

CONFIDENTIAL

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

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FLOWERING IN COFFEE AREAS

Flowering in Brazil has already started with good expectations that the range of variation between the large "on-year" and small "off-year" crops will continue to narrow. Conilon plantations in the state of Espírito Santo were the first to flower. It is expected that flowering in Minas Gerais and other Arabica areas will take place during the first weeks of October.

Sources: DCI and P&A



INCREASING EXPORTS OF DIFFERENTIATED COFFEES

A recent report by CeCafé (the Brazilian Coffee Exporters Council) indicates that differentiated coffees (high quality Arabica and Conilon) already represent 18% of the 17.2 million bags exported by Brazil from January to August 2012. Around 83% of the total Brazilian exports until August correspond to Arabica, 5% to Conilon (Robusta) and 12% to soluble and roast and ground coffee. The United States are the leading coffee importing country with 3.3 million bags imported in the period, followed by Germany, Italy, Japan and Belgium.

Source: CeCafé

BRAZILIAN SUSTAINABLE COFFEE PROGRAMS PRESENTED AT ICO

The Brazilian delegation actively participated at the ICO Seminar on Certification held during the September meetings in London. The general manager of Embrapa Café presented Brazil's experience with sustainable coffees, which includes the successful Certifica Minas program of sustainable agricultural practices, with 1,800 certified farms that total 2 million bags, and the soon to be implemented Integrated Coffee Production (PIC) program, a system designed to facilitate the use of good agricultural practices by coffee growers. PIC will act as a baseline sustainable standard to be disseminated by government extension services. Brazil is currently the world's biggest supplier of sustainable and certified coffees.

Sources: Embrapa Café and P&A

ICO 50TH ANNIVERSARY TO BE CELEBRATED IN BRAZIL

Belo Horizonte, capital of Minas Gerais state, will host the 50th anniversary celebration and the September 2013 meetings of the International Coffee Organization (ICO). The decision was unanimous among the ICO members present at the meeting held on September 24. The last time that Brazil hosted the ICO meetings, the main intergovernmental forum for coffee, was in Salvador, Bahia, after the Second World Coffee Conference, in 2005.

**INTERNATIONAL
COFFEE
ORGANIZATION**



Source: CaféPoint



Coffea kapakata at IAC's collection

IAC GERMLASM COLLECTION IMPORTANT FOR COFFEE GENETICS

The coffee germplasm bank at the Campinas Agronomy Institute (IAC) is a worldwide reference in coffee genetics and development of new varieties. The bank's 5,451 specimens helped Brazilian coffee research institutes to develop varieties resistant to coffee rust and leaf miner and with low caffeine content. The two most important coffee varieties grown in Brazil, "Mundo Novo" and "Catuai", are a direct result of IAC's efforts in this area.

Source: Embrapa Café

NEW ADVANCED COFFEE LAB AT UFLA

The National Institute of Coffee Science and Technology (INCT-Café) at the Federal University of Lavras (UFLA) opened a new laboratory devoted to advanced analysis and biotechnology. With high tech equipment, the laboratory will analyze amino acid profiles, short and long-chain fatty acids, organic acids, mycotoxins, volatile compounds, minerals and vitamins. The laboratory will work as a multi-user structure, focused on coffee research in several different areas, with the final goal of contributing to increase coffee quality.

Source: Ascom-UFLA

ACTIONS PLANNED TO SUPPORT SMALL ROASTERS

ABIC (the Brazilian Coffee Roasters' Association) and Sebrae (the Brazilian Agency to Support Micro and Small Businesses) are conducting a survey to identify ways for micro and small roasters to increase competitiveness in a sector whose concentration has grown much in recent years. Plans include technological innovation, management solutions and strategies to access markets. Even though small-size enterprises, mainly family-owned businesses, account for 83% of ABIC's membership, the Brazilian roasting segment is currently dominated by 10 large companies that detain 75% of the market.

