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Algrano Market Trends Review 2022

Coffee sourcing and production trends in the context of a new price boom

Written by Nora Burkey and Elisa Criscione

Algrano’s mission is to balance the power dynamics in the coffee supply chain for a prosperous industry.

Contents

Acknowledgements

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Without their expertise and the many hours of work dedicated to the completion of this work, we wouldn't have been able to reach such a broad pool of interview and survey respondents or to make such careful considerations based on the aggregated data. We are grateful for their commitment and ethics in ensuring that the report's narrative is a true representation of the data and interviews.

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Foreword

Dear Reader,
I am excited to share with you the second edition of Algrano's Market Trends Review. In the coffee industry, market reports are mostly published by trading companies. They target green bean buyers and are a great example of how information is distributed in one direction only: from the producer to the roaster. It's part of Algrano's mission to challenge information asymmetries in the coffee industry. The same applies to this review.

Supply and demand shocks drive the prices of commodities. Global demand for green coffee has proven to be robust, even during the multiple lockdowns we all went through due to COVID-19. Therefore, analysts focus on variables that affect supply. Levels of certified stocks, weather forecasts, foreign exchange rates or political and economic instability in producing countries are used to predict price swings.

However, production and demand are becoming increasingly differentiated. The best examples of this are sustainably certified coffees and specialty coffees, which make up two-digit percentages in each major coffee traders' portfolio. Trends in consuming countries impact investment decisions in producing countries and can deliver interesting prospects for the future, as you'll find in this document.

Rather than focusing on the supply variables that might lead to price fluctuations, the Algrano Market Trends Review 2022 analyses trends that bring long-term stability to coffee prices. Given the volatility of the last couple of years, this moment offers a great opportunity to analyse such trends as we look into sourcing and producing behaviours. We believe the results will foment important discussions for the industry as a whole.

Though we knew from experience that commercial relationships between roasters and producers have a stabilizing effect on the supply chain, we were happy to confirm this with our research. In this report, we look into how relationships were successful at protecting buyers from a lack of supply and extreme price increases.

A secure sales channel with stable prices doesn't leave producers in the desperate situation of having to grab what could be a once-in-a-long-time opportunity. At the same time, progressive specialty roasters are showing a readiness to pay more if this buys them the ability to plan and forecast supply needs. With more than 60% of roasters and producers stating a goal to invest further in direct trade relationships in 2022, we can be optimistic about the future of coffee despite its many challenges.

We can't turn a blind eye to the fact that many buyers are still driven by a search for the "best deal". However, we do see the results and trends here presented as a sign that even if we as an industry haven't learned from previous boom and bust cycles, the supply chain is finally recognising the value of businesses relationships and understanding that this is the most efficient risk management tool at hand.

We also see the growing need for better digital tools to be developed, not only when it comes to market access but also for traceability and sustainability. As traditional certification programs seem to lose interest, the supply chain needs new mechanisms to verify sustainability claims that can be accessible at a small scale and which allow for information to flow both ways.

For me, these insights are motivating. I am convinced that a balance in power dynamics will lead to more balanced pricing dynamics. Direct relationships have the power to do this and I invite everyone to embrace them.

Raphael Studer
Chief Executive Officer, Algrano

Executive summary

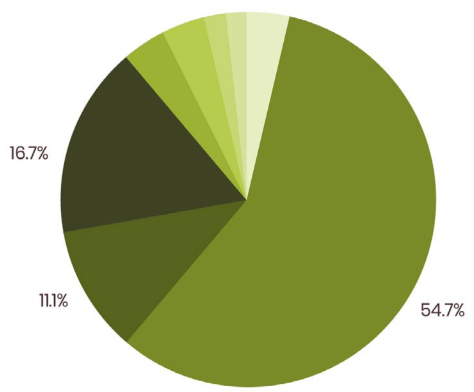
Though market analyses about coffee as a commodity abound, few are free, keeping small coffee producers and roasters from accessing important market information and perpetuating a cycle in which capitalised players are better positioned to make decisions.

