PRIVATE & CONFIDENTIAL

NOT FOR PUBLICATION

Minutes of the Trade & Logistics Meeting
held on Tuesday 23rd January 2018,
at FDF, 6th Floor, 10 Bloomsbury Way, London, WC1A 2SL
Time 12.30pm – 2.00pm, Room Machin

PRESENT:

Tracy Brown	BCA Secretariat
Mike Watson	Tristao International S/A (T&L Chair)
Chris Rogers	AGC (Commodity Store) Ltd
Angus Kerr	Coffee ag Ltd
Mark Ayling	Complete Coffee Ltd
Alan Davies	Finlay Beverages
Paul Wynne	Henry Bath
James Laudrum	Oxford Insurance Brokers
Cleiton Papke	Riccoffee
Bertie Sewell	Schluter Ltd

2018/001 **Apologies**

Chris Stemman	BCA Executive Director
Iain Williamson	E L Johnson's Sons & Mowat Ltd
John Williamson	E L Johnson's Sons & Mowat Ltd
Rob Hare	ICE Futures Europe
Richard Price	Menshen Packaging UK Ltd
Matt Earlam	Twin Trading

2018/002 **Competition Law Compliance**

It was agreed that the Meeting would be held under FDF Competition Law Compliance as per the Golden Rules circulated previously.

2018/003 **Minutes of Meeting held on 12th September 2017**

The minutes of the last meeting were duly approved.

2018/004 Warehouse Inspections/Procedures/Insurance/Surveying

Warehousing

Report from Chris Rogers

CR noted that there still seems to be a lot of coffee around, still playing catch up to get the coffee out of the ports due to the Christmas and New Year break etc, and there is a shortage of haulage to deliver coffee to the warehouses. It appears that there may also be a shortage of warehouse space/capacity later in the year. The problem is prime warehouse space in the south east, is as you can imagine, at a premium. Customers are not necessarily willing to pay to reflect the increased costs for storage.

MW asked with the bigger ships coming into port now, there seems to be an increased demand for transportation, CR noted this is definitely an issue and puts pressure on booking haulage to get the containers out of the port.

Insurance

Report from James Laudrum

JL noted that all seems pretty quiet at this time.

Underwriters are still continuing to looking at misappropriations.

AK asked noted about the situation of cocoa company Euromar's bankruptcy and subsequent insurance claim against that, also if those effected by an event such as this could be insured against any losses. PW asked if it was usual for companies to have insurance against such things, JL noted that big trading companies would possibly look at having appropriate cover for an eventuality like that.

Surveying

Report sent in from Iain Williamson

The only recent damages are due to Hurricane Harvey in Houston TX where coffee beans in bags of various types (Decaf Arabica, Robusta Grades 1 & 2) were damaged by water (some approx. 300 metric tonnes).

We are aware that the damage is a result of rainwater and condensation only and not floodwater.

A quantity of ICE stocks in Antwerp have been suspended due to recent storms causing damage to a warehouse - quantity unknown at present.

Otherwise all is calm… for now!

2018/005 Transport

Report from Mike Watson

Shipping lines have had a much better year in 2017, with better margins

Consolidation - the Maersk takeover of Hamburg Sud has been finalised. Cosco is in the process of taking over OOCL. This moves the enlarged Cosco up to 3rd in the league table (overtaking CMA-CGM). Cosco took the top spot for record liftings in Q3 – overtaking Maersk.

3 Japanese carriers (K Line, NYK and MOL) are merging to form Ocean Network Express (ONE).

Once all these consolidations have taken place the top 5 container lines will control 65% of the market (up from 45% - 5 years ago).

January 2018 looks like being a record year for containers being delivered with 7 megamax ships (17-21k capacity) being delivered.

The containership capacity set to be delivered in 2018 is around 1.5 million (50% made up of the larger capacity ships - thereby continuing the strategy of ss co going towards the larger ships.

MSC and CMA are jumboizing 21 container ships (with 14k capacity) and converting them to 17k capacity vessels.

Global container capacity set to grow by 5.6%i in 2018 (vs 1.8% in 2016 and 3.7% in 2017).

Scrappage in 2017 was 437k vs 658k in 2016. The idle fleet towards the end of the year was around 2% which is low by historical standards. (vs highest of 5.6% reached).

With all of this – obviously there is less choice.

