

# CONFIDENTIAL

**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:**

- **ROBUSTA MARKET SHARE AND THE FUTURE OF CONSUMPTION (PAGE 3)**
- **DRY MILLING OF ROBUSTA COFFEE (PAGE 4)**

## **WORKING GROUPS CREATED TO SUPPORT THE COFFEE SECTOR**

The CDPC (Brazilian Coffee Policy Council) has approved the creation of two working groups to support the coffee sector. The first one will focus on finding new technological solutions to grow coffee in mountainous areas that today have high production costs due to the intensive use of labor and the unavailability of machines adapted to their slopes. The second group will address the development of new markets and the addition of value to Brazilian soluble coffee.

Sources: CNC (National Coffee Council) and P&A

## **NEW PROGRAM TO DEVELOP SPECIALTY COFFEES AT IAC**

IAC, the Campinas Agronomy Institute, is currently negotiating partnerships as part of its recently created "Specialty Coffee Program" that aims at the development of new coffee varieties with specific tastes and flavors. The program differs from previous developments that focused primarily on productivity and resistance to pests and diseases. The sensorial features of the new varieties will be defined by the partner coffee companies and not the researchers themselves. IAC's new Program expects to launch new cultivars in 10 or 12 years' time against the traditional 30 years for the development of new coffee materials.

Source: Valor Econômico

## **BRAZIL LEADS IN COFFEE CERTIFICATION**

Apart from being the largest coffee producer in the world, Brazil is also the country with the greatest number of certified farms. According to BSCA (the Brazil Specialty Coffee Association), 15% of the country's 350,000 coffee farms are already certified or verified. Utz, Rainforest Alliance, 4C, Fair Trade and Certifica Minas are the main sustainability standards operating in the country today.



Source: CaféPoint

## **CUP OF EXCELLENCE 2012 ANNOUNCES EARLY HARVEST WINNERS**

The winning coffee of the 2012 Cup of Excellence Early Harvest, with 91.79 points, was a lot from Moinho Estate, in the municipality of Olímpio Noronha, South Minas Gerais. Second and third places came also from Minas Gerais, respectively from Serra do São Bento Estate, in Araponga, and Sertãozinho Estate, in Botelhos. The 13th edition of the traditional Cup of Excellence competition, for coffees processed by the pulped natural and washed systems, took place on November 9 during the Ficafé event in Paraná.

Source: BSCA (Brazil Specialty Coffee Association)

## **NEW CNA REPRESENTATIVE OFFICE IN CHINA**

CNA, the Brazilian Agriculture and Livestock Confederation, has recently opened an office in Beijing, China with the goal of consolidating and expanding the participation of Brazilian agricultural and livestock products in Chinese consuming markets. CNA also intends to investigate opportunities to attract Chinese public and private investment to Brazil, specially in infrastructure for transport, storage and logistics. In 2011 Brazil exported 22.1 million tons of soy to China; CNA expects to diversify agri exports with the inclusion of other products consumed by the Chinese.

Source: Canal do Produtor



## MONTE CARMELO SHIPS COFFEE WITH CERRADO ORIGIN SEAL TO JAPAN

Cocaccer (the Cerrado Coffee Growers' Cooperative), in Monte Carmelo, Minas Gerais, made its first coffee shipment to Japan with the "Região do Cerrado Mineiro" origin seal. The lot exported was composed of 880 bags negotiated above the ICE-Futures level price.  
Source: Cocaccer

## INCAPER HONORED IN THE CELEBRATION OF 100 YEARS OF CONILON



Due to its role in the development of coffee in the state, Incaper, the Agricultural Research and Extension Agency of Espírito Santo, was honored in the event that celebrated 100 years of Conilon in the state. Incaper is recognized for the transfer of technology and extension services to coffee growers besides its contribution to R&D in Conilon as reflected in many studies and technical publications on the subject. Today 9.7 million bags of Conilon are produced in Espírito Santo in an area of about 300,000 ha.

The Secretary of Agriculture of ES, the President of Incaper and the Technical Director of Incaper

Source: Incaper

## RESEARCH AND TECHNOLOGY HELP GROWERS IN RIO TO REACH HIGHER YIELDS

Several research projects conducted by Embrapa in Rio de Janeiro since 1997 have helped coffee growers to adopt new technologies and to improve yields. Experiments have demonstrated that high density planting leads to cost reduction and high yields in the short run. In the medium and long term, as the competition among coffee trees increases, pruning is essential to retain the initial gains. Another experiment, about soil nutrition and climate adaptation in the main producing areas of Rio, indicates that 42% of the land is apt for Arabica whereas 38% is suitable for Robusta. The use of irrigation in the northern part of the state has caused yields to go from 13 to 52 bags/ha in recent years.

