BRITISH COFFEE ASSOCIATION

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Minutes of the Trade & Logistics Meeting,
Wednesday 16th February 2022
ICE Data Services, Epworth Street London & Via Video & Conference Call
Time 12.30pm – 2.00pm

PRESENT:

Paul Rooke	BCA Executive Director
Catriona Balfour	Communications & Public Affairs Manager (via Teams)
Tracy Brown	BCA Secretariat
Mike Watson	TRC Specialty Commodities (T&L Chair)
Chris Rogers	AGC (Commodity Store) Ltd
Angus Kerr	Coffee ag Ltd
James Paling	Commodity Centre
Mick Flynn	Complete Coffee Ltd (via Teams)
Daryl Kryst	Equatorial Traders (via Teams)
Marie Maffei	Filhet-Allard (via Teams)
Fergus Wilson	Group Sopex (via Teams)
Oliver Broster	Riccoffee UK Ltd
Cleiton Papke	Riccoffee UK Ltd
Helen Shewan	DRWakefield (via Teams)
Richard Hankinson	ICE Futures Europe (via Teams)
Richard Harris	Zygo (via Teams)

SPEAKER:

Kenneth Macleod	Stena & Past President UK Chamber of Shipping (via Teams)

1. Apologies

John Williamson	CWH Johnsons International
Jason Cross	CWT Commodity Logistics UK Ltd
Paul Wynne	Henry Bath

2. Competition Law Compliance

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

3. Verbal Presentation – Current & Future Shipping Issues – Mr K Macleod

CB made the introduction to Mr K Macleod.

KM noted the pandemic is the main cause of the mess that we are in today, with Brexit and shortage of HGV drivers thrown into the mix. The worst of the ongoing delays are from the Far East and China, and we don't really know what will happen when people return from the Chinese New Year holidays, as they will likely only be at 50% capacity.

The worldwide container industry is finally tuned, was based on a just in time delivery, any delays can cause huge issues. There are around 50,000 containers currently in Felixstowe. Containers are coming into ports, if the ships can get into the ports, containers are discharged but because there are no empty containers the ships return empty. As was commonly known, all shipping lines were currently seeing significant profitability.

The industry was waiting to see how China would handle Omnicron post Chinese New Year Even without further lockdowns the general view was that it was likely to be 2023 before some return to normality was seen.

PR asked whether the trend towards larger container vessels would continue, and with the UK now out of the EU what does the UK need to do with its infrastructure, are our ports prepared for the changes, or does the government need to have a plan to improve infrastructure.

KM noted that the reason we have these very large vessels almost 24,000teus as it drives down the unit cost, and in the medium to long term this is likely to continue. Most of the UK ports are geared up for this, Southampton Felixstowe, Liverpool, Tilbury and London Gateway where there is deep water. But the warehousing and the port facilities do have some issues, but as often privately owned and investment is being made. But a large problem is the road/highways which are not within their control but the Government's, and they need to rise to the occasion and improve infrastructure to and from ports.

PR noted that BCA have a meeting with Robert Courts MP, who is a minister at the DFT next week, who is also the BCA's constituency MP, which we will raise with him.

PR noted that the government seems to have an ambition of greener shipping going forward, how does this pan out in terms of shipping in the run up to 2040. KM noted that shipping does have an issue with decarbonisation, which is recognised by shipping. The International Maritime Organisation recognises that shipping needs to reduce its emissions, the intent was up to a couple of years ago to reduce by 50% from the 2008 figures. Many shipping companies are committed to net emissions by 2050. But how do we get there, with 99% of ships using fossil fuel, there are companies looking at building methanol ships. But there will be many countries who will not have the facilities to be able to refill these methanol ships, and will these countries agree to improve their infrastructure, this could be an issue and would need governments to improve these. In the short sea trade Stena are looking at having an electric ship, running on batteries, but again the infrastructure needs to be in place to be able to recharge. KM noted that solar power for some destinations would be out of the question.

