

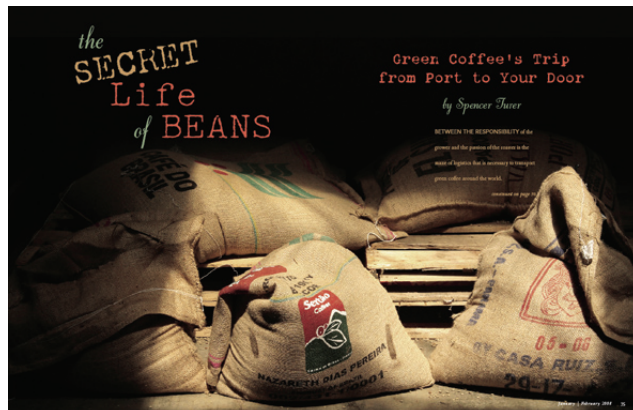


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The Secret Life of Beans

Green Coffee's Trip from Port to Your Door

by Spencer Turer



BETWEEN THE RESPONSIBILITY of the grower and the passion of the roaster is the maze of logistics that is necessary to transport green coffee around the world. We are all aware of the details and level of sophistication required to grow, harvest and process coffee cherries into green coffee beans, which are celebrated for quality. Also, our enthusiasm and passion for coffee fuels our desire to coax flavors, aromas and nuances from the bean during our profile roasts. However, the process in the middle of the tree-to-cup chain remains a mystery to many in the industry and may even baffle the most knowledgeable green-coffee professional.



In coffee, we use terms like logistics and trafficking to describe the controlled movement of green coffee. However, the movement of coffee is often affected by actions or issues beyond the control of the shipper and importer. As a global commodity, coffee's transportation from port to plant can best be described as a functional relationship between the shipper (also known as the exporter) and the importer, with the shipping lines, railways and truckers often causing dysfunction—but always with the best intentions for efficiency.

Concepts such as relationship purchasing and direct trade enable roasters and importers to develop emotional, financial and often mutually beneficial connections and bonds with growers, processors and cooperatives. Logistics does not harm this valuable relationship; it is merely a process to transport the coffee from port to plant. The secret life of green coffee also has legal implications pertaining to commerce and logistics.

From origin countries, we seek the most efficient and effective ways to transport and transfer ownership of coffee to consuming countries. Unfortunately, this process has remained cumbersome, relying on volumes of paperwork and documentation as well as dozens of intermediaries who

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provide a small yet important service during the transfer and shipment of the container of coffee from port to plant. The overall process has changed little over past generations, except for the efficiency provided first by fax machines and then by the Internet to transfer documents between companies electronically.

When coffee is sold and purchased, it is known as a trade: coffee in exchange for currency. Each trade is governed by a contract that is written and signed by the seller and buyer. This contract is specific to several sets of details. Regarding the coffee, each contract stipulates coffee origin, coffee quality (grade, screen size, preparation and often altitude of growth), region or farm designation, crop year, and quantity (in weight and amount of bags). The contract also specifies how the coffee is priced and how the contract is executed, including location of tender (specifically where the legal transfer of ownership of the coffee will take place), price/cost (including the commodity market period the coffee is priced against), the price differential above or below the market, and assignment of the responsibility to fix the commodity market "C" price. Lastly, each contract must include who governs the execution and what to do in the event of a disagreement, including the association who governs the execution and arbitration of the contract, the action required if the coffee is rejected against contract terms, and the specific date period for tender, shipment or delivery of the coffee.

All these details are very efficiently worded on a single document page. Over time, the trade association that governs these contracts has edited and simplified the documents to a usable and easy-to-understand tool when trading coffee. However, the success and efficiency of the industry in trading coffee is predicated on all parties understanding and abiding by these contracts.



Green Coffee Logistics for Quality

It is widely known that coffee quality begins to deteriorate at each control point in processing. Moisture, oxygen, time and heat can all contribute to maintaining or developing overall quality in coffee at various control points within tree to cup, and conversely they can all contribute to degrading or eliminating coffee quality if not controlled at various points within the tree-to-cup process. It is critically important in green coffee logistics to trade with, or purchase from reputable sources. This is a very roundabout way of stating that we all know how difficult it is to maintain coffee quality, thus we celebrate it, and it would be counter-productive to seek quality and trade with an unknown source or a source who has no core competencies in the coffee trade. Green coffee trading for quality is completed by companies, individuals and organizations that have a history of trust, mutual respect and industry renown.