This free market review is the second of its kind to be funded and published by Algrano. Its objective is to make market intelligence about differentiated coffees widely accessible to the industry in an equitable manner.

Data was collected from roasters in 13 European countries as well as from 76 coffee producers, exporters and co-operative representatives in 15 countries. Interviews were conducted with 26 industry representatives, from independent roasters to farmers and members of civil society organisations.

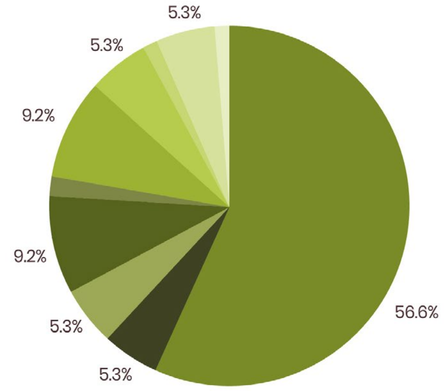
Our analysis focuses on the effects of the latest coffee price boom, which started in the second half of 2020. We look at how roasters in Europe and producers have been affected by the challenges that created this scenario, how they have responded and what patterns are emerging from their evolving strategies. We also look at their expectations for the rest of 2022 and beyond.

Top criteria for purchasing coffee



- FOB and farmgate price information is available (price transparency)
- Quality (cupping score, grade)
- Suitable price range
- Having a direct relationship with the producer or producing association behind my coffees
- Environmental sustainability compliance (certified or not, such as climate-smart practice)
- Processing preferences (washed, honey, natural, etc.)
- Affiliation with a specific certification scheme (FT, Rainforest, Organic, etc.),
- Social sustainability compliance (certified or not, such as a focus on gender equity)

Top 5 criteria for producers for their business



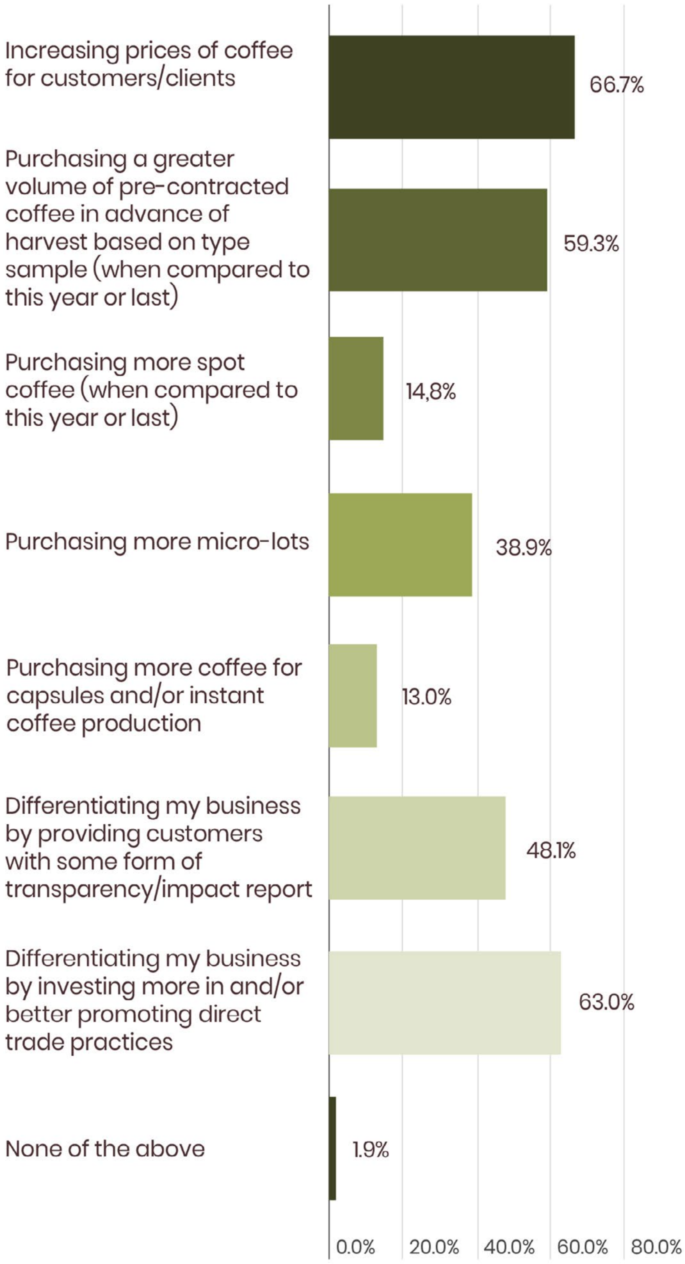
- Producing high quality coffee (cupping score, grade)
- Ability to securing pre-financing for the harvest
- Ability to offer different processing preferences (washed, honey, natural, etc.)
- Ensuring high production level in terms of volume
- Ability to demonstrate economic sustainability compliance (certified or not, such as the meeting of living wage targets)
- Having an affiliation with a specific certification scheme (FT, Rainforest, Organic, etc.),
- Ability to demonstrate environmental sustainability compliance (certified or not, such as climate-smart practices)
- Offering digital verification of coffee's provenance
- Ability to engage in alternative processing techniques (anaerobic fermentation, selected yeast, etc.)
- Ensuring FOB and farmgate price information is available upon request