KM noted that the EC and the IMO have programmes now that any ship in the world over 5,000t must record its fuel consumption, and that data has been analysed by the EC and IMO. As of 2023 ships to have to be more efficient, which could present an issue for container ships, as this will mean that they will need to go slower which can cause disruption to supply lines.

Ships that are built from 2030 must prove that they have a system built into that vessel that they will have not emissions by 2050.

All ships will have to be zero emitters by 2050.

OB asked when we are likely to see the situation stabilise, and how we can look to avoid this happening in the future. KM noted that hopefully by the middle of next year we hope to be back to some sort of normality. But take Felixstowe which has several issues and is one of the most congested ports in the world. The port directorate sacked all their container crane drivers, so those on board right now are novices which has compounded everything, but they will work their way through that. The UK will need to train up the next lot of HGV drivers, there will be a tendency to use just in case inventories rather than just in time, warehousing will increase, Liverpool is doing this right now.

KM noted that ship owners are making money now, but for many years they have not.

OB asked if things stabilise by the middle of next year, when will we expect to see pricing start to calm down a bit, as it seems to be weekly if not daily increases. KM noted that shippers will make money while they can, but this will not be able to continue for ever, when container supplies get sorted, you will start to see things change and rates being forced down.

KM noted that there have recently been some experiments with vessels doing bulk shipping rather than container shipping, but you will double the amount of time to ship as these run considerably slower and likely to double timings.

4. <u>Minutes of Meeting held on 5th October 2021</u>
The minutes of the last meeting were duly approved.

5. <u>Matters Arising from Previous Meeting Minutes</u>
No matters arising.

6. <u>Warehouse Inspections/Procedures/Insurance/Surveying</u>
Warehousing
Report from Chris Rogers
CR noted that the biggest problem at this time is the complete failure in administration of 2 of the major shipping lines.

Tilbury and London Gateway were experiencing capacity issues.

Containers are cleared but it can take up to 8 days to get clearance to pick-up, so demurrage is having to be paid.

CR noted that some shipping lines you can sit on the phone for up to 1 ½ hours before they will pick up the phone.

Warehousekeepers are having to think out of the box and be creative to save money.

CR noted that there are technicalities with shipping lines sending the warehousekeepers the bill to pay the freight charges, even though they should not they are doing so just to speed the process up.

CR added that the congestion round the M25 since coming out of lockdown is increasing again, and then getting into the ports is both frustrating and difficult.

RH noted that haulage still seems to be the biggest problem. With some shipping lines there is no leeway with their rules.

MW noted that he might try and speak with MSC Switzerland via the ECF to see if we can try and get some resolution to these issues being faced, perhaps organise to have RH and CR on a call with them.

Action: MW

CR noted that Hapeg Lloyd and Maersk seem to be performing much better than MSC at this time.

JP added that there are continual issues with both CMA and MSC.

CP and MW noted the LCL changes that MSC have made.

Insurance & Surveying
No report for this meeting.

7. <u>Transport/Ports</u>
Report from Mike Watson
MW noted that shipping does not seem to be getting any better we were hoping that after Chinese New Year that things might start to improve. Chinese ports have restrictions due to covid and containers are in the wrong place which could take months to resolve.

MW added that we now have inflationary pressures, and perhaps with people having less money to spend on-line, this might start to improve things with shipping from the far-east.

PR noted that the point about inflation is going to have an impact across everywhere.

MW noted that the Shanghai container index is still high.

OB asked if there was a slower rotation of coffee, CR noted that they had got to a capacity previously, but the rotation has now stabilised out, JP agreed rotation has stabilised.

8. <u>The European Contracts Committee</u>
AK noted that there has been an ongoing situation under the European Coffee Contract the provision of posting for someone who does not honour an award. When the ECF moved their office from Holland to Belgium, there was a resistance to process posting requests due to different

regulation, but hopefully wording has now been resolved and will be accepted by the ECF Executive Committee.

