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Minutes of the Trade & Logistics Meeting,
Tuesday 9th April 2019, ICE London Suite 2 Conference Room
Intercontinental Exchange | ICE Data Services
Fitzroy House, 13-17 Epworth Street, London, EC2A 4DL
Time 12.30pm – 2.00pm

PRESENT:

Chris Stemman	BCA Executive Director
Tracy Brown	BCA Secretariat
Angus Kerr	Coffee AG Ltd
Mark Ayling	Complete Coffee
Robert Moodie	**DP World London Gateway (Observer Only)**
Gina Lopes	DRWakefield
Philip Searle	DRWakefield
Connor Barnes	Equatorial Traders
Paul Wynne	Henry Bath
Rob Hare	ICE Futures Europe
Pablo Martinez	RicCoffee
Cleiton Papke	RicCoffee
Maire Reir	Twin Trading
Natasha Smitter	Twin Trading
Richard Harris	Zygo Ltd

2019/013 Apologies

Mike Watson	Tristao International (T&L Chair)
Chris Rogers	AGC (Commodity Store)
Iain Williamson	CWH Johnsons International
John Williamson	CWH Johnsons International
Jason Cross	CWT Commodities (UK) Ltd
Alan Davies	Finlay Beverages Ltd
Marcus Martin	RicCoffee
Ricardo Santos	RicCoffee

2019/014 Competition Law Compliance

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

2019/015 Minutes of Meeting held on 22nd January 2019

The minutes of the last meeting were duly approved.
Approved by PW

2019/016 Warehouse Inspections/Procedures/Insurance/Surveying

Warehousing

Report sent in from Chris Rogers

There has been a huge intake of coffee for the UK market since Christmas. We are unsure if this is Brexit or taking advantage of lower prices, but the additional volume has caused some difficulty with warehouse capacity.

Furthermore, it has added to the strain of Shipping Line Haulage, although in general most shipping lines have improved except for CMACGM who are 10 days lead time at the moment, which increases all costs because of the quay rent and demurrage incurred. Also, in general, the national organisations for storage and haulage have warned of huge increases in volume for all goods and commodities - this has put an upward trend in the cost of warehouse space. This could become untenable.

PW noted that there has been a significant shift to using online platforms, and there has been a number of issues in regard to this.

Insurance

Report sent in from Iain Williamson

Regarding insurance, there has been little in the way of issues which have been brought to light recently, other than the fact that the LCL/FCL issue remains as highlighted in our presentation at the Education Seminar.

The BCA to look at the recruitment a new Insurance Company as a Member of the BCA.

Action: BCA

Surveying

Report sent in from Iain Williamson

Inspections of coffee have been sporadic in the UK over the last few weeks with a mixture of Origins being landed predominantly in Bags, some presenting infestation and others with wetting to varying degrees; it would appear that there is no correlation of damages although as previously mentioned consignees are rarely told where their Coffee / Container is stowed when on board; transit times can also have a detrimental effect in some cases.

2019/017 Transport

Report sent in from Mike Watson

The main issue is in reference to comments made by various people about lines not being flexible – especially when the larger ships come in and there is a shortage of trucks and lines won't grant a few extra days demurrage…….

MW has liaised with the ECF to discuss this in meetings with the ss co – MW is awaiting to hear back on feedback.

Action: MW

Ss co news

Rising demand and improved freight rates in the second half of last year enabled ocean carriers to return a consolidated profit of $1.5bn for the year, according to Drewry's latest *Container Forecaster* report.

With all the major carriers that publish their financial results now having reported, the container lines were able to turnaround a deficit of some $2.2bn in the first two quarters into a positive full-year result. However, it will only take another spike in oil prices or a rate war to push even profitable carriers back into the red this year. And much greater damage would be inflicted on last year's unprofitable carriers, such as HMM ($720m in the red) and Yang Ming ($219m).

Moreover, the upcoming IMO low-sulphur regulations, which could see fuel prices jump 50%, will put more pressure on what Drewry describes as "financially vulnerable carriers".

Indeed, at an expected premium of $200 per ton on compliant fuel, it has been estimated that this could add some $2.5m of cost to an average Asia-North Europe roundtrip, plunging a profitable loop into the red, unless the carriers receive adequate compensation from their customers.

Some of these extra costs will hit the balance sheets of carriers this year, as lines need to prepare for compliance on 1 January 2020 by replenishing some of their tanks with low-sulphur bunker in the final quarter. For example, Hapag-Lloyd has estimated that preparation for IMO 2020 will add $75m-$100m to its budget this year.

The consultant speculated on the possibility of weaker carriers being "pushed into M&A by the extra costs associated with the new low-sulphur law". Noting that the industry has still not fully recovered from the global financial crash, Drewry said: "As the deadline for the IMO 2020 mandate draws nearer, carriers are inevitably getting jittery about its overall impact."

It asked: "Are [the carriers] in a position to deal with myriad extra associated costs, such as unrecoverable BAFs, capex to install scrubbers and extra funding for bunker credit, among others?"

Drewry said that, "without wanting to be too alarmist", the fallout from IMO 2020 "could inspire another major carrier bankruptcy", while another potential route for the industry would be to "trigger more defensive M&A" activity among the carriers.

It said: "It could turn out that the IMO will inadvertently push industry consolidation along, closer to where it needs to be in order to achieve sustainable profitability."