2018/006 <u>The European Contracts Committee</u>
Report from Mark Ayling
MA noted that unfortunately there does not seem to have been any further progress since his last update. MA has spoken to Kevin Furley who has noted that it is at the top of his list. Subsequent to the meeting CS has confirmed that revision of the European coffee contract is an ECF 2018 priority.

2018/007 <u>ICE Futures Europe</u>
Report sent in from Toby Brandon

1. Volumes, Stocks
- Total volumes for London Robusta Coffee futures for 2017 were around 4.5 million lots, marginally up on 2016.
- Certified Robusta stocks are around 110,000MT down from over 150,000MT this time last year. 2017 (and 2016 before) saw a sustained drawdown of stocks from the peak of 200,000MT at the end of 2015.

2. Supervision
- 100% cocoa supervision is effective since May17. It is working well with limited teething problems thanks to fluid communication between the Exchange and the warehousekeepers. Trained Supervisors have attended 100% of the samples of warrants graded since May17.
- The Exchange is keen on implementing100% of supervision of coffee sampling in 2018. As most warehousekeeper are licensed for the storage of Cocoa and Coffee, the implementation of coffee sampling supervision should be facilitated.

- The Exchange is supervising some coffee sampling using trained supervisors.

3. Warehousekeepers List

- Warehousekeeper application period is now closed.
- The List of Nominated Warehouses will be published in February 2018.

4. 2018 Changes to the Robusta Contract

- As a reminder, Changes are effective July 2018.
- Several presentations to market participants and warehousekeepers have been organised by the Exchange. Additional webinars will take place prior to July 2018.
- The Global Average rent to be used from July 2018 expiry will be published in February 2018.
- All Changes to the Coffee Contract will be reflected in Guardian for the July 2018 expiry.

The T&L Committee have asked if ICE could present and update on the Coffee Contract and MIFIDII at the next meeting in April.

Action: TB/ICE

2018/008 **<u>Brexit Implication</u>**

Report sent in from BCA Executive Director, Chris Stemman

The Government has satisfied the demands of Mr Barnier's team sufficiently around the divorce bill to allow negotiations to start on trade talks; the topic of greatest concern in the commercial world.

Whilst this is encouraging informed opinion suggest that there is a huge amount of detailed work still necessary on some of the core topics. A detailed explanation of the operation of the Irish/Northern Ireland border might go some way to reassuring those affected. Operating seamlessly outside of the Customs Union is another.

Shortening of the transitional arrangements period is also troubling. It was originally indicated that two years of transition would be allowed. This has now been shortened to 21 months and ends in December 2020, putting greater pressure on the negotiating team to deliver.

The BCA have held discussions with the Technical and Trade teams at Defra to explain the importance of the current trade in coffee between the UK and Europe. The Trade team were surprised by both the scale and complexity of the UK /EU supply chains. One area of interest to Defra was non-EU Trade. They are particularly keen to learn of export business that currently suffers with tariffs or other barriers. If members would like to share examples of affected business with the BCA we will forward anonymised information to Defra. The importance of the London Robusta exchange was also stressed together with some issues concerning warehousing.

A narrative summary of the Infostat trade data below to this report.

The EU exit bill successfully negotiated a passage through the Commons, a much tougher journey is likely to take place in the Lords.

The UK coffee industry concerns regarding EU exit and future trade.

The BCA are deeply concerned by the possible outcomes of the EU exit process. The uncertainty and lack of progress on trade talks has compelled members to develop contingency plans in order to mitigate the unwelcome scenario of WTO default tariffs. Trade with Europe in coffee goes back hundreds of years and has steadily evolved into the current, complex supply chain arrangements.

The 2016 UK total trade in coffee can be summarised as follows (all data sourced from Infostat):

VALUE, £	imports non EU	exports non EU	imports EU	exports EU
green coffee	397,650,236	10,833,937	13,829,341	25,606,475
green decaff	3,535,447	955,858	1,025,987	1,528,837
roasted	22,795,545	66,883,466	255,870,309	140,756,278
roasted decaff	654,045	1,112,905	20,771,435	3,758,885
soluble	38,335,470	24,684,308	181,053,282	120,044,605
mixtures	954,688	11,224,276	43,903,183	60,159,446
totals	463,925,431	115,694,750	516,453,537	351,854,526
y-o-y growth	15.28%	3.30%	8.60%	10.37%

Whilst it is true that the largest single category of UK imports is green coffee (£398m, 175000t) from the RoW, the supply chains that are in place mean that the imports of coffee and coffee products from the EU are of greater value than that with the RoW (£516m vs £463m).

