

CONFIDENTIAL

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

- BRAZIL COFFEE CONSUMPTION FACTS: WORLD'S LARGEST R&G MARKET (PAGE 3)
- RETAINING COFFEE QUALITY AT TIMES OF CLIMATE CHANGE (PAGE 4)

☉ DARKENING CHERRIES AND LOSSES AGGRAVATED BY DROUGHT

In recent months, growers and technicians all over Brazil have reported the darkening of cherries and large volumes of newly-formed cherries ("chumbinhos") falling off the coffee trees due to water stress and because of defoliation and weak flowerings that resulted from the previous high-production cycle. The larger coffee cherries easily absorb the plants' reserves and cause the smaller beans to be automatically "discarded".

Source: CaféPoint



☉ BRAZILIANS CONSUME AN AVERAGE OF ALMOST 5 CUPS OF COFFEE PER DAY

Coffee consumption in Brazil had a slight increase in 2014 reaching 20.3 million bags indicates a recent survey commissioned by ABIC, the Brazilian Coffee Roasters' Association. Per capita consumption also grew to 4.9 kg of roast and ground coffee (or 6.12 kg of green coffee), equivalent to 81 liters of the beverage per consumer per year. Coffee consumption expanded especially in the Northeast (+9.1%), South (+8.8%) and Central West (+7.8%) regions. Market concentration has increased with various leading companies growing at two-digit rates. The 10 largest roasters now account for almost 75% of coffee sold in the country, the 50 largest around 90% with the top 100 out of 1,428 companies responding for 95% of the market. (More about this subject is found in the Outlook session, on page 3).

Source: www.ultimoinstante.com.br

☉ PRODUCTION INCREASES IN PARANÁ AND BAHIA EXPECTED FOR 2015

According to the State of Paraná's Department of Rural Economy (Deral), coffee production in the state is expected to reach between 1 and 1.1 million bags this year, a volume almost twice as large as 2014's. The expected increase means only a partial recovery: due to the 2013 frost that hit Paraná, the total coffee area has been reduced by 35% (from 82,000 to 52,900 hectares). Bahia, the fourth largest coffee producing state in Brazil, will take advantage of the favorable climate to increase its national relevance and grow approximately 32% to reach 2.5 million bags.

Source: Valor Econômico

☉ 45 YEARS SINCE COFFEE LEAF RUST WAS FIRST IDENTIFIED IN BRAZIL

Coffee leaf rust was first identified on Brazilian soil in January 1970 in a municipality in the southern part of Bahia. It soon spread southward, reaching South Minas in June of the same year and São Paulo state in 1971. Huge efforts in research, technical assistance and credit to growers were undertaken to fight the disease. The actions generated a renovation of 1.4 million hectares of plantations from 1970 to 1979 and record yields on subsequent coffee crops with 25 million bags produced in 1980 despite the frost of 1975 and 42.7 million bags in 1987 (compared to only 20 million bags before coffee leaf rust). As a result of the introduction of new varieties, husbandry techniques and chemicals, to effectively control leaf rust today costs about 5% of the total operational costs of the farm, with potential additional benefits like higher productivity. A lesson that should be closely analyzed by other producing countries that have been suffering from the same disease such as Mexico, Honduras, El Salvador, Peru and even Colombia.

Source: Revista Agronegócios

MECHANIZATION SUBSTITUTES MANUAL LABOR IN MOGIANA COFFEE AREAS

In the Alta Mogiana region of São Paulo state, mechanization of coffee plantations has helped growers to resist recent financial turbulence worsened by droughts. In places like Altinópolis growers are abandoning areas where it is not possible to mechanically harvest and transferring plantations to flatter terrain. Only “noble” areas – those with very high yields and/or that generate excellent quality cups – are kept; the spaces left by coffee are taken by eucalyptus and pasture. Altinópolis currently has 8,000 hectares of coffee land compared to 20,000 ha each of sugarcane and eucalyptus. Manual harvesting of coffee costs around R\$ 100 to 150 (US\$ 34 to 51) per bag in the region, while mechanized harvesting costs only R\$ 20 to 30 per bag (US\$ 7 to 10). To justify the high investment on mechanization, growers need to produce higher volumes and constantly renovate plantations in search of higher yields.



