

TOPECA
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COFFEE ROASTERS

TRANSPARENCY REPORT 2022

At Topeca Coffee, we believe that supply chain transparency leads to socially responsible purchasing decisions; which leads to greater equity throughout the entire coffee supply chain. By understanding the real world economics the average coffee farmer faces, we can, as coffee roasters and coffee consumers, more effectively assign value to the coffee we drink.

As a coffee roaster, purchaser of green coffee, and coffee growers ourselves, Topeca is much closer to the coffee producer than the average consumer. This perspective gives us firsthand insight into how supply chain economics shake out, and to some degree, how and where equity or inequity is created. This is why we are wholly committed to paying fair and sustainable prices for coffees that have as much traceability as possible.

This transparency report is one way that we communicate our commitment to our customers and put our money where our mouth is, so to speak. We hope that by publishing the prices paid for green coffee year after year, we can raise awareness and encourage consumers to purchase with purpose.

Before we dig into the numbers, let's take a moment to recognize just how tumultuous the global supply chain was in 2021 and continues to be as we enter 2022. This past year, we suffered inflation in every sector: labor, shipping, and cost of materials. The Arabica coffee market skyrocketed in June due to a late frost that obliterated roughly 40% of Brazil's projected coffee harvest. You combine this with global labor shortages, shipping container shortages, trailer shortages, truck shortages, port congestion, increased frequency of extreme weather events, and an ongoing deadly pandemic...well, you get the point.

It's in times like these when it's even more critical to support those at the beginning of the supply chain: the producers. Economic stability remains highly fragile, if not altogether nonexistent for the majority of the world's farmers. This is particularly true for coffee, which is by and large produced by small landholder farmers.



Likely you have already begun to notice the price of coffee (alongside most other items) on the retail shelf going up, and you will likely continue to see retail prices going up over 2022.

There are two main reasons for this:

ECONOMIC INFLATION

During the pandemic, consumers changed their spending habits, spending less on services and more on goods. Early in the pandemic, manufacturers did not do a good job forecasting for this scenario. This sharp increase in demand for goods overwhelmed the supply chain over the course of 2020 and 2021. The “great resignation” also played a big factor here, leaving many sectors short staffed throughout 2021. These delays and shortages have increased the cost of doing business and manufacturing goods, which in turn has led to an increase in retail prices. Eventually, the pandemic will end, and with it, so too should the root causes of this temporary inflation. The larger variable here, which will determine the length and severity of this inflation cycle, is whether or not the economy slides into recession before the downgrade of the pandemic occurs

COFFEE MARKET INFLATION

As stated above, the impetus for this was the Brazilian crop lost this year. Brazil supplies about 60% of the world’s coffee, so whatever happens there can have a profound impact on the C-Market. The C-Market is at a 10 year high. Coffee saw the highest increase out of any global commodity in 2021, nearly doubling from year open to year close.

For some quick reference points, this graph shows the average market values for the past couple of years:

YEAR	AVG CLOSING	YEAR OPEN	YEAR HIGH	YEAR LOW	YEAR CLOSE	% ANNUAL CHANGE
2022	\$2.3642	2.2330	2.4445	2.2330	-	-
2021	\$1.6933	1.2615	2.4985	1.2090	2.2610	+76.30%
2020	\$1.1138	1.2710	1.3400	0.9365	1.2825	-1.12%
2019	\$1.0182	0.9950	1.3895	0.8705	1.2970	+27.34%



Before we dig into the numbers it is important to understand a few bits of supply chain lingo:

C-Market: This is the global commodity market based in Wall Street NY, that deals in Arabica green coffee futures. This market by and large sets the global price for commercial coffee. This price fluctuates daily, has no basis on the actual costs to produce that coffee, and historically has been a way to protect the interests of buyers in the global north.

FOB (Free On Board): This means that the dollar amount shown was paid directly to the producer or exporter at the point of origin prior to loading it on a shipping vessel. Once the coffee boards the ship, then the buyer assumes all risk and responsibility for the coffee. There are additional costs incurred after this point, which include shipping, importing fees, and warehousing fees. These additional costs generally add up to about \$0.20-0.30* per lb for a full container load of green coffee.

FOT (Free On Truck): This is the dollar amount paid to an importer (in the US) at the point prior to the coffee being loaded on a truck and delivered to the roastery. Additional shipping costs are incurred for shipping which are generally around \$0.15-0.30 per lb for a single full pallet of coffee.

