



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

WP Board 1027/07

12 January 2007
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Executive Board
263rd Meeting
24 and 26 January 2007
London, England

Communication from Euronext.liffe

Background

In November 2006, the Executive Director wrote to Euronext.liffe to request its views on the application of ISO Standard 10470:2004 in its Robusta Coffee grading process. The response of Euronext.liffe is attached.

Action

The Executive Board is requested to consider this document.

08th January 2007

Nestor Osorio
International Coffee Organization
22 Berners Street
London
W1T 3DD

Dear Mr Osorio,

Re. ISO 10470-2004

Thank you for your recent letters regarding the approval of the new ISO Standard on coffee defects (ISO 10470-2004) and your question as to whether Euronext.liffe would be willing to utilise the new Standard in our Robusta Coffee grading process, thereby helping to ensure the adoption of this methodology by the market as a whole.

In response, may I begin by commending the efforts of the International Coffee Organisation in seeking to achieve harmonisation in this area - an aim which I am sure would be applauded by all in our industry.

As you will understand, the primary role of an exchange such as Euronext.liffe is to provide a futures contract which can be relied upon by our customers as a price benchmark, allowing for the effective management of price risk as well as being an attractive trading vehicle. In order to achieve this aim, we actively seek a dialogue with our key customers as to developments in the underlying physical market, to help ensure that any relevant changes are subsequently reflected in revisions to the terms of the futures contract.

As I'm sure you will be aware, the primary method by which we achieve this goal is through the use of Commodity Advisory Groups, which include individuals and companies drawn from a cross-section of the market. In addition we have regular contact with the European Coffee Federation's Terminal Markets Committee, as well as with other market users on an individual basis.

In this way, we are able to ensure that the contract evolves in a way which maintains its relevance to the nature of trade in the underlying physical market. Significantly, and in common with other derivatives exchanges, in matters such as these we seek to 'follow' rather than to 'lead'.

In this respect, I regret to note that to date, we have received no proposals from our customers to incorporate any ISO-related changes into our Robusta Coffee grading process. Were we to receive such requests on a widespread basis, we would most certainly give the matter serious consideration. It should be noted however that in that event, any such changes could only be introduced with effect to delivery months which were unlisted at that time - in other words, approximately eighteen calendar months forward.



As an aside, I note that in your defect comparison table, the list of defects relating to the Euronext.liffe contract appears to contain some errors. I have attached, for your information, a copy of the defect count table, taken from the Contract Terms.

In closing, may I take the opportunity to apologise for our delay in responding to your question. I regret that we are unable to be of greater assistance at this time, but I would be grateful if you could keep us advised of any future developments on this subject.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Ian M Dudden', with a horizontal line underneath.

Ian M Dudden
Director, Commodity Products

Grades Tenderable

Grades tenderable are those determined by the LIFFE Registered Coffee Graders and shall be tenderable at basis or at the discount shown below:

Type 1: up to 150 defects per 500g at basis

Type 2: from 151 to 250 defects per 500g at a discount of US \$15 per tonne

Type 3: from 251 to 350 defects per 500g at a discount of US \$30 per tonne

Type 4: from 351 to 450 defects per 500g at a discount of US \$45 per tonne

Defect	Number of Defects
1 black bean, or pod, or cherry	1
2 half blacks, sour beans, parchments or large husks	1
1 large stone (1 cm diameter)	5
1 medium stone (about 5 mm diameter)	2
2 small stones or pieces of earth	1
1 large stick (3 cm length)	5
1 medium stick (2 cm length)	2
2 small sticks (1 cm length)	1
5 broken beans, shells withered, green or unripe beans, bleached beans, small pieces of husk	1
1 partially mouldy bean (i.e. less than 50% mould)	¼
1 fully mouldy bean (i.e. 50% mould or more)	1
Insect damaged beans:	
2 beans half eaten away	1
5 beans slightly eaten away	1
Extraneous matter, per item	1 or more at graders' discretion

Coffee containing more than 25 per cent passing through screen 14 round and less than 10 per cent passing through screen 12 round shall be tenderable at a discount of US\$60 per tonne.

Grades Not Tenderable

Coffee is not tenderable if it:

- has more than 450 defects per 500g;
- is unsound, i.e. for any reason other than those already listed, as determined by LIFFE's Registered Coffee Graders;
- contains more than 10 per cent passing through screen 12 round; or
- has more than 5 fully mouldy or 10 partially mouldy beans or any combination such that the total exceeds the equivalent of 5 fully mouldy beans per 500g.

Grading

A grading result shall be valid for 12 calendar months and any unexpired part of the last calendar month. The lot may thereafter be graded again in accordance with the contract terms, but no application may be made for further grading while the lot is still the subject of a valid grading result except as provided for, under the contract terms.

Notwithstanding the expiry of a valid grading result, the lot to which it relates may be tendered at any time in the period of 24 months immediately following such expiry, subject to the application of an age discount. The age discount is additional to any quality related discount which may be awarded.

Age Discount

The following age discounts apply to tenders of Robusta Coffee:

- \$18 per delivery month for the period of 1-12 calendar months following expiry of the valid grading result; and
- \$27 per delivery month for the period of 13-24 calendar months following expiry of the valid grading result.

Early Regrading

An application for regrading of a lot may be made at any time before the expiry of the current valid grading result, but upon the making of such an application the current valid grading result immediately lapses.