P1000

Source: Valor Econômico

HIGHER COFFEE PRICES HAVE NOT ALLEVIATED DEBT BURDEN

Small coffee growers in São Sebastião do Paraíso, southwest Minas Gerais, say that they have been living with losses for many years. Despite the high prices of the commodity until recently, they ensure that there has been no profit because of lower harvested volumes. According to Cooperaíso, one of the largest coffee cooperatives in Brazil, the average Arabica price between 1994 and 2014 did not compensate the higher production costs. Its survey shows that the average coffee price in the domestic market over the past 20 years was below average costs. During the period analyzed, labor costs increased 1,248% and diesel 765% while coffee prices (average quality, type 6) increased only 245%.

Source: Cooperaíso

NEW GEOGRAPHICAL INDICATION PROJECT IN BAHIA

The State University of Southwest Bahia (UESB) in partnership with the Coffee Growers’ Association of Planalto de Vitória da Conquista (Ascplan) has recently handed to the Ministry of Agriculture a Geographical Indication project for coffees from the southwest region of Bahia, including 12 municipalities. The objective is to guarantee protection for the region’s differentiated coffees that have attracted the attention of roasters worldwide. This is the first step towards the GI; the project will now be forwarded to the Brazilian Patent Office (INPI) that is responsible for taking the final decision.

Source: CaféPoint

BRAZIL’S 2015 COFFEEHOUSE GUIDE LAUNCHED

The Guia de Cafeterias do Brasil 2015 (2015 Brazilian Coffeehouse Guide) recently released by Café Editora is now available at newsstands and bookstores providing quality information about independently-owned and chain coffee shops in 80 cities of 20 different states in Brazil. The third edition of the guide also shares information about coffee grinding, cupping and curiosities on how coffee is prepared in Brazil and worldwide.

Source: Revista Espresso



PHOTO EXHIBITION IN EXPO MILAN PORTRAITS COFFEE FARMS

One of the main attractions of Expo Milan 2015 will be the human and natural beauty of coffee farms around the world shown in pictures taken by the acclaimed Brazilian photographer Sebastião Salgado who photographed coffee farms across the globe. He started by visiting the Cerrado Mineiro, Matas de Minas and Espírito Santo regions of Brazil before travelling to several countries like Ethiopia, Colombia, Guatemala, India and China among others. The exhibition will be at the Coffee Cluster where visitors will be able to contemplate 50 giant-sized pictures and make a complete journey through the coffee cycle from seed to cup. Expo Milan will be held from May 2 to October 31, 2015.

Fonte: Revista Espresso

BRAZIL COFFEE CONSUMPTION FACTS: WORLD'S LARGEST R&G MARKET

Last February the Brazilian Coffee Roasters' Association (ABIC) released the 2014 figures for domestic coffee consumption, volumes and drinking habits. A summary is found below.

Volume. After a slight decrease in consumption in 2013, the volume of coffee drunk in Brazil last year recovered to the same level of 2012: 20.3 million bags of green coffee.

Penetration. Coffee penetration is almost universal in Brazilian households. 98.2% of the households have at least one person who drinks coffee. Actually, on average 2.8 people drink coffee in these households whose average size is only 3.4 persons.

Sales Format. In terms of value, more than 85% of the coffee consumed was sold as roast and ground, which makes Brazil by far the largest market in the world for this type of coffee, well ahead of the US and Germany. Whole bean sales are increasing along with the market share of espresso and specialty coffees while soluble sales have remained stable in the last three years. Capsules accounted for only 1.7% of the total value of coffee consumed. Small as it may seem this figure was 55% bigger than the year before. This small share of single serve is explained by its low penetration – only 1% of the households have at least one single-serve machine – as well as its social-economic and geographical concentration. 90% of the households that have one single-serve machine belong to upper income groups and most of them are in the Southeast area of Brazil. This may change soon as more and more local companies enter this market although the (high) price of the machines will still limit the market share of this segment in Brazil.

Drinking Habits. Most of Brazilians (78%) drink coffee during the morning and most of the coffee is consumed at home. Out-of-home consumption represents one third of total consumption. The majority of drinkers of coffee out of home are men. Filtered coffee is the preferred choice of 84% of Brazilians. For the wealthier part of society, the preferred drink is espresso but it is also drunk by a surprising 26% of the poor. 44% of Brazilian consumers consider coffee quality in their purchasing decisions and are willing to pay more for it. Most consumers are aware of the health benefits associated to coffee.