Imports from the EU are principally roasted coffee (£255m) and soluble coffee (£181m). The combined EU imports:

rank	country	value, £m
1	Germany	159.4
2	France	112.3
3	Netherlands	53.7
4	Italy	51.4
5	Spain	28.7
6	Poland	23
7	Czech Republic	22.1
8	Irish republic	21.8
9	Belgium	20
10	Hungary	7.9
11	Sweden	6.3
	others	9.75
	total	516.45

Roast and ground coffee enters the UK from many EU members, the strong heritage of coffee of most of these is understood and valued by UK consumers and affords them choice. Imports are dominated by France (£67m), Germany (£66m) and Italy (£48m). Roast and ground coffee products from the EU find their way into everything from the high street supermarkets to small coffee shop operations. The UK thirst for decaffeinated coffee is largely met by European decaffeinators, but as this process takes place at the green coffee stage there is considerable complexity in some supply chains.

As already explained soluble coffee in the UK is mainly supplied by internationally based brand owners who typically have multiple manufacturing operations across the EU. Many of the sites are "centres of excellence" for a particular soluble coffee style and format in order to achieve economies of scale. Soluble coffee manufacturing is capital intensive and requires high plant efficiency for products to be competitive. The UK soluble coffee market is broadly equivalent in size to that of the rest of the EU combined. As a result, there is considerable movement of soluble products within the EU. The key countries involved are Germany (£72m), Netherlands (£33m), France (£27m), Spain (£13m) Czech Republic (£11m) and Poland (£10m). The UK imports for soluble from the RoW total just £38m and so the EU combined industry capacity meets EU demand once exports are taken in account.

Following the successful exit negotiations, we have read that trade with Ireland will be borderless once we have left the EU but await details of how this would work in practice with or without a trade deal. Whilst coffee is one of the smaller foods crossing the border we are concerned that businesses will be able to operate normally on and after the 30th March 2019.

Exports to the EU can be summarised as follows:

rank	country	value, £m
1	Irish Republic	72.7
2	France	71.4
3	Germany	44.8
4	Czech Republic	28.7
5	Netherlands	24.6
6	Spain	14.4
7	Sweden	14.3
8	Belgium	13.5
9	Poland	10.2
10	Denmark	10.2
11	Italy	8.4
12	Bulgaria	6
	others	32.6
	total	351.8

The importance of the Irish market to UK coffee manufacturing is obvious but does include a significant and untypical amount of green coffee.

The supply chain complexity of EU coffee is well illustrated by the summary of EU exports:

	country	value		roasted	soluble	mixes		green
1	Irish Republic	72,746,847	72.7	34	20.5	2		14.3
2	France	71,362,993	71.4	42.2	14	13		1.8
3	Germany	44,791,079	44.8	6.5	16.7	18.6		2.7
4	Czech Republic	28,741,961	28.7	5.1	22	0.8		
5	Netherlands	24,648,768	24.6	10.4	4.8	7.3		1.8
6	Spain	14,414,041	14.4	10	2.3	3		0.7
7	Sweden	14,362,196	14.3	6.8	2.7	2.5		2.3
8	Belgium	13,524,939	13.5	10	1.5	1.6		
9	Poland	10,218,770	10.2	4.7	5.1			
10	Denmark	10,218,501	10.2	0.6	8.8	0.3		0.5
11	Italy	8,400,873	8.4	3.2	0.4	3.7		
12	Bulgaria	6,019,609	6	0.7	5.3			
	others	32,403,949	32.6					
	total	351,854,526	351.8					

Coffee exports to the RoW are mainly in roasted, soluble and coffee based mixes categories:

Roasted coffee:

Rank	Country	Value, £m
1	Japan	14.3
2	Mexico	5.3
3	China	5
4	S Korea	4.3
5	UAE	4.2
6	Switzerland	3.9
7	Australia	3.5
8	Russia	2.8
9	Argentina	2.5
10	Brazil	1.8
11	Singapore	1.6
12	Saudi Arabia	1.3
	others	16.3
	total	66.8

Soluble coffee:

Rank	Country	Value, £m
1	Russia	7.2
2	Ukraine	4.5
3	Mexico	1.1
4	Thailand	1.1
	others	10.8
	total	24.7

And coffee-based mixes:

Rank	Country	Value, £m
1	Chile	2.4
2	Japan	1.9
3	Australia	1.9
	others	5
	total	11.2

Tariffs are currently applied to some imported coffee products according to GSP (and sometimes WTO) terms.

