Structural Outlook on the Brazilian Coffee Production

World Coffee Conference
Guatemala City
Feb/2010

Structural Baseline Aspects

- Difficulties in transferring costs down on the chain to consumers;
- Long-run production (perennial);
- Expensive initial production investments;
- Producing-based technology defined at initial investments;
- Non-perishable and easy-to-storage product;
- Developing countries-based production;
- Brazil: biennial cycle subject to adverse weather condition (drought and cold).
Structural Baseline Aspects

- Necessity to manage production surplus that might downturn coffee prices;
- Price –inelastic demand;
- Slow-reaction production to price upturns leads to the exhaustion of coffee farming areas.

International Aspects

- Commodities Agreements
- Coffee, Sugar, Cocoa, Timber and Rubber,
  - Exporting and importing members
  - Economic development forefront for many countries
  - Principles of the economic clauses;
  - Globalization and the extinction of the economic clauses;
  - 1989 – Selectivity, global market (members and non-members), and the reduction of the Brazilian quota.
“Cafés do Brasil” – Main Aspects

- High market share
- Biennial cycle
- Weather conditions (frosts or droughts)
- Diversity of the Coffee-farming regions and high technology
- Agronomic and procedure research;
- Density, mechanization e irrigation
- Diversity of production costs and quality;
- Modern financing and commercial instruments
- Funcafé and co-shared management (organization of all sectors that compose the coffee economic chain)
“Cafés do Brasil”

- Number of producing farms: 287,000 distributed in 1,850 cities;
- 30 exclusively coffee farmers cooperatives out of 43 coffee trading cooperatives (33% of production);
- Roasters: 1,336;
- Soluble coffee plants: 9;
- Trade marks: 3,000;
- Exporting companies: 220.

Brazilian Coffee at a Glance:

- Major world coffee producer (48 million bags in the 2010 crop year);
- 2.1 million hectares;
- Second largest world coffee consumer (18.4 million bags in 2009);
- Major world in natura coffee supplier (31 million bags in 2009)
Institutional Framework

- Coffee Policy Deliberative Council - CDPC
- Government and private sectors
- Funcafé
- CNC, CNA, CECAFÉ, ABIC e ABICS
- Conab and Embrapa
- Unions
- Cooperatives

Cooperatives

- Considerable participation as to the total coffee production
- Relevant institutional instrument in the Brazilian coffee chain
- Outstangingly predominant in the “Sul de Minas” region
- 40.000 producers in 21 surveyed companies, 80% composed of small-holders with areas ranging from 0 to 20 hectares
- Services towards sustainability.
Brazil: Arabica and Robusta Coffee at a Glance

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>Coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Production</td>
</tr>
<tr>
<td>0 a 10</td>
<td>220,554</td>
<td>76.89</td>
<td>751,670</td>
<td>37.15</td>
</tr>
<tr>
<td>10 a 20</td>
<td>18,306</td>
<td>6.38</td>
<td>276,099</td>
<td>13.64</td>
</tr>
<tr>
<td>20 a 50</td>
<td>9,813</td>
<td>3.42</td>
<td>322,856</td>
<td>15.95</td>
</tr>
<tr>
<td>50 a 100</td>
<td>2,781</td>
<td>0.97</td>
<td>206,170</td>
<td>10.19</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>1,656</td>
<td>0.58</td>
<td>352,408</td>
<td>17.41</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>33,733</td>
<td>11.79</td>
<td>114,569</td>
<td>5.66</td>
</tr>
<tr>
<td>Total</td>
<td>286,843</td>
<td>100.00</td>
<td>2,024,172</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Final production by Conab: 43,012
DF: Not declared. Conab 3,166 28

