

# CONFIDENTIAL

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

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## EXPERTS' SURVEY SET 2014 AND 2015 CROPS AT AROUND 41.5 MILLION BAGS

CNC (the National Coffee Growers' Council) commissioned and Procafé, a research station that is a member of the Coffee Research Consortium, carried out a crop forecast last March that involved visits to 11 Arabica coffee producing regions by 12 researchers supported by a back-office of 13 experts. According to the study, that included the analysis of samples of cherries to estimate weight loss, the 2014 crop will be between 40.1 and 43.3 million bags, Arabica and Conilon, to be compared with Conab's *before-the-drought* first estimate of 46.5 to 50.1 million. The 2015 crop was set at a wider range of 38.7 to 43.6 million bags. The estimated losses for the 2014 crop were 30% in South and West Minas, 19% in Matas de Minas, 10% in the Minas Cerrado, 11% in Espírito Santo (Arabica only) and 10% in São Paulo.

Sources: CNC, Valor Econômico and P&A

## DROUGHT IN BRAZIL AND ITS IMPLICATIONS

Losses in coffee production have become irreversible due to the long drought period that Brazil is going through, in spite of the recent rains. The development of the coffee cherry has been affected with smaller beans inside the shell. In addition to the lack of rain and high temperatures, the coffee berry borer is also making a strong come back, especially in Minas Gerais. The Ministry of Agriculture, Livestock and Food Supply (MAPA) declared "Phytosanitary Emergency" in the state in March and should soon authorize the use of substitute products to Endosulfan to control the coffee berry borer. The Secretariat of Agriculture of São Paulo estimates that the state's coffee crop will be 20% smaller in 2014.

Sources: CNC and Valor Econômico



## INSTITUTES DIVERGE ON CROP ESTIMATES

A recently released estimate by the Brazilian Institute for Geography and Statistics (IBGE) indicates that the 2014 coffee crop could reach 48.7 million bags (36.6 million bags of Arabica) or 0.1% more than last year's output. It is not clear whether the IBGE forecast takes into full account the recent drought in key coffee growing areas. The forecast has been strongly questioned and criticized by coffee growers, entities and cooperatives which believe that IBGE's estimate is unrealistic and could interfere in the market in a negative way. Cooxupé and Procafé expect the Arabica crop to be 30% smaller in Minas Gerais while EPAMIG, the Minas Gerais Agriculture and Livestock Research Institute, already registers losses of 45% in South Minas, 25% in the region of Machado and 20% in São Sebastião do Paraíso.

Sources: Notícias Agrícolas, Agência Brasil and P&A



## WHAT TO EXPECT FROM RECENT PRICE INCREASES

In Brazil for the Global Agribusiness Forum held in São Paulo on March 24 to 25, the Executive Director of the International Coffee Organization (ICO) mentioned that the producing sector should be cautious in face of the recent increases in international coffee prices that were up by 58% in 2014 until the time of the event. For Robério Silva, the market is heading towards a better balance between supply and demand and prices are now at an acceptable level to remunerate growers and encourage higher investments at farm level.

Source: Folha de S. Paulo

## DROUGHT IMPACTS ON SOIL WATER STORAGE AND THE 2015 CROP

Along with the damage observed on coffee to be harvested in 2014, the 2015 crop can also be drastically affected, depending on the upcoming weather conditions. Rainfall volume data collected in Varginha, Minas Gerais, from September 2013 to February 2014 shows that it has only rained half of the historical average for this period. This unusual condition associated with a 20% evapotranspiration increase due to higher temperatures caused a sharp decline on the water volume stored in the soil.

Sources: Fundação Procafé and CaféPoint

## **FAST PACED SALES OF BRAZILIAN COFFEE**

The recent and consecutive highs in international coffee prices have boosted sales in the Brazilian physical market. Apprehension about the size of the Brazilian crop led foreign roasters to aggressively increase their purchases and stocks, which gave new dynamics to the trade. A preliminary estimate by Safras & Mercado indicates that between 13% and 15% of the 2014/15 crop (to be harvested this year) has already been commercialized, considering an output of 48 to 50 million bags. The Cerrado region of Minas Gerais has already sold over 1 million coffee bags and the Cooxupé cooperative sold 1.5 million bags in January alone, a record volume for a single month.