The last round of M&A in the liner industry started with the merger of COSCO and CSCL in 2016, the year that saw the demise of Hanjin Shipping, and finished with the merger of Japanese carriers K Line, MOL and NYK into the Ocean Network Express (ONE), 12 months ago. Seven lines now control some 75% of the world's deep-sea containership fleet, noted Drewry.

Looking into its crystal ball, the consultant considered some "fantasy transactions" in the industry: for instance, Cosco buying niche operator PIL; deals based on common nationality merging Taiwanese lines Evergreen, Yang Ming and Wan Hai; and bringing together South Korean carriers HMM and SM Line.

Meanwhile, the carriers themselves are split on whether they believe M&A activity will continue. The chief executive of Maersk answered such a question at last month's TPM Conference in Long Beach in the affirmative, while Rolf Habben Jansen, CEO of Hapag-Lloyd, told a breakfast meeting at the same event he thought consolidation had "probably reached its limit".

AK noted that there is continued concern that more of these lines are merging and getting bigger and bigger, with bigger ships and slow steaming.

2019/018 **<u>The European Contract Committee</u>**
Report from Mark Ayling
- **ECF Contract (ESCC)**

MA noted that there is no further update.

The next meeting will be on 20th May in Amsterdam, MA noted he hoped to have an update or some new news for our next meeting in July.

MA feels after the next meeting update, we can likely take this subject off of the agenda.

AK asked if there had been questions or concerns from Origin. MA noted there had, but hopefully following the meeting in May there might be some further answers.

MA noted that that some people may not have changed their contracts and may still be pointing at the old coffee contract from 2012. AK noted that indeed some people are still noting the old ECC contract rather than the ESCC contract, this needs to be highlighted.

2019/019 **<u>ICE Futures Europe</u>**
Report from Rob Hare
RH noted they have now successfully implemented the supervision of all coffee, with a small army of supervisors. RH will be training his next batch of supervisors next week. The first supervision took place this week.

Lots 8,000 last year, 11,300 this year.
So, stocks up and staying up.

ICE are still continuing to make further developments with the contract.

AK asked if volumes are good, RH not as high as last year but still good.

RH noted that deliveries have changed, from nothing happening at the start of the month to now being the end of the month, so some change.

RH noted that we have started to see some more grading coming through, up to 60 or more for this month.

AK noted that even with a low market the grading is still coming through.

2019/020 **Brexit Implication**

Report from BCA Executive Director, Chris Stemman

CS noted that the current situation is that we are scheduled to leave the EU on 11 o'clock on Friday night, 12th April. Emergency summit in Brussels tomorrow 10th April, Mrs May looking to extend the deadline. The process seems to have totally broken down here in the UK. We continue to follow, look and learn.

CS noted that we continue to send updates from Defra to the Members, and we hope that Members do find these of use. It seems that in most areas there seems to be measures set in place.

The biggest single issue and unresolved is around Organic Coffee, and the fact that there is no continuity of accreditation when we leave the EU.

CS noted that if we get so far as to having some concrete information, he will look to call a Brexit meeting.

AK noted that the BCA works hard on this as well as other issues, and if Members do have any questions that they need answering please do contact them.

2019/021 **Arbitration Overview**

AK noted that Arbitrations have been very quiet, not surprising with a downward market.

AK reemphasized the importance of putting the correct contract on their order and also to specify the place of Arbitration.

AK noted that we have had a couple of Arbitrations registered recently, but currently does not see this dramatically increasing.

2019/022 **Education (Training/Seminars)**

BCA Education Seminar 2019 – 26th to 28th March – Montcalm Tech City Shoreditch

TB confirmed the event was a breakeven event, and that she has received some good feedback on the course, some comments received we will look at implementing for future courses.

AK asked those present if they have any ideas in regard to future training, events etc. please do let the BCA know and we will try to facilitate.

Action: ALL

2019/023 Social

BCA Golf Day 2019 – Update

TB confirmed that we are still looking to hold the Golf Day on Friday 5th July 2019, Members Services are working on a venue which is proving to be difficult – everywhere seems to be extremely busy. If we are unable to secure a suitable venue for the 5th July, we might possible look to move to later in the year, perhaps September, details to be released asap.

BCA Dinner Dance 2019 – Update

TB/CS noted as you will have likely seen there has been a great deal of media coverage about a boycott of the Dorchester because the owner, the Sultan of Brunei has adopted full Sharia Law for his sultanate. We have received some emails from concerned members on this subject. We have contacted the Dorchester and they are deeply upset at the boycott and are at pains to explain that their Group policies are based around the values of diversity and inclusivity. We have been working hard to try and find a suitable alternative venue for this year's event but have been unable to identify a suitable and available alternative on the same date in November. CS/TB will write to Members on Wednesday 10th April, who have booked tables for their comments.

Action: TB/CS

Potential Seminar/Industry Event

It was confirmed that the BCA were still looking at running an industry seminar/event, around Sustainability, Cost of Production and possibly Pricing Issues. We are hoping to get together some key speakers and journalists, for a panel debate. It was hoped to have held this in around June/early July, this was to be followed by a networking/social event. CS confirmed due to a number of activities, including the ECF/ICO meeting in June etc. we are looking to push this back until September. We have received a number of enquiries already since putting the teaser onto the website. The venue was originally scheduled to be at the Royal Institution and likely we will stick with that venue if at all possible.

2019/024 Dates of Next Meetings

Dates for 2019

- **9th July 2019**
- **8th October 2019**

Whenever possible the meetings will be held at **Epworth Street**, until this facility is no longer available. If Epworth Street not available they will move back to the **FDF, 10 Bloomsbury Way**.