The new edition of the market review highlights the findings below. This selection was compiled by Algrano based on the analysis written by Burkey and Criscione.

Direct trade is on the rise: Nearly 52% of roasters find direct trade to be extremely valuable and 25.9% stated that it was very valuable, counting for 77.8% of all total survey respondents. In addition, 63% of roasters want to invest in more direct trade practices. On the producing side, 60.5% of producers want to increase their direct sales to roasters for the current or upcoming harvest.

Relationships shield roasters from supply uncertainty: Across the board, roasters and producers agreed that the majority of their relationships were not damaged in 2021. When asked, 85% of roasters and 88% of producers identified relationships as being incredibly valuable for the long-term viability of their businesses. Relationships have also secured supply for a significant percentage of buyers as 37.3% of producers had to say no to new buyers in 2021 to prioritise long-term partners.

■ Are you planning for 2022?



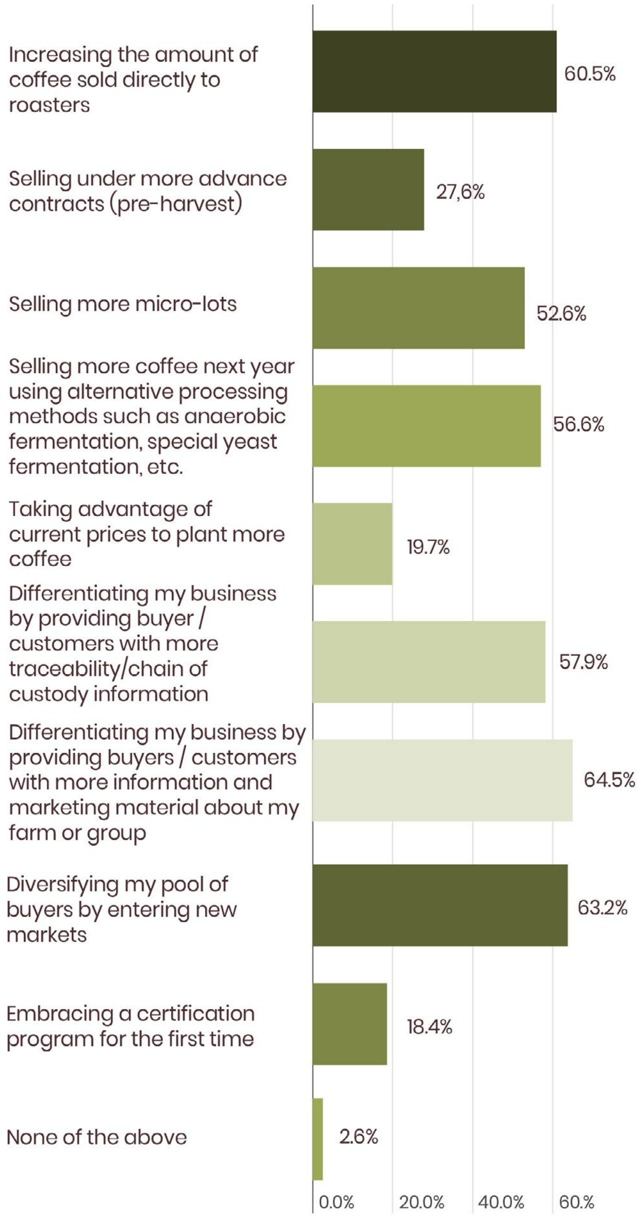
Specialty sales are booming: 46.3% of roasters said that they increased their quality purchases in 2021. Similarly, 57.9% of producers indicated that they increased the amount of coffee they sold as specialty. Only 11.1% of roasters chose to decrease the quality of their coffee in 2021 and an even smaller percentage (7.4%) bought coffee from a previous season to reduce costs.