Source: Valor Econômico

## **NEW AGROCHEMICALS APPROVED IN BRAZIL**

Under strong pressure from the producing sector, Anvisa, the Brazilian Sanitary Surveillance Agency, approved 19 new agrochemicals for national use in the first two months of 2014 and other approvals are underway. Since 2013, when Endosulfan's commercialization was banned in Brazil, the coffee sector eagerly awaits the release of a new product to fight the berry borer, now in the final stages of analyses by Anvisa. The approval of Endosulfan substitutes will now be accelerated by the Phytosanitary Emergency declared for Minas Gerais (see above). Brazil is one of the world's largest markets for agrochemicals with 823,000 tons sold in the national market in 2013 and 1 million tons expected in 2014.

Sources: Valor Econômico and P&A

## **MORE THAN US\$ 2,000 FOR A BAG OF NATURAL ARABICA**

The Internet auction for the 23 winning coffee lots of the 2013 Cup of Excellence Late Harvest Competition, held on March 6, had the highest bid of US\$ 15.60/lb paid for natural Arabicas from Carmo de Minas by two Japanese companies. All 23 participating lots were negotiated at the occasion with a resulting revenue of US\$ 302,144 or an average of US\$ 919 per coffee bag of 60 kg, i.e., about US\$ 7.00/lb. Besides traditional coffee buyers from countries like Japan, USA, Australia and Europe, the auction had the presence of an African company for the first time, acquiring a coffee lot from a estate in Dom Viçoso, also in Minas Gerais.

Source: BSCA (Brazil Specialty Coffee Association)



## **COFFEE SALES CLUB LAUNCHED IN BRAZIL**

Two Brazilian entrepreneurs have launched "Café sem Fronteiras" (Coffee without Frontiers), a membership club that delivers different types of coffee to the clients' homes. The business focuses on single-serve coffee: clients can choose either capsules (for espresso) or pods (for filter). For a R\$ 55 monthly fee (US\$ 23), members receive 10 single-serve units from Brazil and 10 from other countries. The company expects to reach 1,000 members by the end of 2014.

Source: Pequenas Empresas Grandes Negócios Magazine

## **NEW TECHNIQUE TESTED FOR BETTER COFFEE AROMAS AND FLAVORS**

Researchers at the Federal University of Lavras (UFLA) have developed a technique to intensify coffee aromas and flavors with the use of yeasts that enhance coffee quality. The work, started 15 years ago, involves 30 researchers and has already led to the selection of 4 types of microorganisms that are beneficial to coffee and do not produce toxins. Field tests conducted with 100 kg of coffee from 2010 to 2013 resulted in more intense aromas, such as chocolate, caramel and fruit, in some types of coffee; results varied according to the processing type used (natural, pulped natural or washed). This year a new round of tests will be made with 1,000 kg of coffee to check if the same positive results are observed at a larger scale. If all goes well, the UFLA research team expects that "aroma enhancer" yeasts could be available for sale in the Brazilian market in about 5 years' time.



Source: Valor Econômico

## DROUGHT AND DAMAGE TO COFFEE PRODUCTION IN BRAZIL

There is no doubt that some important Brazilian coffee growing areas have experienced a severe drought, excess in the amount of infra-red radiation and unusually high temperatures at a critical stage of cherry formation and, as a result, there will be losses in coffee production in this 2014 crop. The same phenomenon is likely to affect the 2015 crop for different reasons. However, the actual extent of the losses is still far from evident in both cases.

It is not difficult for the layman to understand the sources of potential losses: lack of water inhibits the process of cherry formation and as result coffee beans become smaller, lighter or do not develop at all; above normal temperatures and radiation affect photosynthesis and interfere with both cherry formation and the development of the branches that will bear cherries in the 2015 crop; and, last but not least, high temperatures help pests like berry borer and mites to flourish.

The estimates of the immediate crop losses are concentrating on poor cherry formation, with evaluations that involve counting cherries that float and/or cutting cherries to verify the stage of bean development at specific coffee regions, usually in the areas most affected by the phenomenon and process described above. One concern is that drought and high temperatures have not affected equally all coffee producing areas of Brazil. Another concern is the validity of the "sampling" of sites where evaluations take place and how representative it is of the bulk of the Brazilian coffee areas, spread over a wide range of latitudes that is equivalent to those running from northern Ecuador to southern Mexico and spanning Colombia and all of Central America. The third concern is the usual exaggeration of crop losses that tends to follow natural and man-caused disasters as it happened in Central America immediately after the leaf rust outbreak. But, to be fair, it is also true that such factors – excess of temperature and radiation and drought – have never been observed in such combination before and have reduced the capacity of the coffee plant to develop.

