

CONFIDENTIAL

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COFFEE OPTIONS PROGRAM TO START AND MINIMUM COFFEE PRICES SET

The Coffee Policy Council (CDPC) approved the 2010 Funcafé budget of R\$ 2,8 billion (US\$ 1.42 billion) in its last meeting. The Ministry of Agriculture, Livestock and Food Supply (MAPA) announced that the first auction of the Coffee Options Program will happen in late June. Four auctions are planned, for delivery in November (1 million bags), January (800 thousand bags), February (700 thousand bags) and March (500 thousand bags). The strike prices will range from R\$ 303,50 (US\$ 154.06) to R\$ 314,40 (US\$ 159.59) per bag. The National Monetary Council (CMN) established new minimum prices for coffee. The minimum price is used as a reference for government policy decisions. The minimum price for Arabica coffee type 6 was set at R\$ 261,69 (US\$ 132.83) per bag, a 23.6% increase over the previous value. Conilon (Robusta) type 7 was set at R\$ 156,57 (US\$ 79.89) per bag, with a 25.8% increase.

Sources: Agência Estado and MAPA

BRAZIL'S SOLUBLE EXPORTS THREATENED BY COMPETITORS

The first 4 months of 2009 registered a 30% drop in soluble exports from Brazil, reaching only 212,000 bags, the lowest level since 2004. Unlike green coffee, soluble is suffering the effects of the global crisis with buyers looking for less expensive products. The problem has been worsened by the heavy taxation imposed by the European Union on Brazilian soluble coffee. While instant coffee from Brazil has to cope with a 9% duty, competitors like Vietnam pay a maximum of 3%.

Source: Gazeta Mercantil

MULTI-MILLION DOLLAR COFFEE AND HEALTH CAMPAIGN LAUNCHED AT COFFEE DINNER



The Brazilian Government launched the second edition of its country-wide Coffee and Health Campaign started last year. Using TV, magazines, Internet and movie theaters as media, the campaign aims to stimulate consumption among the general public above 15 years of age. The idea is to position coffee as an energetic beverage and to show its benefits for human health. The first screening of the ads of the multi-million dollar campaign took place at the traditional Coffee Dinner, sponsored by the Coffee Exporters Council (CeCafé), that brought together Brazilian coffee exporters and importers from several countries, leaders and stakeholders in the Brazilian coffee business and foreign guests, besides the Minister of Agriculture, who officially launched the campaign, the Governor of the state of Minas Gerais and Secretaries of Agriculture of coffee producing states.

Sources: Blog do Café and P&A

ATHLETES DRINK COFFEE TO IMPROVE PERFORMANCE

More and more athletes are drinking coffee before practices and competitions to achieve a better performance. Recent studies at St. Mary University, in the United Kingdom, and Rio de Janeiro Federal University, in Brazil, show that the caffeine, present in coffee, elevates the capacity of muscle contraction, making movements more agile. It also improves athletes' alertness and concentration.

Source: Istoé



NATIONAL COFFEE DAY WIDELY CELEBRATED ACROSS BRAZIL

Brazil celebrated National Coffee Day on May 24th, as part of the country's official calendar of events. Considered a real passion for Brazilians, coffee is drunk regularly by 97% of the population. To celebrate the holiday, companies and coffee shops throughout Brazil organized activities such as cultural presentations and charitable initiatives addressing coffee and promoting its consumption.

Sources: Gazeta Mercantil and ABIC

QUALITY AND CERTIFICATION PROGRAM FOR SMALL GROWERS IN SÃO PAULO

About 250 small coffee holders located in a region of São Paulo near Campinas are benefiting from the Coffee Quality Project created by the Dowe Egberts Foundation with Utz certification. The project, started in 2003, focuses on sustainable production and quality improvement. Sara Lee undertakes to pay growers a price premium that ranges between R\$ 15,00 (US\$ 7.61) and R\$ 20,00 (US\$ 10.15) per bag of 60 kg. Nonetheless loyalty to Sara Lee is not a project requirement and growers are free to sell to other buyers.