Volume of purchases is expected to increase: Roasters expect to increase purchases by 25% in 2022 despite the price boom. The average FOB price paid by the surveyed roasters in 2021 ranged from US$5.03/kg to US$17.46/kg.

Finding unique coffees is a top challenge for roasters: 50% of roasters said that they find it difficult to source a coffee that is "unique", while 51.9% said finding the "right price" for coffee is also an ongoing difficulty. Ensuring value alignment with producers with verifiable ethical practices was also high on the list, chosen as a key challenge by 37% of respondents.

Producers are seeking better-paying markets: Finding buyers willing to pay higher prices for coffee was the main challenge producers faced in 2021. Nearly 40% reported not being able to sell to certain buyers because of price. Also, 31.6% of producers said that they had to actively search for new buyers in 2021 and 63.2% want to diversify their pool of buyers by entering new markets.

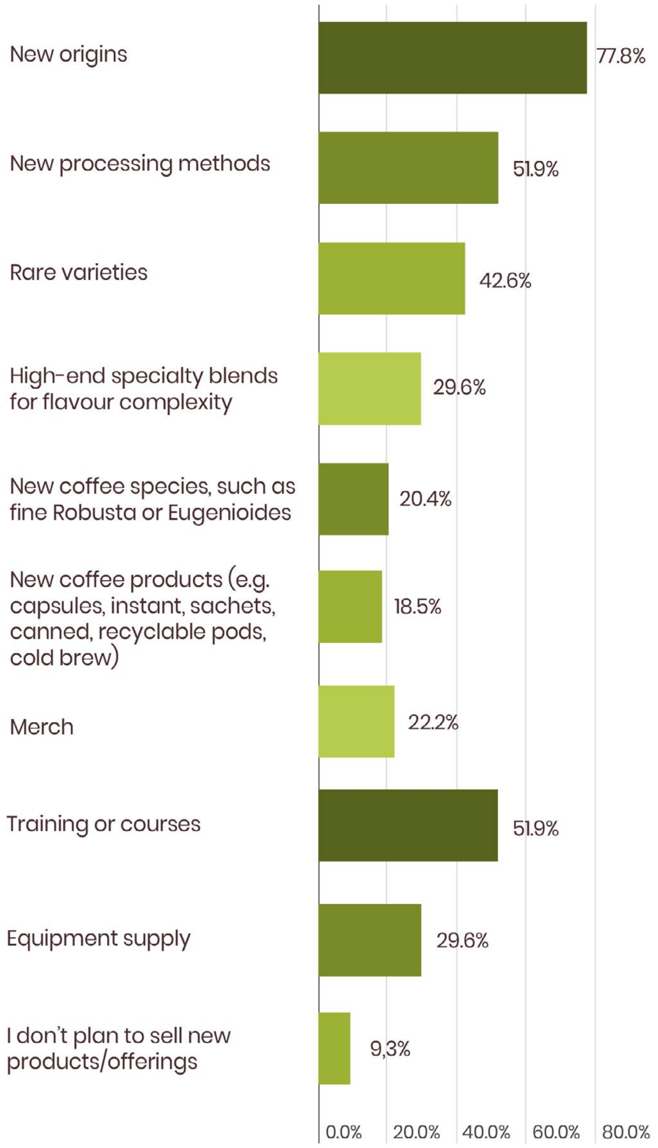
■ For your current or upcoming harvest, are you planning to focus on the following?



