

# CONFIDENTIAL

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## ONE YEAR OF COFFIDENTIAL NEWS!

Dear friends,

It is a great pleasure to celebrate one year of the Coffidential newsletter. We have tried to bring you a different perspective of the Brazilian coffee business month after month, including articles about different subjects and information on processing machinery. Now it is time to move forward! We want to have your opinion about our Coffidential. If you have any suggestion, please contact us. Also, in the next issue we want to start a new section, the "Picture of the Month". So, if you have an interesting, unusual or exotic coffee photo, please send to us so that we can publish it in our Coffidential.

Thank you very much!

*Coffidential Team*



## BRAZILIAN STOCKS REACH BOTTOM

While official coffee stocks are approaching zero, as expected, the figures released by CONAB of 10.3 million bags held by the private sector also correspond to the lowest such volume in Brazilian recent coffee history. These numbers are to be compared with the 20 million bags held by government alone in 1990. In spite of frequent reports of losses to other cultures, most analysts believe that the coffee area in Brazil will remain around 2.3 million hectares (5.7 million acres) in the near future.

Sources: Valor Econômico and Conab

## ADVERSE CLIMATE AND PEPRO DELAY CROP

Late rains in the past flowering season are delaying the harvesting of both Arabica and Robusta. Only 11% of the Arabica crop had been picked in early June to be compared with 22% in 2007. The equivalent figures for Conilons are 49 and 65% respectively. The release of the crop to the market may be further delayed by the funds to be made available to growers by the price equalizing PEPRO program that still awaits regulation.

Sources: Gazeta Mercantil and Coffee Intelligence Center (CIC)

## COFFEE PICKING IN DOWNTOWN SÃO PAULO

The Taste of Harvest Festival, that marks the beginning of the picking season in the state, comprises the actual harvesting by participants of the only coffee field in the world located in the heart of a major city. The 1,300 coffee trees, planted on one hectare (about 2.5 acres) of prime real-estate land, yielded eight bags of coffee that will be made into a special edition whose sale will benefit state charities. The morning festival ended with a luncheon designed after the traditional meals served on the plantations to Italian immigrants who harvested coffee.

Sources: Apta and Sindicafé



## INCREASING QUALITY AND YIELDS OF RONDÔNIA CONILONS

Rondônia Conilons, that have lagged behind Espírito Santo's both in yields and quality, are reacting to good international prices and higher profits. Several sources and growers indicate that improved husbandry and specially slow drying are increasing the volumes of Rondônia's export quality Conilons.

Source: Folha de Rondônia

## STATE OF SÃO PAULO TO PLANT ROBUSTA

According to the Campinas Agronomy Institute (IAC), the robusta varieties they have been working on since 1999 are nearly ready for commercial production, with a history of positive results in test plots in the state's warmer areas of Garça, Adamantina, Mococa and Campinas. With average prices of R\$205.00 per bag and production costs in the range of R\$100.00 to 130.00, Conilons are today much more profitable than Arabicas, whose average prices and costs are R\$240.00 and R\$190.00 respectively. Colder South Minas Gerais is unlikely to see Robusta planted where Arabica now thrives.

Source: Valor Econômico

**NEW PRUNING TECHNIQUES FOR CONILONS**

The Espírito Santo State Research and Rural Extension Institute (Incapex) has devised and released to Conilon growers a package of pruning and plantation renewal techniques named Poda Programada de Ciclo (Programmed Cycle Pruning) that is estimated to increase yields by 20% and to reduce labor costs by over 30%.

Source: Coffee Intelligence Center (CIC)

**BRAZILIAN GOVERNMENT PLANS TO INCREASE LOCAL PRODUCTION OF FERTILIZERS AND COMPONENTS**

A high-level task-force involving several ministries plans to enlist the help of giant Brazilian companies Petrobrás and Vale as well as other mining and fertilizer concerns to cut down the country's dependence on imported components that is estimated at 75% for nitrogen compounds, 50% for phosphorous and above 90% for potassium. The current efforts may require Congress clearance, special environmental permits and the agreement from Indian groups on whose land the largest potassium reserves are located.

