

CONFIDENTIAL

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

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NEXT BRAZILIAN CROP UNDER 50 MILLION BAGS

Flowering of both Arabica and Conilon coffee started earlier in Brazil this year. The volume of the 2014 crop, which is starting to be estimated, may be around 55 to 60 million bags according to some sources. However, observing the trees, it is already possible to conclude that actual production may be smaller. Low coffee prices have made coffee growers reduce the use of inputs and many diseases were favored by high rainfall and moisture levels. Bearing this in mind, it is estimated that the next Brazilian coffee crop can be initially estimated at 47.8 million bags.

Sources: J.B.Matiello and A.W.R.Garcia

ARABICA PRICES HIT 11-YEAR LOW IN BRAZIL

The latest data from University of São Paulo's CEPEA indicate that the average price of Arabica type 6 FAQ in São Paulo state was R\$253.94 in October, the lowest since July 2009. Correcting for inflation in the period, this is the lowest coffee price since August 2002 when it reached R\$ 215 per bag. The consecutive price falls for both Arabica and Robusta in the Brazilian physical market are already causing growers to reduce husbandry, lay off employees and even abandon plantations. In São José do Rio Pardo, in the Mogiana region of São Paulo, for instance, approximately 10% of coffee growers have abandoned their crops while others are considering replacing coffee with other cultures.

Sources: CEPEA/USP (Center for Advanced Studies in Applied Economics), Peabirus and Globo Rural



COFFEE QUALITY VS. PRICE

Even though the prices of the commodity keep falling, Brazil has become the world's largest producer of high quality coffee and holds the largest number of certified sustainable farms. According to ABIC, the Brazilian Coffee Roasters' Association, high-quality coffee is one of the alternatives to overcome the current crisis but its production will only continue growing if more government funds become available for growers to incorporate new technologies and if coffee prices improve.

Source: Notícias Agrícolas

BRAZILIAN RESEARCH SYMPOSIUM HIGHLIGHTS NEW TECHNOLOGIES

The VIII Cafés do Brasil Research Symposium held in Salvador, Bahia, from November 25 to 28, was marked by discussions about mechanization, sustainability, quality and value addition in Conilon and advances in Arabica nutrition, among other technologies developed by institutions that belong to the Coffee Research Consortium coordinated by Embrapa. The program was composed of 21 presentations, including workshops and 200 posters (20 presented orally) with an attendance in excess of 400 people, mostly researchers from all coffee producing regions. The next Symposium will be held in Foz do Iguaçu, Paraná state, in the South of Brazil in 2015.

Source: Embrapa Café



FERMENTATION STUDIES CREATE NEW CUP PROFILES



Biochemical experiments with fermentation carried out by two Brazilian growers are generating coffees with complex sensorial features similar to those found in Kenyan coffees. Coffee is kept in fermentation tanks where yeast is added to help acids and aromatic compounds to develop. Experiments have been made in Santa Margarida (SP) and Chapadão de Ferro (MG) Estates. Lactic fermentation leads to a velvet cup while phosphoric fermentation generates a viscous-type cup with higher acidity. Both coffees are already on sale in the Brazilian market.

Source: Folha de São Paulo

50 YEARS OF ICO AND AUTOGRAPH SESSION AT THE COFFEE MUSEUM

The Coffee Museum in Santos is about to open an exposition about the 50th Anniversary of the International Coffee Organization (ICO) expected to last from December 10 to March 31, 2014 and to feature its historical landmarks with the help of audio and video interviews with personalities of the coffee sector, images of relevant moments, and a showcase of coffee jute bags from different countries. The opening ceremony will also include the launching and autograph session of the book: "A Vida e Obra do Comendador Montenegro" ("Life and Work of 'Comendador' Montenegro"), the biography of a Portuguese entrepreneur who immigrated to the Pinhal region where he grew coffee, helped found the local hospital and was one of the first farmers to release his slaves.

