



Brewing up a logistics plan

*Tradition and much risk
go into shipping that
morning cup of coffee.*

BY CHRIS DUPIN

Whether to fill shelves with supermarket mainstays like Folgers and Maxwell House or supply high-end cafes, the need for beans to satisfy that craving for a cup of coffee has been good news for importers like American Coffee Corp. in Jersey City, N.J.

The United States is the leading importer of coffee in the world—23 million 60-kilogram bags in the 12 months ending June 2012, according to the U.S. Department of Agriculture.

American Coffee was founded in 1992 in partnership with Hamburg Coffee Co. The company originally focused narrowly on specialty coffee, but after Hamburg acquired full ownership, the company broadened its activity and specialty coffee accounts for only about 15 percent of the 1,500 TEUs of beans it now imports annually.

Donald Pisano, vice president of American Coffee, said his firm is a “traditional merchant where we are sourcing from the overseas exporters, arranging the transportation, ocean freight, import clearances and delivering to the client’s plant or warehouse at destination where the coffee can be sampled, analyzed and approved prior to delivery.”

Pisano is a well known figure in shipper circles—he is chairman of both the ocean transportation committee of the National Industrial Transportation League and the traffic and warehouse committee of the Green Coffee Association, which represents

importers, roasters and logistics companies in the coffee trade.

Some of the giant commodity firms, like Louis Dreyfus, London-based Armajaro Trading and ED&F Man, and Singapore’s Noble Group and Olam International, trade coffee along with a wide range of commodities and many of these firms have offices in the New York-New Jersey area.

But there are also many firms like American Coffee that specialize in coffee, such as Rothfos Group, also based in Hamburg, Coffee America in New York, and Mercon Coffee Corp. in Coral Gables, Fla.

American Coffee imports coffee from around the world, including Arabica and Robusta beans as well as those that have been decaffeinated.

“We buy from the exporter, which may or may not be the actual grower. It depends on the growing area or country and how it is structured,” Pisano said. “We are going

directly to the exporter in the producing country.”

American Coffee is a small operation with eight staff that cover trading, logistics, and administrative support. Like larger companies it is in constant contact with both buyers and growers or their agents overseas in countries such as Brazil, Colombia, Vietnam, Indonesia, and Honduras.

While technology like email and instant messaging is helpful, Pisano said the coffee trade remains a “relationship business” where telephone calls and in-person visits are important.

“It is not just price. You need to have confidence that there is credibility on both sides,” Pisano explained.

That’s particularly true at a time like this when coffee prices are volatile.

How volatile? On the Intercontinental Exchange (ICE) in New York where Arabica futures are traded, the “C” Contract for delivery as of September has ranged between \$1.50 and \$3.00 per pound for the past two years. The “C” Contract is for 37,500 pounds of coffee, roughly equivalent to 250 bags or a full containerload.

(A futures contract for Robusta coffee is traded on the New York Stock Exchange’s Euronext exchange in London, formerly the London International Financial Futures and Options Exchange.)

“You have market risk, counterparty risk, transportation risk. If you like risk, this is the business to be in,” Pisano said.

To reduce risk, traders hedge their purchases using futures contracts.

The need to know your business part-

ners well also helps explain the plethora of associations in the coffee industry. In the United States alone, there are the Green Coffee Association, National Coffee Association, Pacific Coast Coffee Association, and Specialty Coffee Association, which represent everything from Starbucks and Seattle's Best to mom and pop roasters and coffee houses.

The logistics of coffee is also quite complicated.

While more than half of all coffee is produced by Brazil and Vietnam, there are dozens of countries throughout Latin America, Africa, and Asia that grow coffee beans for roasters.

American Coffee ships product through a dozen ports in the United States and three in Canada. It also ships to some Latin American countries that may need decaffeinated or soluble coffee.

Pisano's firm has service contracts with Maersk, Mediterranean Shipping Co., Hamburg Süd, Seaboard Marine, CSAV, NYK, and a small contract with ACL. He said between the wide variety of possible port pairs and surcharges that various carriers and ports impose, he has 1,135 different rates that must be tracked. When his colleagues book a sale, he uses a spreadsheet to rank the different transportation options.

Before American Coffee gives the OK for coffee to be shipped, samples are taken at origin and couriered to American Coffee's office in Jersey City where the green beans are graded, roasted, and sampled.

This involves painstakingly looking through samples to count how many sticks or stones may be mixed in with the beans and "cupping" the coffee to see how it smells and tastes.

The coffee is again sampled on arrival to make sure there is no damage. If coffee is found to be defective, the buyer and seller try to reach an amicable settlement, and if that isn't possible the Green Coffee Association has well-established procedures for arbitrating disputes.

Those disputes are rare, but Pisano said with the increased volatility of coffee prices there have been more instances of default or late shipments. For example, sellers may not ship coffee because they were able to sell it to another buyer at a higher price or did not have the money to buy coffee that they had promised to deliver.

When there is a dispute about the quality of coffee, the Green Coffee Association will appoint a panel that will grade the coffee (this is done blindly so they don't know who is having the dispute) and they can recommend an award based on the quality

deviation. That may be in the form of a discount that ranges from a half-cent per pound to 10 cents a pound or even more.

Coffee can also be reprocessed to remove the extraneous materials or bean defects.

Coffee is commonly shipped in jute or burlap bags that hold 60 to 75 kilograms and is generally bought and sold in full-container lots that commonly contain about 18 to 21 metric tons. Most coffee is shipped from abroad in 20-foot ocean containers.

A single container has green beans valued at about \$40,000 for Robusta coffee to \$80,000 for Arabica — or much more if it is an exotic specialty coffee. Roasters use Robusta only as a filler to blend with Arabica coffee.

To protect coffee in transit, containers are generally lined with kraft paper and "dry bags" are hung inside to absorb any moisture in the air.

Increasingly, companies are shipping coffee in bulk, using polypropylene liners that are filled with beans. Pisano said coffee beans stay dry in these liners, and they also allow for more coffee—up to 21 metric tons instead 19.2 metric tons carried in a single container.

There are also companies storing bulk coffee in silos at the ports of New Orleans, Houston, and Jacksonville, Fla.

Coffee may be delivered directly to roasters or warehouses. To prevent contamination, the commodity must be stored away from chemicals or other odiferous goods such as rubber or cocoa that might affect the coffee's taste.

There are warehouses designated as physical delivery points in New York, Miami, New Orleans, and Houston by the Intercontinental Exchange, but Pisano said there are other warehouses that follow the same standards in other ports.

As chairman of the NIT League's ocean transportation committee, Pisano has had a catbird's seat from which to view the concerns of shippers. Chief among them this year has been the possibility of a strike by the International Longshoremen's Association. As a precaution, his firm moved up delivery of some coffee to August or early September and reduced deliveries in October, immediately after the ILA's current contract expires.

The coffee industry is also keeping a close watch on plans to update the U.S. government's Food Safety Modernization Act, which will require the business to validate its supply chain to make sure it's employing best practices. Those regulations will probably require third-party inspections and Pisano said "we want to work on developing the best regulations with the Food and Drug Administration."

If you want containers to lounge, get them slippers and a cappuccino.

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