Green coffee logistics for quality are predicated on the time of processing and the location of storage. We all seek fresh coffee, and coffee that meets our expectations for

cup and grade. Most of these expectations are specifically listed on the green coffee contract, however often many are missed. As a green coffee buyer you will want to know when the coffee was milled, specifically when the coffee was removed from pergamino, prepared to export specification, and placed in a warehouse awaiting shipment. It is also important to know the location of this warehouse and the environment that may affect the coffee quality. Pergamino acts as a natural barrier to oxidation which will stale a coffee bean. Coffee that remains in pergamino at origin, under controlled conditions, and is processed immediately before export shipment will retain higher quality cup characters specifically a fresher appearance, taste and aroma, than coffee held as export preparation in a warehouse awaiting shipment.

CONTRACTS

Green coffee contracts for purchase and sales are very similar, however the

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terminology used to govern the transfer of ownership is different. The trend today is to know whom you are purchasing from, and very often the roaster seeks to develop a relationship with the grower, as this creates a bond for sustaining the business, creates a selling story for the consumer, and often includes a level of commitment to socially responsible programs. After developing a relationship that is designed to be mutually beneficial and both parties agree to sell and purchase the coffee produced, all are happy and joyful as this transaction is emotional and not yet legal. When creating a contract, all emotions are drained from the transaction to be replaced by cold legalese. However, since coffee transactions are for considerable amounts of money, often in advance of the harvest, and have an expectation of delivery and quality the contract terms and conditions are in place to protect both parties in the transaction. It is important to understand these terms when buying coffee at source as they govern the point at which ownership of the coffee transfers and detail who pays for what.

ORIGIN PURCHASING TERMS

FCA (Free Carrier) is a relatively new contract type where the seller is responsible for the coffee delivered to the freight carrier at place of embarkation. Seller must deliver the coffee, cleared for export, to the carrier and place named by the buyer. If the FCA contract states seller warehouse, then the seller is responsible for loading charges and the buyer is responsible for freight charges.

FOB (Free On Board) is the most popular contract for its simplicity. This contract holds the shipper/seller responsible for the coffee and all costs until the coffee crosses the threshold of the ship at the port of export. Handling costs and loading costs onto the ship are for the account of the shipper/seller. All freight charges are for the account of the buyer. FOR (Free on Railcar) and FOT (Free on Trailer) are both variations of FOB contracts with the only difference being the method of transport.

CFR (Cost and Freight) is a variation of the FOB Contract, where the shipper pays for the freight charges in the contract price, however the ownership of the coffee is still transferred as the coffee crosses the threshold of the ship.

CIF (Cost, Insurance and Freight) is another variation on the FOB and CFR contract, however for the CIF contract the seller pays additionally for the marine insurance in the contract price.

DOMESTIC PURCHASING TERMS

The following contract terms are mainly used for sales contracts of green coffee to roasters in consuming countries:

EDK (Ex Dock) is a domestic contract, meaning ownership of the coffee transfers on the dock at point of entry after all government entry regulations have been completed. The seller pays for freight, export and import terminal handling charges, and all customs entry charges.

EWH (Ex Warehouse) contracts include all dock charges of the EDK contract as well as moving the coffee into a warehouse. The warehouse used is negotiable on the green coffee contract. Ownership of the coffee transfers to the buyer inside the warehouse facility.

DLI (Delivered) contracts are when the buyer specifies an inland location for the coffee to arrive (for example a plant, specific warehouse, silo or other facility). All inland transportation charges are paid by the seller and included in the contract price. Buyer will pay for any receiving charges incurred.

SPT (Spot) contracts are for coffee sold at a specific location. All charges to have the coffee placed and maintained at that location are paid by the seller until the contract is executed and ownership transfers to the buyer, at which time all charges to

move the coffee will then be paid by the buyer.

WEIGHT

Weighing the coffee to establish a total purchase price is also part of the contract and is to be negotiated between the buyer and the seller. Since coffee is price-quoted in cents per pound, it is important to agree where and when the coffee will be weighed to establish the actual price charges for it.

Shipped Weights—The coffee is fully weighed and recorded at the time of shipment from origin.

Landed Weights—The coffee is fully weighed and recorded upon arrival at point/port of entry.

Plant Weights—The coffee is fully weighed and recorded upon arrival at the buyer plant.

Re-Weights—The coffee is weighed at a current storage location.

It is understood that weights are to be preformed by a certified weighmaster using a certified scale and are to be completed upon arrival and quickly communicated to the seller to fully prepare the invoice.

Weight franchises or Loss-In-Weight-Franchise on a contract establishes the exactable amount of weight loss, expressed at a percentage of total weight, acceptable between shipped weight and plant weight of coffee.

SAMPLE APPROVAL

The coffee contract should detail whether the buyer has the right to test the coffee against the terms of the contract specific to cup, grade and screen size. The time of the sampling and decision is agreed to between the buyer and seller and often is listed as pre-shipment, arrival or delivery.