Sources: Agito SP and CaféPoint

COFFEE FROM PINHAL IS THE BEST OF SÃO PAULO IN 2013

Coffee grown in Espírito Santo do Pinhal, by Mrs. Laura Del Guerra Vergueiro, was the winner of the XII São Paulo State Coffee Quality Contest. The 2nd place went to a coffee from Santo Antônio da Alegria and 3rd place to a pulped natural coffee from Santana Estate, also in the Pinhal region. The award ceremony was held at the Santos Coffee Museum on November 12 with the presence of the Secretary of Agriculture of São Paulo. All coffee lots entered by the 10 finalists in the competition were sold for prices well above the market, in the range US\$ 3.60 to 7.05 per pound, at an auction attended by roasters and coffee shops.

Source: Associação Comercial de Santos (Santos Chamber of Commerce)

DOLCE GUSTO OPENS FIRST STORE IN BRAZIL

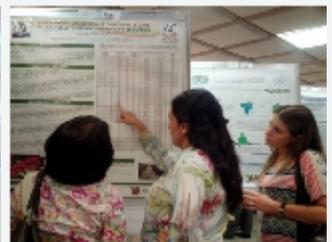
Nescafé's Dolce Gusto has opened its first concept store in Porto Alegre, capital of Rio Grande do Sul state, in the South of Brazil, to demonstrate and promote the brand's complete line of multi-beverage capsule machines for hot and cold beverages. All models are able to deliver preparations such as cappuccino, iced tea, hot chocolate and others besides espresso.

Source: ABIC



Pictures of the Month

VIII CAFÉS DO BRASIL RESEARCH SYMPOSIUM - BAHIA



Source: Peabirus

TRAVEL THE COFFEE WORLD WITH SMART AND EFFICIENT ITINERARIES

The world of coffee can be associated with a lot of travelling. There are origin trips to producing countries throughout Latin America, Africa and Asia; large international coffee events such as the SCAA, held annually at different locations within the USA that gather thousands of participants from all over the world; the AFCA Conference, to be held in Burundi in 2014; Sintercafé in Costa Rica every year; apart from hundreds of national and regional coffee trade fairs, conventions, workshops and meetings that take place in every coffee country and require a lot of moving around for those involved in the sector: growers, traders, millers, roasters, exporters, consultants, government officials and coffee lovers alike.

Like it or not, travelling is part of the coffee routine. And travels, specially those abroad, can be enjoyed the fullest if you have the proper arrangements and planning made in advance.

In 2011, as part of a project that P&A was developing for SEBRAE (the Brazilian Micro and Small Enterprise Promotion Agency), we had the chance to take a group of coffee cooperatives' presidents for a round of meetings with leading coffee roasters in the Portland area as well as visits to retailers and coffee shops during the week of the SCAA event. These cooperatives' representatives had the opportunity to visit the trade fair and talk to their business counterparts as usual and complement the experience with a rich background of information shared by the roasters, baristas and coffee buyers that the group met during that week. After two intense days of interesting discussions and site visits, the group was able to better understand the requirements of roasters and coffee shop managers, i.e., the clients who actually buy the coffees produced by their cooperatives. They also learned a lot about the intricacies of the roasting part of the supply chain, coffee consumers' demands and the local (American) consumption habits. At the end, the group mentioned how important this trip was for them to get a broader perspective of the coffee world, different from the previous one they had in mind, usually based only on their experience as growers/cooperatives. And all of this was possible with only two extra days in their schedule but a lot of previous planning.

This sort of experience is part of the work now developed by TravelBox. After my years working with P&A, I decided to leave and start a new business focused on customized travel itineraries that can help travelers make the best out of their trips. Be it a professional trip to a coffee event, an origin trip or even time out with the family during the holidays, the idea is to offer interesting itineraries that result in great experiences, while saving precious time.

If you are planning to come to Brazil for the next harvesting season or even to attend the World Cup matches, we can help you with a great itinerary that will allow you to visit beautiful coffee farms and/or cooperatives, talk with growers, see new technologies, experience the vibrant consuming market, or any other program that fits your needs.