Source: Consórcio Pesquisa Café (Coffee Research Consortium)

## BRAZILIAN SPECIALTY COFFEE SHOP TO BECOME CHAIN

Suplicy Cafés Especiais, the Brazilian specialty coffee shop that opened in 2003 and now operates 9 stores, plans to develop into a national coffee chain. TreeCorp, a Brazilian investment fund, acquired 45% of the company in July and has already helped Suplicy implement several changes in the business to improve management and operations and to increase sales. The investors plan to open 100 stores over the next five years.

Source: O Estado de S. Paulo

## NESPRESSO CUTS PRICE TO INCREASE SALES

For the first time since its arrival in 2005, Nespresso reduced the price of its Grand Cru capsules from R\$ 1.90 (US\$ 0.92) to R\$ 1.50 (US\$ 0.72) each. The company expects that this 20% reduction in price will help the brand double its revenue over the next 3 years. With this recent change, Nespresso capsules will cost the same as Dolce Gusto's and lower than Delta Q, the single-dose Portuguese competitor that has just arrived in the country. The single-dose coffee market in Brazil is still small but expanding fast, with US\$ 32 million in sales in 2011, 43% higher than in 2010.

Source: Valor Econômico

## Pictures of the Month

### 20<sup>th</sup> ENCAFÉ COFFEE ROASTERS' CONVENTION - BAHIA 2012



Industry representatives and government officials at the Opening Ceremony of Encafé



Hotel where Encafé took place, in Bahia

Pictures: Maria Brandão, P&A

## ROBUSTA MARKET SHARE AND THE FUTURE OF CONSUMPTION

Much has been said and written about the possible risk of the increasing share of Robusta coffee in the “world blend” to affect consumption negatively. But world consumption has been showing consistent growth and does not seem to be much affected by either more Robusta or the world crisis. Consumption growth remains healthy in the world and is increasing faster in producing countries and emerging markets than in traditional consumers (US, EU and Japan). With the major exception of Brazil, these “developing” markets consume mostly soluble coffee whose main ingredient is Robusta coffee. Wouldn't it then be fair to argue that more Robusta coffee in the blend causes coffee consumption to increase? But many believe it otherwise.

A line of argument goes that in markets that traditionally consumed mostly Arabica – most if not all traditional importers and consumers already listed in the previous paragraph – the increasing share of Robusta turns consumers away from coffee and causes consumption to fall with reasons ranging from the higher caffeine content of Robusta to its alleged lower quality. Since this does not seem to be happening – consumption growth in these markets is sluggish but not falling – is there a “new taste” for Robusta developing or is its quality improving or else?

Consumption in coffee shops is primarily of drinks with milk, flavors and other ingredients. Since these coffee “mixes” require “stronger” coffee, i. e., coffee with more body, high quality, more expensive Arabicas are not essential not to say that they add to costs without perceptible benefits to consumers. Therefore Robustas have a sure place in these drinks. A similar argument holds for some producing countries in Asia and specially for emerging markets where “3 in 1” – single-serve soluble coffee with non-dairy milk and sugar – are gaining new “4 in 1” versions with the addition of flavors and other ingredients.

There is no doubt that cleaner, better processed Robustas have more space in Arabica-Robusta blends without great changes in the sensorial features perceived by consumers. Washed and pulped natural Robustas are known to be used to replace Arabicas in larger proportions than Robusta naturals which explains the firm trend towards the wet milling of Robustas at origin, i. e., in producing countries. The wet polishing of green Robusta coffee has only some of the same effect, reason why premiums for washed Robustas are much higher than for wet polished ones.

In spite of the claims that more Robusta in the blend of countries used to Arabica will cause consumption to fall because Robusta has higher caffeine content than Arabica and that increased Robusta addition will curb consumption on quality grounds, the evidence from the past ten years points to firm consumption growth and an increasing share of Robustas in the “world blend”. Soluble is the coffee beverage of entry into tea drinking countries that today represent the main growth market for coffee. Since the lower cost, more popular form of soluble coffee – spray dried – does not taste substantially different if more expensive Arabicas are used in its production, the trends towards more Robusta consumption and production is here to stay.

In spite of all that is written above about Robustas, prospects are good for Arabicas too. World consumption is growing at a faster pace than the shift from Arabica to Robusta and many consumers who enter the coffee market via Robusta based soluble beverages end up by switching to Arabica as they learn more about coffee.