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Pre-shipment samples are shipped by the exporter to the buyer before the coffee is loaded for transportation. Sample evaluations for coffee already in consuming countries is often completed by the warehouse or an independent sampling service to maintain integrity of the sample.

Samples are to be drawn from at least 10 percent of the amount of bags in the contract.

LOGISTICS

Considering the world coffee export volume is 96 million 60-kg coffee bags (ICO Exports August 2007), with coffee being the second highest value commodity traded, and the long history of the coffee industry, it would be presumed to be a very efficient logistics supply chain. Unfortunately, this is not always the case.

Think of steamship and rail logistics as public transportation schedules, where the time of departure and/or arrival may not be convenient for you. Conversely, when the schedules are convenient there may not be any room available for additional cargo. Additionally, there are many issues that could affect the timeliness of a shipment, as listed in the contracts section for Force Majeure issues.

Coffee buyers occasionally face large obstacles while trying to arrange for coffee transportation. Coffee does not always take the most direct path to get from origin to consumption locations, and it often moves via a series of different shipment methods. "Vessel availability and port congestion are some of the biggest obstacles," says Kevin Bavaro, manager of coffee portfolio strategy at Swiss Water Decaffeinated Coffee Company. "The change in freight handling is a point of frustration, as shipping lines have significantly reduced direct services from South/Central America. For example, from Colombia to Vancouver many carriers go to Chile or Peru before moving North. From Brasil, service is no longer all water to the Pacific Northwest: much of it uses rail from New Jersey, Virginia or Texas."

Attempting to move a quantity of coffee over great distances can be a challenge, as Bavaro mentions. Port congestion is a frequent problem and is often the cause when coffee containers are not loaded onto a ship. When shipping coffee from origin FCL (Full Container Load) the shipper stuffs the container with coffee and delivers the container to the port to await a reservation onto a ship for transport. When ships make multiple stops along a journey there may not be enough space available on the ship for all the containers seeking space causing delays. When shipping coffee LCL (Loose Container Load) the coffee is transported to the dock where the shipping line stuffs the container with coffee and other commodities that will fit under the weight capacity. LCL shipments are slightly more expensive than FCL, but they allow the shipping line the greatest flexibility to manage weight and capacity. However, there may be delays using LCL shipments as usable containers for coffee (free of odors, sealed for water) are not always available.

Global shipping lines operate on regular schedules with established trade routes. Much like public transportation for humans, the cost of transportation is reduced based on the amount of stops the vessel (ship or train) makes and the amount of time in transit. "The time delay may negate the cost savings if one has to hold additional inventory based on longer shipping schedules," mentions Bavaro. It is important to remember that trafficking coffee from origin to a U.S. warehouse may include ships, trains and trucks, with each method providing both efficient and timely transport, but also delays and scheduling issues.

UNEXPECTED DELAYS

The intention of the green coffee contract is to establish a fair and openly communicated expectation between the buyer and seller including transfer of ownership and financial responsibility. There are instances where execution of the contract is outside the control of either party; in this instance

the weather issues, governmental issues, war, revolutions, strikes, pestilence, floods, droughts, perils at sea, or unavoidable interruptions of transportation will not cause liability in delivery or delay in the execution of the coffee contract. The term for the interruption and notification is Force Majeure.

DELAYS AND QUALITY

Heat, cold, moisture and insects are all enemies of coffee quality. Thus, delays in transportation will often cause the coffee to remain in the elements. Sealed containers on the ship, rail or truck in the direct sun will emulate the heat of an oven and may effect coffee cup character. Heavy rains and high humidity may also affect coffee quality by increasing the moisture in the beans.

Also, transportation during the winter months may cause delays in rail and truck conveyance due to storms, snow and ice. Containers used in the transport for coffee are regularly inspected by the shippers to insure they are free from odor and are sealed to protect against water issues and damage. Extreme conditions are not always preventable, but every effort is taken to insure the integrity of the shipment.

SUMMARY

It remains a difficult endeavor to move coffee from origin to the roasting company. Even in the age of multi-national coffee companies and direct relationships between roasters and farmers, there continues to be obstacles when moving coffee over land or sea. The intricate details and legal jargon of green coffee contracts are not meant to prevent the commerce of coffee; conversely, it is intended to bring all contract terms and conditions out in the open to be fully negotiated and mutually enforced. The efficiency and success of trafficking coffee around the world is managed by transportation experts who find ways to transport our precious coffee among various obstacles, always seeking the best time

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schedule at the best rate from the most reliable shipping line.

Should you seek to gain further understanding of the contract process and different options available to both buyer and seller, please contact a green coffee trading company and/or the Green Coffee Association. Listings for companies specializing in green coffee import and sales are available at the Specialty Coffee Association of America and the National Coffee Association.



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Resources

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