Struggle to predict demand is a key challenge for one-third of roasters: 24.1% of roasters were unable to forecast as easily as usual in 2021 and found planning ahead difficult. Additionally, 40.7% noted that gauging consumer demand was an ongoing challenge, while 31.5% said that predicting their wholesale customers' business decisions was difficult and expect it to remain so in 2022. 33.5% expect to struggle to identify consumer trends and preferences.

New origins drive product diversification for roasters: Survey data shows that the majority of roasters plan to continue focusing on sourcing from new origins (77.8%), experimenting with new processing methods (51.9%), and trying rare varieties (42.6%) in 2022. Also, 38.9% of roasters said that they plan to purchase more micro-lots in the future.

If planning to differentiate your business, indicate the new offerings you plan to sell



Verifying sustainability claims is key to keeping prices high: Roasters questioned the ability of current traceability tools to verify sustainability claims from producers, which they consider to be important to justify higher prices in the future. In total, 37% suggested that they find it difficult to source from producers that had aligned verifiable and ethical claims. Of note, 68.4% of producers agreed that a higher price for coffee now and into the future was connected with being able to verify sustainable practices.

There are more middlemen - and more competition: 46% of producers said that the number of local middlemen in their area has increased as a result of the price boom. More than 52% also said that competition with other producing countries has risen significantly in 2021. A similar figure was reported by roasters. Just under 52% indicated that competition with other roasteries on the continent increased in 2021.

Introduction

Coffee, like many agricultural products, follows a boom and bust economic cycle. It goes through regular cycles of growth and decline, economically impacting, at times positively, and at times negatively, producers, investors, businesses, and communities alike. While the past few years, starting from 2018, have shown just how severe the highs and lows can be, with the C price[1] dropping below $1.00 US per pound in September 2018, and averaging a high of 203.06 US cents per pound in December 2021[2], the current market remains representative of the underlying system upon which it is based. Boom and bust cycles are endemic to capitalist market systems that price-discover based on assumptions about the global supply and demand of a particular product; while fluctuation is thus a basic characteristic of the global coffee industry, the factors that impact coffee's price fluctuations are varied.

Figure 1
Historical ICO Composite Indicator Daily Prices

Objectives and scope

This report – authored by consultants Nora Burkey of The Chain Collaborative and Elisa Criscione of Expressing Origin, and funded by Algrano – will attempt to document the myriad factors that have contributed to price fluctuation and market rallies since 2020. It will also document the associated impact for both specialty coffee roasters in Europe and specialty coffee producers around the world. Importantly, it constitutes the second-annual market report funded and published by Algrano. With these annual reports moving forward, Algrano intends to explore ongoing or new trends in the specialty coffee sector to better support roasters, and especially producers, to make informed decisions about their business. Market intelligence is often costly or inaccessible for producers; with free information, Algrano aims to aid sellers by supporting them to engage in direct trade more effectively.

Of note, similar to the previous year's report, this current iteration explores purchasing trends and priorities, common sales channels in specialty coffee, and related quality perceptions. Distinct from the previous year, however, this present report explores the realities of the 2021 market rally and the targeted responses from both producers and roasters. It attempts to isolate those trends that are specific to the present market situation from those that are underlying conditions of the specialty coffee sector.