Source: Folha de São Paulo

NEW COFFEE MILL TO ADD VALUE TO SPECIALTY CONILON IN ESPÍRITO SANTO

Small growers in the northern region of the state of Espírito Santo received a modern coffee mill from the state government. Equipped with Pinhalense machines – mechanical siphon, pulper, mucilage remover, drier and dry milling equipment –, the mill will help small growers to retain the quality of their beans and to add value to their Conilon coffee, to be sold to specialty markets. This is the first of several Conilon mills that will benefit an average of 300 growers and process about 3,000 bags of 60 kg per year each. The income of program participants is expected to grow by at least 20%.



Sources: Seag-ES and P&A

GOURMET ESPRESSOS – MORE THAN JUST A TREND

The opening of two more Nespresso boutiques in São Paulo confirms the steady growth of the gourmet coffee segment in Brazil. From 2007 to 2008 Nespresso grew more than 300% in the country and growth of 380% is expected in 2009. The specialty coffee wave is also noted in supermarkets. Estimates from the Brazilian Coffee Industry Association (ABIC) indicate that of the 320 coffee brands available in São Paulo today, 25% are high quality coffees.

Source: Exame

"BRAZILIAN COFFEE REGIONS" LINE OF PRODUCTS LAUNCHED

In Brazil for over 40 years, Melitta launched new products in 2008 and had, despite the global crisis, a 12% growth compared to the previous year. This impressive result made the company invest on a new line of coffee products for 2009, including three different blends from Brazilian coffee regions: Mogiana Paulista, Cerrado Mineiro and South Minas. The new line aims to show consumers the differences of coffees from each region. Brazil represents 17% of Melitta's world business; it is the company's biggest market outside Germany.

Sources: Valor Econômico and Maxpress

SELECTION OF FUNGI TO CONTROL COFFEE BERRY BORER IN RONDÔNIA

Coffee berry borer is the major pest of the Robusta crops in the state of Rondônia. While many scientists search for ways to control fungus proliferation in agriculture, an Embrapa researcher spent the last four years selecting different variations of the fungus *Beauveria bassiana* that are more efficient to control the berry borer. The biological control of the pest is a cheaper alternative and less harmful to the environment and to growers' health than chemical pesticides. The fungus naturally infects the berry borer in almost every region of the world where the insect occurs, killing it in less than 72 hours. The experiment is now entering field tests to evaluate technological applications, different concentrations and the period of application.

Source: Embrapa Rondônia



QUARTERLY COFFEE NEWSLETTER LAUNCHED BY CAMPINAS AGRONOMY INSTITUTE (IAC)

Now in its second issue, the Informativo Café is published by IAC's Alcides Carvalho Coffee Center. The current issue features recent research on the cosmetic properties of the oil of Arabica coffee beans to hydrate and protect the skin from UVB radiation, known to cause cancer; a book by IAC and the Coffee Rust Research Center (CIFIC) in Oeiras, Portugal, addressing genetic research to transfers the Timor Hybrid rust resistant gene to IAC Arabica coffee varieties; and the launching of a new post-harvest processing research line at IAC. The newsletter may be requested by e-mail from fazuoli@iac.gov.br.

Source: Informativo Café



Picture of the month

JUNE - FULL HARVEST IN BRAZIL

Brazilian pulped natural drying on a patio in Patrocínio, Cerrado Region, MG, Brazil.

Photo by Adriano Gilson Rocha de Carvalho.

Source: Cafépoint

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I am afraid I am going to be blunt and polemical in this cold analysis of how selective coffee harvesting works against economic sustainability and perpetuates poverty in coffee growing areas. The equation is simple. A person can only selectively pick a given weight of coffee per day. As a result the pickers' *real* salary, discounted for inflation, will remain basically the same indefinitely. But development raises the cost of living and aspirations all the time. The outcome is that coffee pickers will be progressively less able to pay for their basic needs, let alone satisfy their growing aspirations. In summary, poverty will inevitably grow among coffee pickers at a time when so much is said and written about sustainability, including *economic* sustainability.

Is there a way out? Fortunately yes, with technology and techniques already available. However their implementation is usually hindered if not fully prevented by tradition, misconceptions about quality losses, and a host of other arguments that do not resist a sound technical and economic analysis. Let's discuss some concepts that challenge the paradigm of selective hand picking and pave the way to increase the income of coffee pickers.