Final production by IBGE: 43,209
DF: Not Decl. IBGE 3,563 34
### Minas Gerais: farms with more than 50 trees of arabica coffee as to 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>0 a 10</td>
<td>79,828</td>
<td>76,07</td>
<td>269,182</td>
<td>29,03</td>
<td>25,88</td>
</tr>
<tr>
<td>10 a 20</td>
<td>7,573</td>
<td>7,22</td>
<td>114,847</td>
<td>12,39</td>
<td>11,62</td>
</tr>
<tr>
<td>20 a 50</td>
<td>4,905</td>
<td>4,67</td>
<td>164,867</td>
<td>17,78</td>
<td>19,24</td>
</tr>
<tr>
<td>50 a 100</td>
<td>1,628</td>
<td>1,55</td>
<td>119,815</td>
<td>12,92</td>
<td>14,66</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>1,049</td>
<td>1,00</td>
<td>220,194</td>
<td>23,75</td>
<td>28,61</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>9,956</td>
<td>9,49</td>
<td>38,243</td>
<td>4,12</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>104,359</td>
<td>100,00</td>
<td>927,166</td>
<td>100,00</td>
<td>20,463,589</td>
</tr>
</tbody>
</table>

### Espírito Santo: Farms with more than 50 trees of arabica coffee as to 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>Coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>(%)</td>
</tr>
<tr>
<td>0 a 10</td>
<td>18,907</td>
<td>17,32</td>
<td>45,51</td>
<td>924,534</td>
</tr>
<tr>
<td>10 a 20</td>
<td>2,108</td>
<td>8,62</td>
<td>19,55</td>
<td>351,688</td>
</tr>
<tr>
<td>20 a 50</td>
<td>9,18</td>
<td>3,75</td>
<td>17,26</td>
<td>313,640</td>
</tr>
<tr>
<td>50 a 100</td>
<td>165</td>
<td>0,67</td>
<td>6,94</td>
<td>136,861</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>57</td>
<td>0,23</td>
<td>6,44</td>
<td>138,101</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>2,297</td>
<td>9,39</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>24,452</td>
<td>100,00</td>
<td>1,864,823</td>
<td>100,00</td>
</tr>
</tbody>
</table>

Production estimated by Conab. In: Agro Survey 2006

Fonte: Brazilian Institute of Geography and Statistics.
### Espírito Santo: farms with more than 50 trees of robusta coffee as to 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>(%)</td>
<td>Total</td>
<td>(%)</td>
</tr>
<tr>
<td>0 a 10</td>
<td>28.048</td>
<td>79,35</td>
<td>110.064</td>
<td>45,58</td>
</tr>
<tr>
<td>10 a 20</td>
<td>3.468</td>
<td>9,81</td>
<td>49.747</td>
<td>20,60</td>
</tr>
<tr>
<td>20 a 50</td>
<td>1.517</td>
<td>4,29</td>
<td>45.651</td>
<td>18,91</td>
</tr>
<tr>
<td>50 a 100</td>
<td>261</td>
<td>0,71</td>
<td>17.960</td>
<td>7,27</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>70</td>
<td>0,20</td>
<td>12.540</td>
<td>5,19</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>1.991</td>
<td>5,63</td>
<td>9.903</td>
<td>2,44</td>
</tr>
</tbody>
</table>

**Total** 35.345 100 241.405 100 4.889.862 100


Production estimated by Conab: 6.901
### São Paulo: farms with more than 50 trees of arabica coffee as to 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Productivity</td>
</tr>
<tr>
<td>0 a 10</td>
<td>11,420</td>
<td>67,86</td>
<td>45,599</td>
<td>23,27</td>
</tr>
<tr>
<td>10 a 20</td>
<td>1,407</td>
<td>8,35</td>
<td>23,406</td>
<td>11,94</td>
</tr>
<tr>
<td>20 a 50</td>
<td>948</td>
<td>5,63</td>
<td>35,029</td>
<td>17,88</td>
</tr>
<tr>
<td>50 a 100</td>
<td>374</td>
<td>2,22</td>
<td>30,412</td>
<td>15,52</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>246</td>
<td>1,46</td>
<td>47,582</td>
<td>24,28</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>2,435</td>
<td>14,47</td>
<td>13,936</td>
<td>7,11</td>
</tr>
<tr>
<td>Total</td>
<td>16,830</td>
<td>100,00</td>
<td>195,964</td>
<td>100,00</td>
</tr>
</tbody>
</table>