1 The C price is the trading price of a futures contract for Arabica coffee on the Intercontinental Exchange (ICE), and is used as a benchmark for pricing on other exchanges, real coffee contracts, and spot coffee.
2 https://www.ico.org/documents/cy2021-22/cmr-1221-e.pdf

Overview

This report is divided into four main parts: methodology, context, body of the report, and conclusion. The first part, Section 1, describes the methodology the authors and researchers used to execute this study and allow for the drawing of conclusions and related findings for the development of the report. The second part, Section 2 provides the context in which current challenges have arisen, focusing on the ongoing impact of COVID-19 for coffee businesses and the increase in green coffee prices from both the perspective of producers and roasters to provide a background for the current market trends. It discusses the market rally that has affected the industry in 2021, setting the stage for the following sections.

The body of the report - part three - comprises sections 3 to 7, where the bulk of our findings from the survey are laid out and compared to qualitative interviews. Section 3 provides a comprehensive overview of the trends that have arisen for both producers and roasters as a result of changing prices, logistics challenges, and other market realities. Section 4 shares information about shifts in profitability for many actors across the value chain, and the impact this may have on consumer prices. Section 5 describes changing relationships to coffee quality and focuses on the important role of commercial relationships for both buyers and sellers. Section 6 highlights the current trends observed in connection with product diversification and consumer preference, while Section 7 centres on the strategies that producers and roasters expect to employ for the future.

Finally, Section 8 serves as the final part of the report and offers overall conclusive remarks and lessons learned, which can be leveraged to support coffee actor decision-making in the future. In this final section, the authors and Algrano raise a discussion about price fluctuation and the ability of the specialty market to meet its current challenges and its promises of supporting a sustainable supply chain into the future.

Section 1: Methodology

Survey dissemination

To gather data for this report, Burkey and Criscione developed two survey tools, one for roasters and one for producers, with an average of 20 questions each. The questions were designed to support the researchers' understanding of current market challenges as well as opportunities. They were also designed to allow isolation of such challenges and opportunities so that the typical market trends could be separated from those that are atypical in this current year of record-high prices.

Finally, survey questions attempted to understand potential future behaviours and factors that would influence decision-making at the roaster and producer levels. In total, 54 roasters from 13 countries in Europe, and 76 producers from 15 countries in Latin America, Africa, and Southeast Asia, provided information for this report through a quantitative survey that was live for 5 weeks and promoted online via social media and newsletters.

The researchers relied on Algrano's network as well as their own to disseminate the survey and reach a non-random sample of participants using a voluntary response methodology. While the survey was thus answered by a diversity of supply chain actors, the majority of roaster respondents were based in Germany or the UK, and the majority of producer survey respondents were based in Brazil and Colombia. In addition, roaster respondents primarily bought coffee from Brazil and Colombia, while producer respondents sold the majority of their coffee to European and North American buyers. In the appendix, the researchers share more information related to the survey sample population for this report.

Interview guidelines

Burkey and Criscione developed a series of interview guides for roasters, producers, and civil society organisations active in the coffee industry. Each guide contained between seven and 12 questions and followed a semi-structured style. Leveraging purposive sampling, the researchers recruited nine roasters, nine producers, and eight experts from four civil society organisations to participate in the interview process and provide qualitative feedback through one-on-one Zoom video conversations.

Interview participants representing civil society organisations joined from Brazil, Switzerland, the UK, and the United States, while all roaster participants were based in Europe, hailing from the Czech Republic, Germany, the Netherlands, Poland, Spain, and the UK. Over one hour, each of these participants shared their understanding of current market realities, their future projections, and their recommendations for supply stream actors.

While the researchers did not design the survey tools to confirm any formal hypotheses about the current market, some expectations about ongoing trends existed and were corroborated through interviews and quantitative responses. In particular, Algrano expected participants to note that prices should remain above pre-pandemic levels throughout 2022, in line with market analysis performed by leading global institutions such as the World Bank[1].

The company also expected there to be continued consumer interest in specialty coffee – a trend they noted began to gather steam in 2020 – and greater levels of growth for roasters who invested in commercial relationships as part of their sourcing practices versus those who did not.

On the producing side, rather than simply planting more trees as a result of higher coffee prices to potentially receive higher earnings - a methodology often used in previous price boom cycles[2], Algrano suspected that producers would adopt more diverse strategies in face of the current market situation.