9. <u>ICE Futures Europe</u>

Report from Richard Hankinson

The London Robusta contract has seen lower year on year volumes for January and a steady reduction to the managed money positions which may or may not be related.

It is noteworthy that certified stocks have nearly halved over the past 6 months from 160k mt to just under 90k mt.

Physically deliverable contracts are often bracketed as buyers of last resort but given that the Robusta contract is destination deliverable on the doorstep of consumers, in this unreliable and expensive freight environment it could be said that it is its role as seller that is now in focus. Essentially supplying the market with either cost effective coffee or just reliability in available supply and quality.

Since the last trade and logistics meeting, we have noted a strongly inversion in the January 2022 Robusta contract seemingly coinciding with the peak of Vietnamese production availability.

January saw 252 warrants graded and anecdotal evidence from newswires suggests that volumes of coffee are now afloat from Asia to Europe in break bulk or in containers.

The grading room is standing by should any of these parcels are indeed destined for grading.

10. <u>ECF Update</u>

PR noted that there is not too much to update on with many of the logistics issues already covered.

PR noted that the principal of the wording of posting has been approved by the Council, so we are very much on the home straight now.

One of the big issues at ECF level is the Commissions proposals on deforestation. The EU is looking for traceability back to the plot, which throws up all sorts of issues, and the ECF is pushing back on along with the other commodities effected such a soya etc. The UK is taking a slightly different view, there is a call with Defra next week to talk through some of these in a little bit more detail, including Futures and how this will work. The EP think that these proposals will protect the smaller farmers, but in fact it could have the reverse impact.

11. <u>Arbitration Overview</u>

Report from Angus Kerr

AK noted that after several years of having a quiet situation due to lower prices, with the upturn in the market there have been several Arbitrations registered.

AK noted the Arbitration Panel is at full strength and currently we are not looking to increase the size of the Panel.

AK added that we do need to have another arbitration session or webinar to run through things and give a refresh Arbitrators.

AK added that we are working with the ECF regarding a joint arbitration and contracts training webinar, this will be forthcoming in the not-too-distant future.

OB asked if the statutes will be covered with the ECF training session, AK noted that it would.

OB asked with the ECF course will talk about the differences between the Arbitration centres such as Hamburg, London etc.

AK added that having an Arbitration Award is an extremely powerful instrument, and the issuing of an Award should not be taken lightly.

AK noted that there is a review ongoing of the Arbitration Act of 1996, but the consensus is if it's not broke don't fix it!

PR asked those present today, if they found it useful to occasionally have a speaker at the T&L meetings. MW noted that he could certainly approach some of the shipping lines to see if they could come and present, perhaps MSC!

Action: MW

MW noted that the shipping lines are looking at becoming one stop shops. OB asked who legislates these companies as they are not UK based, who has the power to say enough is enough. PR noted that perhaps it needs a coordinated decision at G7 level, such as we had a MIFID II. MW added that a problem we have coffee is just a small part of what is imported. AK noted unfortunately it is all about supply and demand.

PR noted that that on the day of the dinner (Friday 17th June) we are doing a seminar with a team of lawyers on a range of due diligence issues, this programme will be out in the next 2-3 weeks.

12. Dates for Next Meetings in 2022

Wednesday 1st June 2022 – Trade & Logistics Meeting – 12.30p.m. - 2.00p.m. - London Suite 2 Meeting Room - Intercontinental Exchange | ICE Data Services, Fitzroy House, 13-17 Epworth Street, London, EC2A 4DL

Wednesday 19th October 2022– Trade & Logistics Meeting – 12.30p.m. - 2.00p.m. - London Suite 2 Meeting Room - Intercontinental Exchange | ICE Data Services, Fitzroy House, 13-17 Epworth Street, London, EC2A 4DL