Source: Folha de São Paulo

**RESEARCH REPORT MARKS CHANGE IN EMBRAPA MANAGEMENT**

The Brazilian Coffee Research and Development Consortium (CBP&D/Café), managed by Embrapa and congregating the country's main institutes and universities active in coffee research and extension, released a report summarizing the main results obtained during the 3-year tenure of Gabriel Ferreira Bartholo as general manager. The Minas Gerais Agriculture and Livestock Research Institute (EPAMIG) researcher has recently transferred management of Embrapa Café and the Consortium to Aimiré Francisco Almeida da Fonseca, a geneticist who comes from the Espírito Santo Research and Rural Extension Institute (Incapex).

Source: Portal do Agronegócio

**EXPOCAFÉ TRADE FAIR ATTRACTS 35,000 VISITORS**

The largest Brazilian coffee technology fair, held annually in the municipality of Três Pontas, in the heart of South Minas, had this year the theme Coffee and Social Responsibility. During the three days of the event 35,000 people visited booths presenting products ranging from fertilizers to processing equipment, saw machines in actual operation and transacted business estimated at almost US\$100 million.



Sources: Coffee Break and Café e Mercado

**IPANEMA ADMITS FOREIGN PARTNER**

Shareholder Gavea Investimentos sold its 20% participation to Norwegian roaster Friele that believes that Brazil is on its way to become an agricultural power-house due to its highly professional and modern agribusiness, whose model should be followed by other countries. The entry of the foreign partner will allow Ipanema, one of the world's largest coffee growers, to proceed with its development plans abroad that included the opening of an office in Florida early this year.

Source: O Estado de São Paulo

**ESPRESSAMENTE ILLY OPENS FIRST STORE IN BRAZIL**

The chain's store was opened in the new upscale shopping mall Cidade Jardim in São Paulo, to be followed by a second one still this year in the same city. On July 07 illycaffè will launch its Easy Serving Espresso (E.S.E.) pod system to be available in selected outlets in the versions light and dark roast and decaf.

Source: Cafépoint

**COFFEES LAUNCHED IN JAPAN TO COMMEMORATE 100TH ANNIVERSARY OF IMMIGRATION**

Ueshima Coffee Company (UCC) will launch several coffee products to commemorate the arrival of the first Japanese immigrants in Brazil in 1908 to work on coffee plantations. The coffees to be used to make the products were produced in Brazil by descendants of Japanese immigrants, starting with the Shimozaka family's that is grown in the Cerrado of Minas Gerais and whose UCC commemorative coffee is already being sold in Japan.

Source: L' Espresso



## CHALLENGING CONVENTIONAL WISDOM AND INCREASING PROFITS

June was a busy month for us meeting growers and processors at different coffee events, from Costa-Rica to Denmark, from Rwanda to Mexico, and in Brazil itself, to where the harvesting season brings visitors from all continents. What we learn from growers and processors who have been implementing our suggestions and trying our recently developed pieces of equipment and operating procedures is indeed exciting.

A company in Rwanda reports that by using Pinhalense's mechanical siphons on several farms it has been able to eliminate the potato taste that may affect so negatively the price of its country's coffee. Another company, that happens to be a large Robusta grower, states that it is achieving excellent results by pulping immature cherries using specific procedures that resulted from different field trials; the product so obtained commands prices that are astonishing to say the least. Producers and processors of washed coffee in Central America and other continents too testify how they are using our mechanical siphons, our new generation of pulpers and mucilage removers, and procedures suggested by us to improve the quality of their espresso blends not only by increasing their body and sweetness but also by removing off-tastes like adstringency and fermented cups. Brazilian clients are now talking of "super-bóias" (super floaters) and "super-lavados" (super washed), types of coffees that are exported for a good premium due to taste features not to be found in other coffees.

There is clearly a coffee quality revolution going on, induced by new machinery and new processing techniques. Gone is the time when buyers could judge the quality of a supplier's crop based of the quality of picking or the percentage of ripe cherries. As labor becomes scarce and harvesting costs grow, the key question is no longer the percentage of ripe cherries that coffee pickers bring in but, very important, how the different products that are harvested – immature, partially mature, fully mature, over-ripe and partially dry cherries – are processed to get the most out of them. Even more important is the fact that products other than fully mature cherries are not necessarily bad if properly treated with adequate equipment designed to enhance their positive features. Partially mature, over-ripe and even immature cherries that are processed separately by special machines can develop qualities that have their own place in different blends and, as such, may obtain prices that surprise growers and processors in a very positive way.