Production estimated by Conab: 4,470

### Paraná: farms with more than 50 trees of arabica coffee as to 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of farms</th>
<th>coffee covering area (ha)</th>
<th>Production</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Productivity</td>
</tr>
<tr>
<td>0 a 10</td>
<td>16,670</td>
<td>81,36</td>
<td>52,593</td>
<td>50,21</td>
</tr>
<tr>
<td>10 a 20</td>
<td>921</td>
<td>4,50</td>
<td>14,347</td>
<td>13,70</td>
</tr>
<tr>
<td>20 a 50</td>
<td>379</td>
<td>1,85</td>
<td>12,697</td>
<td>12,03</td>
</tr>
<tr>
<td>50 a 100</td>
<td>74</td>
<td>0,36</td>
<td>5,415</td>
<td>5,17</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>38</td>
<td>0,19</td>
<td>13,789</td>
<td>13,16</td>
</tr>
<tr>
<td>Sem declaração</td>
<td>2,406</td>
<td>11,74</td>
<td>6,01</td>
<td>5,73</td>
</tr>
<tr>
<td>Total</td>
<td>20,488</td>
<td>100</td>
<td>101,742</td>
<td>100</td>
</tr>
</tbody>
</table>


Production estimated by Conab: 2,248
Technology Models

• Brazilian coffee farming models:
  • Traditional
  • Mountain
  • Cerrado region
  • High density;
  • Robusta

Competitiveness

• Within the farm
  – New frontlines with high productivity
  – New densities
  – Enterprise-like management
  – Mechanization
  – Irrigation
  – Production costs – (unfavourable exchange rate)
  – Robust and cereja descascado
Competitiveness

• High technology to be decided during coffee planting or renewal
• Irrigation e harvest mechanization
• New varieties
• Conillon
• New drying and machinery procedures
• Increase in regional diversity

Brazilian Coffee Competitiveness

• Out-of-farmer competitiveness:
  – Fertilizer, machinery and equipment suppliers;
  – Roasted and soluble coffee industries;
  – Storage and commercialization structures;
  – Commercial structure;
  – BM&F e modern financial instruments;
  – CPR’s
  – Brazilian government;
  • CDPC, EMBRAPA, CONAB, universities, research and technology transference institutes; agricultural policy for Coffee: pre-producing and harvesting costs, pre-commercialization, storage, sale options, pepro, pep.
Government-triggered Impacts

- Economic policy:
  - monetary and fiscal policies (interest and exchange rates);
  - Economic growth;
  - labour costs increase (as to US$);
  - Competitive difficulties for the arabicas;
  - Debts relief and loans releases;
  - Pepro and coffee stocks programmes (AGF, trade options, coffee-converted debts);
  - Impact both on the coffee supply and on the exports;

Actions to be undertaken

- Foster investment in competitiveness
- Investments in quality (cereja descascado, specials, gourmet, harvesting and drying procedures)
- Better-off coordination along the coffee chain;
- Foster promotion and marketing of the Brazilian coffee
- Sustainability-based investments
- Who should pay the bill?
Jumping to Conclusion

• Solid Institutions
• Strong Organizations
• Government Investments – Fiscal trigger-offs (PIS e Cofins)
• Outstanding trading performance
  – Exports and Market Share
  – domestic consumption
• Coffee producers: trading losses and debts
• Who should pay for production costs?
• Selectivity and its effects on the market
• Which role should be attributed to the ICO?

Thank you very much indeed!

MANOEL VICENTE F. BERTONE
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National Secretary for Production and Agroenergy
manoel.bertone@agricultura.gov.br