The tariffs currently are:

	green	green decaff	roast	roast decaff	instant
GSP		4.80	2.60	3.10	3.10
MFN	0	8.30	7.50	9.00	9.00

In the event of a "no trade deal" exit from the EU the UK would face tariffs of 7.50% for roasted coffee and 9.00% for soluble coffee. Increases of this magnitude are unlikely to be absorbed by manufacturers and are likely to be passed on to consumers. The existence of tariffs is also certain to influence manufacturing strategies for all European and global businesses. The continuing uncertainty in this area is extremely unhelpful to our members.

A WTO solution will cause major issues at the UK border for inward flows of coffee from Europe and vice versa affecting the food supply chain and especially the transport and haulage Industry, the prospect of chaos needs to be avoided at UK ports.

Subsequent to the meeting CS has confirmed that the ECF will be writing a position statement (based on the FDE statement) concerning trade after Brexit.

2018/009 **<u>Arbitration Overview</u>**
AK noted that we have been fairly quiet on in regard to Arbitrations registered, but things are ticking along.

AK noted that the Arbitration Workshop went well, but it was a bit disappointing as to the low number of those on the current Arbitration Panel who attended.

AK noted his thanks to ICE for providing the facilities for the workshop to be held.

AK added for the next seminar we needed to get more in depth, more into the nuts and bolts of Arbitration and more case studies.

2018/010 **<u>Education (Training/Seminars)</u>**
AK noted that next Educational Seminar will be in 2019, we will again look to and work around the timings of the London Coffee Festival.

AK noted that we will discuss holding an 'advanced' arbitration workshop a bit later in the year.

AK noted that it had been raised that some of the smaller/newer Members would like the opportunity to meet with other Members to network and to perhaps discuss about their product developments.

AD noted that perhaps a joint networking event with the Tea Association could be organised.

Action: AD/BCA

2018/011 **<u>Social</u>**

BCA Dinner Dance 2017 – Friday 24th November 2017

TB noted that we have received a record number of feedback from attendees at the dinner. The vast majority were extremely positive about the dinner last year.

BCA Golf Day 2018 – Venue TBC – Date Likely Friday 29th June 2018

TB noted that she and Member Services Chair, Alex Rogers will be sorting out a venue asap, possible venues we are looking at will again be The Hertfordshire, Luton Hoo and possibly Foxhills. Date we are aiming for is Friday 29th June 2018.

BCA Dinner Dance 2018 – The Dorchester – Friday 23rd November 2018

TB noted that the date had been confirmed for the 23rd, we had tried for the 30th November, but we were on 2nd option, and likely this date would not come available as this was reserved by the same company for their annual event.

AK noted Member Services were reviewing the possibility of having a major sponsor category for the dinner this year. To be discussed as to what the differentiator would be.

2018/012 **<u>Dates of Next Meetings</u>**

TB was asked to check out if we might be able to use the meeting room at ICE, Fitzroy House for the next meeting in April, these premises seemed to be much more convenient for Members.

Post Meeting venue for the April meeting moved from the FDF to ICE, Fitzroy House.

Action: TB

Tuesday 10th April 2018 – Trade & Logistics Meeting – 12.30p.m.-2.30p.m. - London Suite 1 Meeting Room, Intercontinental Exchange | ICE Data Services, Fitzroy House, 13-17 Epworth Street, London, EC2A 4DL

Tuesday 10th July 2018 – Trade & Logistics Meeting – 12.30p.m.-2.30p.m. - FDF, 6th Floor, 10 Bloomsbury Way, London, WC1A 2SL – Room Machin

Tuesday 23rd October 2018 – Trade & Logistics Meeting – 12.30p.m.-2.30p.m. - FDF, 6th Floor, 10 Bloomsbury Way, London, WC1A 2SL – Room Machin