

Brief Presentation to the ICO May 19th 2003

"International Coffee Crisis - Looking for Long-term Solutions"

by  
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Structured Trade & Commodity Finance and Risk Management  
Rabobank International

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### Rabobank has multiple involvement in finding solutions

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- **Rabobank Foundation** - charitable trust supporting emerging market producer co-operatives with expertise, training and seed capital
- **Rabobank International Advisory Services** - specialist reports and technical expertise .e.g "Identification and Assessment of Proposals by the International Private Coffee Sector regarding the Poor Income Situation of Coffee Farmers"
- **Rabobank International** Product delivery
  - Commodity Price Risk Management providing hedging tools with World Bank ITF project
  - Structured trade and commodity finance providing finance to clients in the trade flow

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### Participation on the World Bank ITF Project

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- World Bank International Task Force on Commodity Risk Management in Developing Countries convened in January '99
- Provide access to smallholder producers in developing countries to the same risk-management instruments available to producers in industrialised countries
- Aimed to identify key players in the following commodities and geographies:
  - Cocoa, Coffee, Cotton and Sugar
  - East and West Africa, South and Central America

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### The client requirements: Case study a Ugandan Coffee Co-op

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- Access to world market hedging products and secure pre-financing of growers
- Trade without futures account
- Flexibility to cash in value of their price protection as cash inventory is marketed
- Reliable counter party, confidentiality & market information
- Hedge market and basis risk separately from physical supply
- Competitive and transparent pricing

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### Rabobank's Solution

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- Price floor with dates and tonnage tailored to clients need.
- Price floor and premium calculated after analysis of clients budget and price expectations.
- Premiums paid up front to manage banks credit requirements
- Option can be sold back to Rabobank when it is no longer required
- Regular market updates and option valuations provided to client

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### Issues to resolve

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- Compliance client approval - FSA KYOC regulations are costly
- Multiple small pilot transactions
- Very labour intensive
- Communication problems - training the user
- Profit - can this be profitable for financial institutions and therefore sustainable

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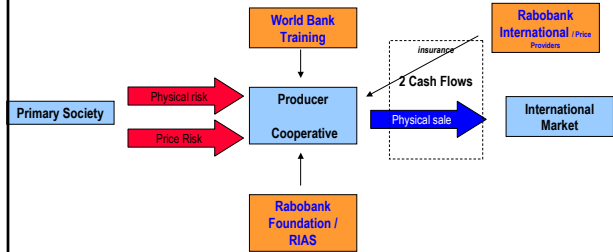
## Products offered

- OTC Commodity Swaps on exchange traded products and non-exchange traded OTC products
- OTC Commodity Options on Exchange traded products and non-Exchange traded OTC products
- e.g.1 Ugandan coffee co-operative , purchases coffee from primary societies, sells for export, and buys put option to cover price risk in the interim between purchase and fixing the sales price

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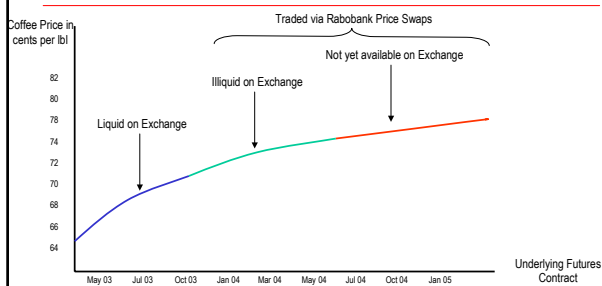
## As WB ITF project expands into Phase IV Rabobank's Interaction can be as extensive as follows:-



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## Potential hedging strategies if the Credit question can be resolved - Extension Beyond the Futures Curve



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## Hedging: a tool in the tool box A multi-tier approach is needed for the coffee crisis

- Hedging does not increase prices or eradicate price volatility
- It allows producers to cost effectively manage price volatility & secure financing
- It does not address fundamental supply and demand miss matches
- It does not address structural issues in country
- It does not address distribution of overall returns within the coffee value chain
- We are exploring a number of other ideas that may provide assistance

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