Source: CNC (National Coffee Council)

GLOBAL AGRIBUSINESS FORUM HELD IN BRAZIL

The first Global Agribusiness Forum held in São Paulo on September 25 and 26 brought together worldwide leaders and experts to discuss the challenges of a sustainable and globalized agriculture. One of the panels debated mechanization of plantations to increase productivity and competitiveness. In the case of Brazil, where labor costs are escalating, mechanization is growing fast specially in coffee. One of the challenges for the sector is education and capacity building towards mechanization. The former American Vice-President Al Gore Jr. was one of the speakers at the event.

Sources: Cooxupé and CaféPoint

COFFEE GENE TO COPE WITH CLIMATE CHANGE IN OTHER CROPS

A research project developed by Embrapa Genetic Resources and Biotechnology and the Federal University of Rio de Janeiro (UFRJ) identified a coffee gene that when transferred to other plants makes them more drought tolerant. The gene is being tested on economically important crops like soybean, corn, wheat, sugar cane, rice and cotton. Researchers believe that the new varieties will be able to sustain actual production levels with less water consumption.

Source: Cafépoint



PORK AND COFFEE: ECO-EFFICIENCY PROVED FEASIBLE

A research project developed by the University of São Paulo at Ribeirão Preto (USP) proved the feasibility of the eco-efficiency concept applied to a swine livestock farm that also produces coffee in the municipality of Caconde, state of São Paulo. The study showed that it is possible to use swine residues to generate energy and bio fertilizers for corn and coffee plantations. The concept of eco-efficiency shows that the production cycles can be "closed" within the property's own industrial plant. What once was residue comes back as food, energy, fuel and fertilizer. According to the study, the eco-efficiency method can allow the investment in swine production to be recovered in 13 months.

Source: Exame



Pictures of the Month

FLOWERING IN ESPÍRITO SANTO



MORE DEMAND FOR ROBUSTAS: GOOD OPPORTUNITY TO BUILD A REPUTATION

The coffee supply chain is as complex as those of other agricultural products that are grown in the tropics and transformed in different parts of the world. An important stage of the chain is the reception of green beans at the dock of a roasting plant. This is the switching point from commodity to a consumer good and represents a key transformation in terms of value addition. Nonetheless, the roasting industry still has to submit green coffee to a cleaning process prior to roasting. Unfortunately non-coffee related materials such as stones are frequently identified mixed with the coffee and have to be separated. The striking questions are: How is it possible to have foreign matter mixed with green coffee at that late stage of the supply chain? What failed to happen for that problem to occur? How does it relate to quality and reputation of coffee from a given country?



The increasing demand for Robusta as a result of the industry change of blends to meet consumer demands at a lower cost may have brought to international markets suppliers that previously were not playing at that level. The expansion of the supply base comes at a cost of having suppliers without access to equipment for the elementary post-harvest processing. The cumulative effect of such reality is what a roaster faces at the reception of green coffee: time and costs to separate stones and other impurities that, in theory, should have been separated at origin and should not be mixed with the beans at that stage.

Regardless of the future relative demand for Robusta and Arabica in blends, coffee producing countries build their reputation on the ability to meet quality standards and to make the supply chain run smoothly downstream. Coffee exporters have invested in processing facilities that allow quality improvement but precleaning and destoning seems to be still lacking in some origins. How much does it cost to stop and fix a coffee roasting and grinding line due to a stone that was not separated beforehand?

There is a great opportunity for Robusta producing countries to accelerate their journey towards quality by investing in processing, specially in dry milling. This is a good moment to upgrade processing at origins because roasters see Robusta as an important supply alternative and have to pursue higher quality standards to compete in the R&G market. The dynamism of the R&G market, characterized by a multitude of alternative products, establishes higher standards over which producing countries must reflect upon in order to deliver what is expected from them in several aspects, including quality. This includes cleanliness, i.e. the absence of foreign matter (stones, twigs, nails, etc).