It is very rewarding to learn that our business has grown beyond that of only selling coffee processing machinery to one of also advising clients on how to maximize their profits and to get more money. Ever since Pinhalense and P&A helped to challenge the centuries-old concept that parchment coffee could not be dried with the mucilage still attached, i.e., not removed by fermentation or mechanically, which led to the creation of pulped natural / semi-washed / "cereja descascado" (CD) coffee, we have been even more eager to challenge conventional coffee wisdom everytime the opportunity arises. Today the borderline between being a producer of either washed or natural coffee or else is being progressively blurred and new paradigms are being developed to improve quality and to increase profitability.



### Brazilian prices

June 30, 2008 

#### Main Producing Regions / Farm Gate

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

|                                      |        |
|--------------------------------------|--------|
| Cerrado-MG fair average quality T.6  | 260,00 |
| Mogiana-SP fair average quality T.6  | 260,00 |
| South Minas fair average quality T.6 | 260,00 |

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

|             |        |
|-------------|--------|
| Cerrado-MG  | 280,00 |
| South Minas | 260,00 |

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

|                                 |        |
|---------------------------------|--------|
| Vitória-ES fair average quality | 212,00 |
|---------------------------------|--------|

##### BM&F (US\$/ 60 kg)

|          |        |
|----------|--------|
| Jul 2008 | 176,50 |
| Sep 2008 | 184,60 |
| Dec 2008 | 188,60 |

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

|         |      |
|---------|------|
| June 30 | 1,62 |
|---------|------|

## MECHANICAL SIPHONS FOR WASHED... AND NATURAL COFFEES

Mechanical siphons are normally thought to have their use restricted to wet mills where they separate the less dense ("lighter") over-ripe, partially dry and dry cherries that float from the denser ("heavier") ripe, partially ripe and unripe cherries that sink. However, mechanical siphons are just as important or even more important for natural coffee processing, although they are seldomly used for this purpose outside Brazil. Coffees processed by the natural method – Arabica or Robusta – are often picked with techniques that bring in cherries at different stages of maturation that should not be dried together.

The main reason to use mechanical siphons when processing natural coffees is to separate fractions with different moisture contents and to dry them separately in order to improve cup quality and to save on drying costs. Whereas floaters usually have a moisture content below 40%, the denser ripe and unripe cherries, that sink, have a moisture level on the average above 40%, often close to 50 to 55%. Though these borderline figures may change under different conditions, drying floaters and sinkers separately produces natural coffee that is dried much more uniformly and in a shorter time, be it on a drying patio or table, where it saves costly labor, or in a drier, where it saves costly fuel.

When floaters and sinkers are not separated by a mechanical siphon, drying of the cherries has to be slowed down substantially to obtain a fairly homogenous product. Even though more labor and/or fuel are required due to a longer drying time, a less uniform product is still obtained, with some beans above the ideal moisture level of 12% ("underdried") and others below it ("overdried") even though the moisture meter may indicate an average moisture level of 12%! The color of the product will be uneven, with lighter and darker beans, and there will be a risk of breaking the overdried beans in hulling.

Pinhalense's mechanical siphons not only save water and labor but also enable a degree of control of coffee separation that is not found in conventional siphon tanks. The same small volume of water used to fill the mechanical siphon's metallic box before it runs can be used for up to two days if coffee received at the wet mill is free from sand or earth. The mechanical siphon does not require an operator, unlike a siphon tank that needs a permanent worker not only to manually discharge stones periodically but also to "sweep" floaters and light impurities from its top all the time. There is hardly a conventional siphon tank that does not have a person performing the tedious job of assisting with the separation of floaters using a broom- or shovel-type instrument if not the hands themselves.

Besides the ecological and social benefits mentioned earlier, Pinhalense mechanical siphons offer the further advantages of different controls of the stone, floater and sinker separation processes as well as a pre-cleaner that removes leaves, sticks and all impurities that are smaller or larger than the coffee cherries. Stones and floaters do not have to be discharged from time to time with the help of the operator; they are discharged automatically, in a continuous flow, after they are drained so that water is not lost in the process. Depending on the type and quality of harvesting, the mechanical siphon's pre-cleaner can be equipped with a winnower to improve the separation of light impurities.



The introduction of mechanical siphons has a great impact on the quality of natural, pulped natural and washed coffees, Arabica and Robusta. Pinhalense mechanical siphons pave the way to prepare top quality natural, pulped natural and washed coffees as well as to pulp some types of floaters and unripe cherries. This we will discuss at another Confidential. Meanwhile clients are welcome to contact P&A or the nearest P&A/Pinhalense agent to learn about equipment and techniques to do so.

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