Our Insight. After more than two decades of vigorous growth, Brazilian coffee consumption seems to be losing momentum and giving signs that the market reached maturity. The period of recent income growth and the creation of a new middle class are now over and have had their impact on coffee consumption. The sector is becoming short of spare space to grow as consumption is widespread across the country. Value aggregation by improving quality and/or by moving to single serve is good for increasing market value and sector profitability but may not help much with volume increases. The coffee industry's challenges are greater this time in a context of increased coffee price volatility and a troubled domestic economy. A closer look at geographical growth figures shows that perhaps traditional promotion strategies are still applicable where penetration is smaller but innovative approaches are required in consolidated markets. All these facts call for new and different creative approaches to promotion if one wants to raise coffee consumption to another level in Brazil.

Brazilian Prices

Main Producing Regions / Farm Gate

February 27, 2015

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	475.00 ↑	Colatina-ES fair average price	300.00 =
Mogiana	470.00 ↑		
South Minas	470.00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)			
Cerrado MG	535.00 ↑		
South Minas	530.00 ↑		

BM&F		Real R\$ / Dolar US\$	
Mar 2015	183.00 ↓	Feb 2015	2.88 ↑
Sep 2015	180.00 ↓		
Dec 2015	182.00 ↓		

Source: www.qualificafex.com.br

RETAINING COFFEE QUALITY AT TIMES OF CLIMATE CHANGE

Climate change, especially drastic variations in average temperatures and rainfall patterns and distribution, is causing harvesting to be much less selective than before and cherries not to develop fully due to drought and diseases. Global warming is causing berry borer to disseminate much faster than before, to the point of becoming a major threat in some coffee areas; berry-borer control is becoming more expensive as the use of some chemicals is banned. Together, climate change and global warming are causing a substantial increase in the proportion of light coffee beans: mal-formed, hollow, black, berry borer damaged, unripe, fermented, etc.

The best solution to remove such defective beans is separation of the coffee lot according to density, since most if not all defects listed above cause the coffee beans to lose density, i.e., to become “lighter”, in popular, non-technical language. The correct approach is to separate the lot by bean size first, in coffee graders, and then to use gravity separators to remove the “light” defective beans.

Pinhalense today offers lines of graders with either downward or upward flow, single or double box for single, double or quadruple load, 3 to 8 grading screens (round, slotted or special) arranged in a multitude of ways, and capacities ranging from 0.3 to 14 tons/hour. From capacity to grading precision to solutions for specific problems, Pinhalense offers graders that fit all clients’ needs.

Please contact the Pinhalense expert nearest to you if you are confused by the multitude of options above. The Pinhalense representative will analyze your own coffee grading needs and, together with Pinhalense’s Technical Department, provide the

best solution and recommend the right Pinhalense grader for your specific conditions and challenges. Pinhalense experts will also show to you how the use of the right Pinhalense grader can help you improve the efficiency of densimetric separation and color sorting in order to remove defects and to further grade your coffee according to quality.



PII-4X



PFAII-4X

The Pinhalense MVF gravity separators have been specially designed for coffee, whose beans have a unique combination of flat and round surfaces. Pinhalense’s responses to this challenge have been (1) a metallic (not wire-mesh) deck, with specially developed and designed “bulbs” and perforations, (2) air-directioning under the deck, and (3) electronic speed variators for fine vibration adjustments. These exclusive features enable high-efficiency separation of coffee beans according to density in order to discard the defective materials.

The Pinhalense MVF gravity separators are well known in the market for their superb separation efficiency, lower power consumption and exclusive re-passing features. Their efficiency is so high that they indeed replace color sorters in cases where color defects are associated with lower density, e.g., some types of black and fermented beans. This substitution enables great gains for coffee millers and exporters, both in investment and operation. The price of the larger MVF Pinhalense gravity separators is in the range of US\$ 3 to 4 thousand per ton of coffee capacity whereas a color sorter costs at least 10 to 15 times more. It is needless to say that the MVF gravity separators are much easier to operate and maintain than a color sorter. The Pinhalense MVF gravity separators are available in capacities of 1 to 7 tons of green coffee per hour in order to handle the different coffee fractions and grades. Dust suction hoods are offered as an optional component.



MVF-2AX