According to the ICO (International Coffee Organization), the average share of Robusta in the world market is around 40%, whereas it used to be only 20% in 2000. Thus, there is a window of opportunity developing fast that will benefit Robusta producing countries able to invest on quality. Whether the investments will be done at farm level, by cooperatives, traders or through government led initiatives, the projects should rely on good machinery, tested under different field conditions and capable of delivering good results at a low operating cost. The roasting industry will continuously seek new sources of Robusta. It is up to exporters, countries and companies, to decide whether to be on the top of the suppliers list by selling quality beans *without impurities*.

Brazilian Prices

September 30, 2012

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	395,00 =
Mogiana-SP fair average quality T.6	390,00 =
South Minas fair average quality T.6	390,00 =
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	445,00 ↑
South Minas	440,00 ↑

+ 14,1%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	300,00 =
BM&F (US\$/ 60 kg)	
Dec 2012	222,30 ↑
Mar 2012	226,00 ↑
Sep 2013	227,50 ↑
Real R\$/ Dolar US\$	
September 30	2,03 ↓

Source: www.qualicafe.com.br

PRE-CLEANERS AND DESTONERS

As demand for coffee increases in several markets, the need for coffee to arrive free of impurities at roasting plants seems ever important. Machines that remove dust, stones and other impurities from coffee such as pre-cleaners and destoners not only clean the product and improve the quality of the final product but also protect other machinery in the processing line against possible damages caused by stones and other unwanted materials.

Pre-cleaners and destoners should ideally be placed at mills *in origin countries* after drying and immediately before the dry processing stages (hulling, polishing, grading, and so on). That way coffee will be processed with no damages to the machines and exported free of impurities. Alternatively, if needed, the equipment can be used by millers in importing countries to clean lots of coffee that were not previously cleaned at origin.

Pinhalense pre-cleaners, called PRELI, efficiently remove dust and other impurities like sand, small leaves, sticks, stones, among others, from coffee lots. The PRELI works based on suction, vibration and sifting. As the coffee enters the machine, light materials are sucked up and blown away by an upward air current. Afterwards coffee is conveyed to two inclined vibrating screens assembled one above the other; one screen has holes larger than the coffee beans and one has holes smaller than the beans. The screen with the large holes retains large impurities and lets coffee pass through; the screen with the small holes holds the beans and lets the small impurities pass through. Clean coffee is then discharged at the front of the machine. Due to a built-in system of interchangeable screens, the PRELI is capable of handling dry cherries, dry parchment or green (hulled) coffee, with the option to separate dry cherries from parchment.



Pre-cleaners *cannot* remove stones the same size as coffee. It is therefore advisable to have an equipment designed to remove stones after the cleaning stage: a destoner.

Pinhalense fluid-bed destoners efficiently remove stones of different sizes and other impurities from coffee be it dry cherry, dry parchment or green coffee. The Pinhalense destoner is composed of an inclined vibrating metal screen with fans installed below the screen in order to create a strong upward air current that goes through the screen. As coffee is fed into the machine, it covers the screen completely. The sloped screen makes the coffee move down and the air current forces the coffee beans to float, whereas the "heavier" stones remain in contact with the corrugated screen. By vibration, the stones are moved upwards for discharge behind the machine. The "floating" coffee, free of stones, is transported by gravity to the front of the machine.



Pinhalense destoners for dry cherry coffee, called CPF, can clean from 1.8 to 8 tons of dry cherries per hour, depending on the size of the machine. Pinhalense destoners for parchment and hulled coffee, called CPFBNR, can process from 6 to 10 tons of coffee per hour and can be equipped with an optional dust suction device ("hood").

Bolts, screws, nails and other metallic materials can be removed before, during or after pre-cleaning and destoning using stationary or rotary magnets. These Pinhalense made devices can be installed at the feed point or at the outlets of the PRELI, CPF and CPFBNR machines.

Millers and exporters in most producing countries have relied on Pinhalense pre-cleaners and destoners since 1950 to successfully deliver clean green coffee to buyers and roasters worldwide.