It is also important to note that the majority of the world's coffee farmers do not produce green coffee, they produce coffee cherry, which they generally sell at a local market price to a processor. The cherry then goes on to be processed, dried, and milled before being exported. The price reflected on the C-Market refers to coffee in it's green exportable form.

In most cases, the steps listed above are performed by separate entities, but in the case of Topeca and the coffees from our farms, we are fully vertically integrated and perform all steps from the farm to the cup. However, each part of that integrated chain is run as an individual business, under a family umbrella.

Note also, that coffee loses 14-18% of its mass depending on the degree of roast, from green to roasted. Therefore, calculating the cost to produce the un-packaged roasted coffee, you must include the 14-18% shrinkage.

**In the case of shipping coffee from Brazil, ocean freight prices for containers quadrupled in Q4 from earlier in the year. So the actual cost of shipping per lb may shake out much higher this year.*



GREEN COFFEE ROASTED IN 2021

Keep in mind that many of the purchase prices listed below were coffees contracted in Q4 of 2020 and Q1 of 2021, when the C-Market was averaging around \$1.25.

Average prices at the time of publishing this report are significantly higher. 2022 will be an expensive year for coffee, that is for certain.

ORIGIN	% OF TOTAL COFFEE ROASTED	AVG. PRICE PAID	PURCHASE POINT	LOW	HIGH	IMPORTER(S)
 Brazil	23.5	\$2.28	FOB	\$1.96	\$7.00	Odyssey USA
Burundi	0.5	\$4.95	FOT	\$4.95	\$4.95	Homage Coffee
Colombia	5.4	\$3.39	FOT	\$2.80	\$4.45	Cafe Imports, Crop to Cup
Congo	0.1	\$4.34	FOT	\$4.34	\$4.34	Cafe Imports
Ecuador	0.2	\$5.35	FOT	\$5.35	\$5.35	The Coffee Quest
 El Sal	53.7	\$3.02	FOB	\$1.90	\$10.00	Topeca Coffee
Ethiopia	9.6	\$4.35	FOT	\$4.06	\$4.62	Cafe Imports, Trabocca
Guatemala	0.7	\$4.28	FOT	\$4.28	\$4.28	Onyx Green Coffee
Haiti	2.6	\$3.67	FOT	\$3.50	\$4.20	1804 Coffee
Honduras	1.6	\$3.90	FOT	\$3.81	\$4.35	The Coffee Quest, Cafe Imports
Kenya	1.0	\$4.89	FOT	\$4.16	\$5.19	Crop to Cup, Royal Coffee
Mexico	0.2	\$2.23	FOT	\$1.82	\$2.44	Cafe Imports
Peru	0.2	\$3.00	FOT	\$2.96	\$3.26	Cafe Imports
Papua New Guinea	0.1	\$4.75	FOT	\$4.75	\$4.75	Sucafina
Rwanda	0.1	\$4.40	FOT	\$4.40	\$4.40	Cafe Imports
Sumatra	0.7	\$4.95	FOT	\$4.95	\$4.95	Anthem Coffee Imports
ALL TOTAL	100%	\$3.08	-	\$1.82	\$10.00	-

 = Farm Direct



2021 MARKET COMPARISONS

YEAR	C-MARKET FOB CLOSING AVG.	FAIR TRADE FOB MIN	FAIR TRADE PREMIUM	FAIR TRADE AVG. (C-MARKET AVG + PREMIUM)	FAIR TRADE ORGANIC PREMIUM	TOPECA AVG. FOB PAID	TOPECA PREMIUM AVG. (ABOVE C-MARKET AVG)	TOPECA PREMIUM AVG. (ABOVE FAIR TRADE AVG)
2019	\$1.01	\$1.40	+\$0.20	\$1.60	+\$0.30*	\$2.91	\$1.90	\$1.31
2020	\$1.11	\$1.40	+\$0.20	\$1.60	+\$0.30*	\$2.80	\$1.69	\$1.20
2021	\$1.69	\$1.40	+\$0.20	\$1.89	+\$0.30*	\$2.79	\$1.10	\$0.90

* \$0.30 in addition to the organic differential set by the local market.

For example, if the C-Market is \$1.25, and the local differential for Organic is +\$0.50, then Fair Trade Organic price would be $\$1.25 + \$0.50 + \$0.30 = \2.05 .