First, selective picking is not the only way to obtain high quality coffee. Reality is that top quality coffee derives from fully ripe cherries only, *irrespective* of the way such cherries are obtained: hand picked selectively or picked mixed with overripe and underripe cherries by hand or machine and separated later by hand or other means. In fact, a lot of what is today referred to as "selective" hand picking should not be called so because the mixed product that is often picked requires manual sorting if only 100% ripe cherries are to be pulped. Second, coffee volumes picked by hand may be increased by 2, 3 or even 5 times using available techniques applicable to any terrain, any coffee variety, shaded or unshaded, in short, to most if not all conditions. The degree of selectivity will not be much worse than what is observed today in most countries that produce washed coffee. Third, mechanical handling and harvesting of coffee have evolved greatly in recent years. They can now cope with ever increasing slopes, ever narrower spaces between coffee trees, all Arabica varieties, and shaded coffee. The selectivity of the equipment is increasing and its costs are falling, to the point that hand-held harvesters may now be owned by the pickers themselves. Fourth, modern post-harvesting processing machinery can sort not only unripe cherries, that can be identified visually, but also not-fully-ripe cherries that cannot usually be separated by hand in response to visual inspection. Truth is that even with perfect selective hand harvesting, modern wet milling equipment can ensure higher coffee quality because it discards partially ripe cherries that only *look* ripe and cause astringency in the cup.

I know, dear reader, that you may now be thinking that what is written above is applicable in Brazil but not in your own case. You will be surprised to learn that many trials as well as actual commercial use of the concepts above are taking place in countries as diverse as Mexico, India and Colombia, let alone the cases of Brazil, Hawaii and Australia where these practices are routine today. Another probable concern of yours is that if selectivity falls, less quality coffee will be produced. This can be easily solved by producing more coffee altogether, be it by increasing yields, which is preferable, or by planting more coffee. Growers' income will increase in either case. Still another doubt regards the fear that mechanical sorting of cherries may cause indiscriminate increase in the percentage of unwanted cherries that are harvested. This may be easily avoided by using incentive and pay schemes for pickers to harvest as many ripe cherries as possible. Finally, dear reader, you may affirm that what is proposed above will create unemployment in coffee areas. Shortages of labor to pick coffee already seem to affect many coffee producing countries, including India, where the large population would indicate otherwise. In addition, with the proposal above, labor that remains in coffee will have higher incomes and offer better chances to their children. Others who leave will seek better wages than they had before, with or without government help.

Overall, the likelihood is that all will be better off — growers *and* labor — if proper conditions are created to facilitate the transition from an archaic to a modern coffee harvesting system. This is indeed economic sustainability and poverty reduction!

Brazilian Prices

May 29, 2009

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	271,00 ↑
Mogiana-SP fair average quality T.6	271,00 ↑
South Minas fair average quality T.6	271,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	280,00 =
South Minas	285,00 ↑

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

Colatina-ES fair average quality	188,00 ↓
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BM&F (US\$/ 60 kg)

Jul 2009	146,85 ↑
Sep 2009	151,25 ↑
Dec 2009	156,50 ↑

Real R\$/ Dolar US\$

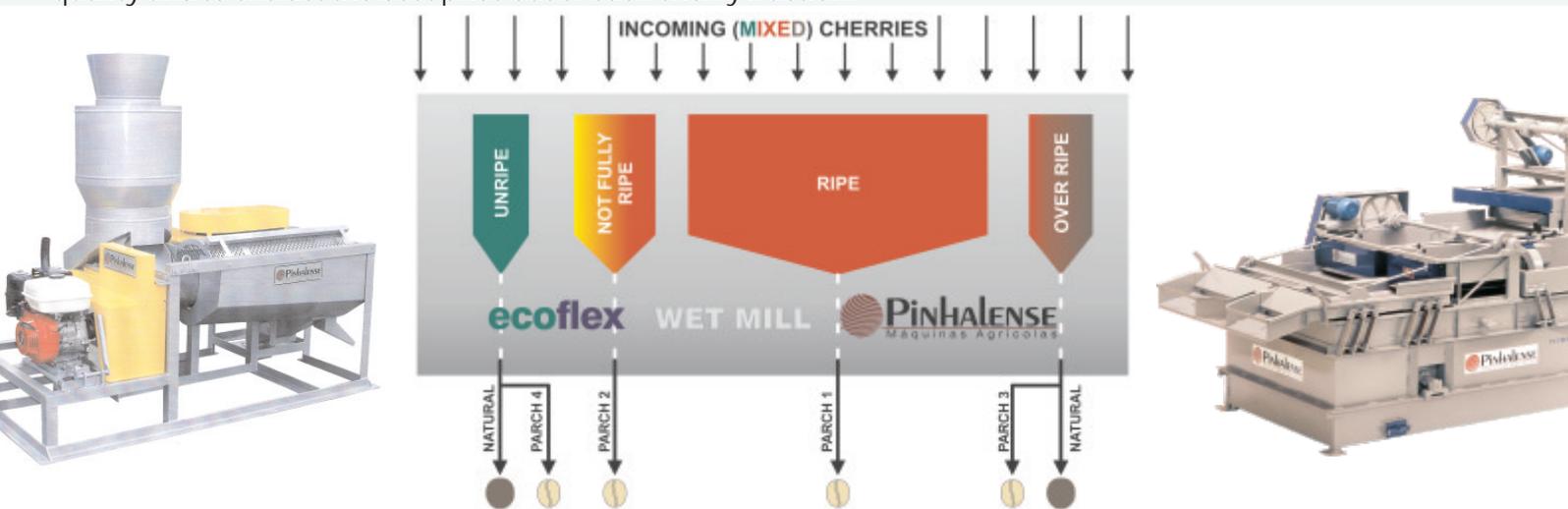
May 29	1,97 ↓
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ecoflex: CHALLENGING PARADIGMS IN WET MILLING