What impact will more Robusta consumption have on the geopolitics of coffee production? Can it be behind the demise of Arabica milds in recent years? Will coffee production, specially of Robustas, move eastwards from Latin America and Africa to Asia to be closer to the new dynamic consumption markets? It makes marketing sense to end the discrimination against Robusta coffee and to join those who are exploring its comparative advantages and the still few who are working to reposition Robustas in the coffee quality spectrum. Let's abstain from the Arabica-Robusta debate and concentrate on offering a cup of coffee that meets consumer needs and attracts new consumers in all income segments with the right quality price mix.

## Brazilian Prices

November 30, 2012

### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	355,00 ↓
Mogiana-SP fair average quality T.6	350,00 ↓
South Minas fair average quality T.6	350,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	385,00 ↓
South Minas	380,00 ↓

+ 10%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	260,00 ↓
BM&F (US\$/ 60 kg)	
Dec 2012	180,65 ↓
Mar 2012	187,45 ↓
Sep 2013	194,00 ↓
Real R\$/ Dolar US\$	
November 30	2,13 ↑

Source: [www.qualicafe.com.br](http://www.qualicafe.com.br)

## DRY MILLING OF ROBUSTA COFFEE

Wet milling and drying of Robusta coffee have already been addressed at Confidential, the latter recently. Pinhalense has a large and diversified experience with dry milling of Robustas in most countries that produce this type of coffee around the world, from Brazil to India, from Vietnam to Uganda, from the Ivory Coast to Indonesia, etc. Although small capacity dry mills for Robusta are still demanded, the average size of Robusta dry milling projects supplied by Pinhalense has increased substantially in recent years and reached capacities as large as 28 and 42 tons of green coffee per hour – one to two container loads of coffee per hour – with larger mills in the pipeline.

The dry milling of Robusta coffee requires some specific features that make it somewhat different from Arabica, specially as the output grows. Different processes and machines – e.g.: wet polishing of green Robusta beans – may be added to respond to either product characteristics or market requirements. Although large capacity dry mills are designed for either Robusta or Arabica coffee, mid-size and small mills can often handle the two products as the ones that Pinhalense has supplied in India (“curing works”, as they call them), East Africa and even Brazil, besides other origins.

Pinhalense Robusta mills start with a pre-cleaning and destoning section that is specially designed to handle the high proportion of impurities received with this type of coffee. This proportion is much larger than in the case of Arabica and poses specific challenges that Pinhalense has learned to address efficiently.

Even though size grading is usually simpler for Robusta than Arabica, the increasing output required, the high proportion of peaberries and the volume concentration of some grades in many origins require graders with exclusive features or even different machines like the “V” and “I” size graders that Pinhalense offers. The way Pinhalense mills combine grading with gravity separation may be completely different for Arabica and Robusta projects and is definitely so in large Robusta dry mills.

The interplay between size grading and wet polishing offers interesting profit maximizing opportunities that Pinhalense mills capture in a unique way. The market premiums paid for wet polished Robusta coming out of Pinhalense polishers sends a strong message in favor of these machines and their technology. Evidence of this can be found in Vietnam, India and Brazil for example.

Processing and logistics costs are much more important in the case of lower priced Robustas than Arabicas. Bulk and big-bag handling are often a favored solution in order to lower labor costs and to speed up product flows from reception to dispatching. In addition to its current line of big-bag and container loading equipment, Pinhalense is about to launch, first, a new automated weighing and filling machine that is compatible with most big-bag sizes available in the market and, second, a variable-speed belt conveyor system to blend coffee continuously (as opposed to batch blending). These two products should be available in the first semester of 2013.

Dust suction and disposal are also more relevant in the processing of Robusta than Arabica because the former is usually received with a much greater impurity content. Pinhalense now offers a new family of dust and husk filters that are self-cleaning and can be installed inside the mill or outdoors. Each standard size unit, like the one shown in the picture on this page, has a battery of synthetic cloth filters and a timer to activate the cleaning system. The filter units can be installed at floor level and emptied with the help of screw conveyors or big-bags or placed above silos in the case of husk disposal.

Finally, it is worth to explain that the success of a dry coffee mill depends not only on the technology and efficiency of the machines deployed themselves but also on their layout and the way the product flows are designed. The engineering of today's coffee mills, large and small ones alike, is so critical that excellent machines laid out poorly will not achieve their objective at all. Pinhalense has a unique track record of designing Robusta (and Arabica) dry mills of all sizes in most Robusta (and Arabica) origins, including most of the largest Robusta mills in key Robusta origins such as Vietnam, Indonesia, Ivory Coast, Uganda, India and Brazil itself. P&A (peamarketing@peamarketing.com.br) will be pleased to send you a reference list with capacities and specifications upon request.

