growers with the ability to produce not only natural coffee but also pulped natural and fully washed coffees. The larger profit margins of wet milled coffees induced this "conversion" to the wet system that started at large plantations then moved to mid-size growers and reached the small coffee farms more recently. This conversion has now gotten to a point where Brazil may have overtaken Mexico as the world's second largest washed coffee origin.

The trend towards wet milling combines nicely with the increasing role that small coffee growers are likely to play if Brazil is to retain its competitiveness in Arabica production. Wet milling tends to require more labor in harvesting and processing which is exactly where small growers enjoy an important competitive advantage. The Brazilian economy has been showing an extraordinary ability to gain efficiency and to increase exports in spite of an adverse exchange rate. The coffee business is facing tough challenges to do the same, specially so in Arabicas. Increased reliance on small growers and wet milling may be good paths to retain competitiveness.



## Brazilian prices

April 30, 2008

### Main Producing Regions / Farm Gate

#### Arabica Naturals (R\$/ 60 kg bag)

Cerrado-MG fair average quality T.6	255,00
Mogiana-SP fair average quality T.6	250,00
South Minas fair average quality T.6	250,00

#### Arabica Pulped Naturals (R\$/ 60 kg bag)

Cerrado-MG	265,00
South Minas	265,00

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

Vitória-ES fair average quality	203,00
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#### BM&F (US\$/ 60 kg)

May 2008	158,70
Jul 2008	161,30
Sep 2008	164,70

#### Dolar US\$/ Real R\$

April 30	1,69
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## ecoflex REVISITED: SMALL GROWERS AND SMALL CENTRAL MILLS

The **ecoflex** concept of wet mills combines individual machines – separators, pulpers and mucilage removers – according to clients' needs. The success of the **ecoflex** concept has led Pinhalense to further develop the system, now to have a small single machine that combines in the same structure all components that small growers or small central mills require. Driven by a single electric motor or stationary engine, the new **ecoflex** machines will be delivered fully assembled and ready to operate. Individual components not included in the set originally purchased may be added later and assembled on the site by the users themselves.

Designed for a capacity of 500 to 1,000 kg/hour of fresh coffee cherries, the most basic compact **ecoflex** wet milling set will only have a double-cylinder vertical pulper. The most complete compact **ecoflex** wet mill will have:

- an immature (green) cherry separator,
- a vertical pulper,
- a rotary screen parchment separator, and
- a mucilage remover.

All intermediate configurations will be supplied, always according to the users' needs and requirements and always delivered fully assembled and ready to use.

All configurations may be upgraded by adding any of the components listed above, which may be easily assembled on the site with the help of bolts and nuts only. Conversely, all configurations may be "downgraded" by removing component(s) that may have become dispensable. In the case of "downgrading" it may be preferable to retain the component that is no longer required and to bypass it.

The ability to bypass components means that the same **ecoflex** wet mill may be used in different ways depending on the quality of the incoming cherry and the features expected for the final outgoing product. For example, if harvesting brings in immature (green) cherries, the respective separator may be used whereas one-hundred percent ripe cherries may bypass the separator and be fed directly to the vertical pulper. At the other end of the process, if partial or complete fermentation is required, parchment can go first to a fermentation tank and then to a mucilage remover to complete the process or to wash the product. If fermentation is not required, parchment can go directly to the mucilage remover.

Although the small compact **ecoflex** wet mills are being developed specifically for small processors (small growers and/or small central mills), they will be strongly built, with a solid structure and long-lasting mobile and consumable parts, in order to work continuously for long daily journeys and to operate for the 10 to 15 years that a Pinhalense wet mill is expected to last. It will be small, compact equipment with the same high technology, superb performance and long useful life incorporated into the larger Pinhalense machines.

The compact **ecoflex** wet milling sets will be available soon.



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