No matter how good selective hand picking is, it is unavoidable to have at least some unripe cherries mixed with the ripe ones. Of course, there will always be partially-ripe and not-fully-ripe cherries mixed too; they are picked because they look almost the same as the ripe ones and are nearly impossible to detect visually.

Reality is that today the *best* selective picking is likely to bring in 2 to 3% of unripe cherries, *average* selective picking 5 to 8% unripes and, in areas where labor is scarce and/or expensive, up to 15% unripe cherries are to be expected mixed with the ripe ones. Overripe cherries are also brought in throughout the harvesting season, some of which are still “pulpable” whereas others — the real floaters — are already too dry to pulp, specially at the end of the season.

Conventional wet mills were conceived for the perfect world of perfect selective picking. All cherries are pulped together in a machine that produces a single quality of parchment. Today's harvesting reality requires much more sophisticated wet mills, that are designed to cope with the mixed products that are picked. That is exactly what Pinhalense *ecoflex* wet mills were designed for: either to handle 100% ripe cherries or to cope with cherries mixed at *any* proportion. These mixed cherries come from today's “imperfect” selective picking and they will also come from tomorrow's purposefully less selective and more cost effective picking or even from mechanical harvesting. Cherries with different degrees of maturation can be pulped separately in order to maximize coffee quality and to extract the best price out of each cherry fraction.



The mechanical siphon LSC removes impurities (sand, leaves, twigs, etc) and stones, separates ripe and unripe cherries (“heavy”, denser materials) from overripe and dry ones (“light”, less dense materials), and may be equipped with an optional feature to separate the overripe floaters, that can be pulped, from the dry ones, that should not be pulped.

The *ecoflex* may separate and pulp *separately* fully ripe, partially ripe, overripe and underripe cherries in order to produce parchment 1, 2, 3 and 4 respectively. Alternatively, the *ecoflex* may be used to discard unripe cherries only and to pulp the partially ripe and fully ripe cherries together. In both cases, the quality of the product will be superior to that obtained in conventional pulpers because the unripe cherries, that cause astringency in the cup, will have been separated.

Pinhalense's unique system to separate cherries with less than optimal degree of maturation is an important breakthrough because it ensures that washed coffee will be of the highest quality and free from astringency. Conventional pulping systems pulp all cherries together and make it nearly impossible to separate afterwards, in other processing steps, parchment or green beans deriving from cherries with less than optimal degree of maturation. In addition, the possibility to pulp separately unripe, partially ripe and overripe cherries preserves the quality they have, avoids physical damage, and decreases the percentage of dry cherry produced. This is important from an economic point of view because dry cherries, or mbunis, as they are called in East Africa, tend to be considered a low-price sub-product in countries that produce washed coffee.

If you think that this is all too far-fetched and not for you, at least for now, please bear in mind that the *ecoflex* wet mills, available for small growers, mid-size farmers and large plantations, can be used as conventional wet mills too, and you will then be prepared for a future that is closer than you think; it is only around the corner...