We can also help with trips to other countries, designing creative itineraries like the one for Portland, mentioned above, or helping to enrich a free day after you are done with your business commitments. These open slots can be the perfect opportunity to visit a museum, explore a nice area of the city or even go to a brand-new concept coffee store you had not heard of. By the way, the 2014 SCAA will be in Seattle, a great coffee city! Anything is better than hours spent inside heavily air-conditioned and impersonal boarding areas or, worse, non-air-conditioned airports! Yes, they do exist and are more common than one would like.

For more information, please e-mail us at contato@travelbox.com.br. Our website will soon be ready: www.travelbox.com.br.



A BETTER MOUSE TRAP... REVISITED*

No, Pinhalense has not entered the business of making mouse traps. Yes, there is a coffee crisis but demand for machinery remains good, to process new additional production and to improve the quality of existing production. Pinhalense is making coffee equipment as usual and selling it around the world.



The reference to a “better mouse trap”, an English expression that epitomizes the search for ever better technology, relates to Pinhalense's permanent quest to offer to clients a perfect line of coffee processing machinery. For over 60 years Pinhalense has been striving to develop and produce the best coffee processing equipment, the “best coffee trap”, a good trap that “catches” the clients and leads them into a process of making more money with the help of Pinhalense equipment.

It is sensible to bring up this subject at a time when coffee growers face yet another major crisis. Coffee crises tend to slash investment budgets and to trigger a process of “down-trading” whereby the initial cost of coffee processing equipment — the capital investment — often becomes the overriding decision factor in the purchase of new machinery. Nothing could be wronger in the purchase of coffee processing equipment that will last at least 25 years than to ignore the stream of benefits that higher quality, more efficient machines will make possible over their lifetimes. However, the contagious pessimism of crisis times often induces otherwise sensible managers into decisions that focus on minimizing investment at the expense of a long and healthy stream of benefits.

This wrong decision making process is more flawed the lower the interest rates are and they have been low in recent years. If interest rates are low, future gains have a much stronger effect to shorten the payoff period because the stream of future benefits has a higher net present value. Therefore the choice of machines based only on their price tag, ignoring the future stream of benefits, may lead to wrong decisions that will be regretted for a long time, over the useful life of the equipment.

Leaving the “economese” and the “financese” aside and using plain good English, truth is that with the current coffee crisis and low interest rates, it is more important than ever to choose high-efficiency coffee processing equipment. Higher initial price, higher capital investment will be fully offset by a healthy stream of future gains due to, for example, selective pulping of only fully ripe cherries; parchment that is free from pulper cuts, bruises and other damages; beans that have been dried with controlled temperature; smaller hulling losses; no down-grading of bold beans in size graders; lack of sound beans in the rejects of densimetric separation, etc. A different type of example refers to less flexible layouts, i.e., fewer elevators and silos in order to minimize investment at the expense of operating efficiency, with the negative result that, for instance, idle time is greatly increased when small lots are processed or high capacity processing is hampered by design bottlenecks.

Do not be deceived by short-term “virtual” investment gains that will be reflected in a perpetual stream of processing inefficiencies and losses, let alone the negative impacts of less than ideal product quality. Do not allow the neurosis of the crisis to bias the sound analysis that should orient your investment decisions, that may adversely impact the performance of your mill and company for many years to come.

Pinhalense is your coffee machinery manufacturer partner in good and bad weather, when coffee prices are high or low, in good years and crisis years.

We apologize if this note is rather irreverent, but irreverence is yet another way to weather the crisis... Indeed we need a better mouse trap for the current coffee crisis.

*Based on “A Better Mouse Trap” published in Confidential No. 21 on April 03, 2009.

Brazilian Prices

November 28, 2013

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	255,00 =
South Minas fair average quality T.6	255,00 =
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	295,00 =
South Minas	290,00 =

+ 15.7%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	215,00 ↑
BM&F (US\$/ 60 kg)	
Dec 2013	128,30 ↓
Mar 2014	131,65 ↓
Sep 2014	134,25 ↑
Real R\$/ Dolar US\$	
November 28	2,34 ↑

Source: www.qualicafex.com.br