What makes estimates especially difficult in the present case is the fact that the cherries that are visible do not necessarily hold coffee beans of the usual size and density and may not hold commercially viable beans at all. Our experience as machinery makers indicates that even after coffee is harvested and the volume of cherries is available the losses cannot be fully evaluated. Losses will only be actually known after hulling, when the outer shell is removed and the beans – size and weight – become effectively known. Higher than usual "hulling losses" is a typical outcome of droughts.

Estimates are even more complex for the 2015 crop because they require evaluation of damage to the root system that may affect the differentiation of the buds (flower or leaf?) expected in March / April 2015 independently of branch development that is measured by number of internodes. In addition, even if, in the best scenario, rainfall returns to its normal pattern, the water deficit projected for the beginning of the next raining season will be still above what is suitable for Arabica cultivation and will compromise the ability of the plant to sustain the formation of new cherries.

The idea of this article is not to say that the losses are small. Much to the contrary, the losses are substantial in some areas but caution must be taken not to extrapolate them to all coffee areas. The market has started to read this and perhaps is even unduly minimizing the losses now. On the other hand, it is too early to say that what happened this year is a "preview" of a new weather pattern and that Brazil's production potential will be affected in the near future.

There are climate experts who claim that neither the greenhouse effect nor climate change has been proven so far and see the 2014 drought as another occurrence of a recurring pattern. Coffee experts add that even if a new pattern of less rain and higher temperatures is emerging, there is much that can be done to retain Brazilian coffee plantations where they are with responses that start with better farming – good sustainable agriculture practices –, range from irrigation to shading and include the development of coffee varieties adapted to new climate patterns.

\* Eduardo Sampaio is the UTZ Certified representative in Brazil

### Brazilian Prices

March 31, 2014

#### Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	405,00 =
Mogiana-SP fair average quality T.6	400,00 =
South Minas fair average quality T.6	400,00 =
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	435,00 ↓
South Minas	430,00 ↓

+ 8.75%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	260,00 ↓
BM&F (US\$/ 60 kg)	
May 2014	211,65 ↑
Sep2014	218,45 ↓
Dec 2014	223,00 ↓
Real R\$/ Dolar US\$	
March 31	2,26 ↓

Source: www.qualicafex.com.br

## DIVIDED-DRUM ROTARY DRIERS

After extensive trials and actual use in Brazil, Pinhalense is now launching abroad its new line of divided-drum rotary driers composed of three models:

DRIER CODE	CAPACITY (m <sup>3</sup> )	
	PER DRUM	TOTAL
<b>SRE-050/100X</b>	<b>5.0</b>	<b>10.0</b>
<b>SRE-075/150X</b>	<b>7.5</b>	<b>15.0</b>
<b>SRE-090/180X</b>	<b>9.0</b>	<b>18.0</b>

Ideal for handling micro lots, the new line of driers is also useful for:

- small growers at the beginning and the end of the harvesting season, when coffee volumes picked fall;
- handling small lots processed by different methods (e.g.: parchment and cherry);
- quality and variety trials; and also
- mid-size and large growers active with small lots in the specialty coffee market.

In a word, the new line of divided-drum rotary driers was designed to increase drying flexibility for growers of all sizes and types, from small to large, specialty to commercial, including sustainable and fair trade coffee suppliers interested in the traceability of small lots.



**SRE-050/100X**

The new driers have two separate heat exchangers, one for each drying chamber of equal volume. This allows for the full flexibility of using the two half-drums in a completely independent manner, for different coffees at different drying stages and with different hot air and temperature requirements. Of course, the two half-drums can also be used with the same type of coffee if the need arises.

The table above indicates that with the introduction of the divided-drum rotary driers Pinhalense starts to offer a machine larger than its best-selling SRE-150X. The SRE-090/180X has a capacity to hold up to 18.0 cubic meters of coffee to be dried, 20% more than the previous largest model.

Besides increased flexibility, the new line of divided-drum rotary driers incorporates all the advantages of the SRE line of Pinhalense driers:

- uniform drying,
- short drying time,
- quick loading and unloading,
- fuel savings,
- ability to burn coffee husk,
- long useful life and
- overhead loading silo (optional).

The new driers can be used to dry parchment and cherry coffee and to correct the moisture of green coffee received in dry mills with moisture levels above 12%.

To learn more about the new driers – technical features and prices – contact the P&A / Pinhalense agent nearest to you, ourselves at [peamarketing@peamarketing.com.br](mailto:peamarketing@peamarketing.com.br) or **visit us at booth No. 7014 at the SCAA Trade Fair in Seattle on April 24th to 27th.**