Rabobank has multiple involvement in finding solutions

- **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

Participation on the World Bank ITF Project

- 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

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

- 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 counterparty, confidentiality & market information

- Hedge market and basis risk separately from physical supply

- Competitive and transparent pricing

Rabobank’s Solution

- 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

Issues to resolve

- Compliance client approval - FSA KYOC regulations are costly

- Multiple small pilot transactions

- Very labour intensive

- Communication problems - training the user

- Profit - can this profitable for financial institutions and therefore sustainable
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.

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

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

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 mismatches
- 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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