Finally, the company expected participants would a) express that their top priorities, in order of importance, would be quality, relationships, and price; b) share information about the growth of e-commerce and at-home coffee consumption; and c) reiterate upward pressures on base quality coffees to satisfy consumer demand.

The researchers designed the survey and interview tools for this report in such a way that would allow greater exploration of these factors and more. They hope their findings will allow readers to understand the state of the specialty coffee market today, and provide insight that will support decision-making moving forward.

1 shorturl.at/aekKT

2 According to John M. Talbot, author of Grounds for Agreement: The Political Economy of the Coffee Commodity Chain (Oxford, Rowman & Littlefield Publishers, 2004, Chapter 4), as far back as the 1970s and even before, when prices have been at record highs, producers have responded by planting more trees to take advantage of increased earnings. Often, they were encouraged to do so by their governments. However, as new trees take up to four years to bear substantial fruit, new planting does not translate into immediate financial returns as a result of increased production, but rather overproduction in the long-term, especially when many growers employ the same tactics. Despite these lessons from previous crop cycles, the overplanting trend has been commonly practised and encouraged during years of high price.

Section 2: A Global Pandemic and Frosts in Brazil: What to Expect After the Storm

Demand uncertainty and supply disruption

Before the COVID-19 pandemic, the specialty coffee industry in Europe was expecting to see growth in the coffee shop market. According to a report published by the Centre for the Promotion of Imports from developing countries (CBI), based on pre-pandemic modelling, from 2020 to 2025, the growth rate in the European coffee shop market was predicted to remain at 3.9% annually, mirroring expectations for worldwide consumption increases.

José Dauster Sette, the Executive Director of the International Coffee Organization (ICO) noted that global consumption prior to the pandemic had been growing steadily, at roughly 2% annually, allowing for easier predictions on the part of buyers and sellers. However, in 2020, in just two months, CBI reported that out-of-home consumption decreased significantly as coffee shops were forced to shut their doors. In Germany alone, for example, consumption in coffee shops and restaurants decreased by 76%, while in the UK, 92% of coffee shops shut down indefinitely.[1]

Throughout the interview process for this report, roasters from across Europe anecdotally confirmed these figures, with respondents stating that business-to-business (B2B) sales, such as wholesale roasted coffee to coffee shops and restaurants, dropped significantly during the pandemic. And, even as lockdowns were later lifted and shops and restaurants opened back up, demand remained uncertain. This was due, in part, to oft-changing government regulations and continued fear among various populations, which reduced their impetus to socialise.

As a result of ongoing demand uncertainty, both roaster and producer interview respondents noted that many coffee contracts were delayed or never executed at all in 2020, leading to an increase in purchases of spot coffee[2]. Because the interview respondents contacted for this study normally engage in direct trade practices and longer-term contracting, such spot coffee increases were outside the norm of their typical sourcing behaviour. Figure 2 demonstrates that the survey respondents for this report also engage heavily in direct trade and specialty coffee.

Figure 2

Average percentage of coffee sold as specialty and directly to roasters from producer respondents

Post-pandemic roaster growth

While COVID-19 and subsequent contract failures had a negative economic and emotional impact on roasters and producers alike, interview respondents did note some positive outcomes, which resulted from ingenuity in managing such an unprecedented year. On the consuming side, it was noted that customers began to increase their home consumption, leading to a rise in business-to-consumer (B2C) sales for roasters. To grow and maintain these sales, roasters found new ways to connect with their customers by leveraging social media to offer diverse learning opportunities.

The German-based roasting company, Coffee Circle, for example, posted videos on YouTube to build deeper relationships with engaged customers. Hannes Fendrich, Head of Coffee, stated, "We did [online] brewing sessions and Q+As to give people a chance to ask questions and give recommendations. Customers were able to buy the coffee beforehand and we could taste them together. It wasn't a massive event, but [because of it] we saw we now have a community that likes more of these exclusive and in-depth opportunities." In part, roasters were supported to have such opportunities because of the community- and pandemic-inspired movement that advocated for support of small, local businesses.

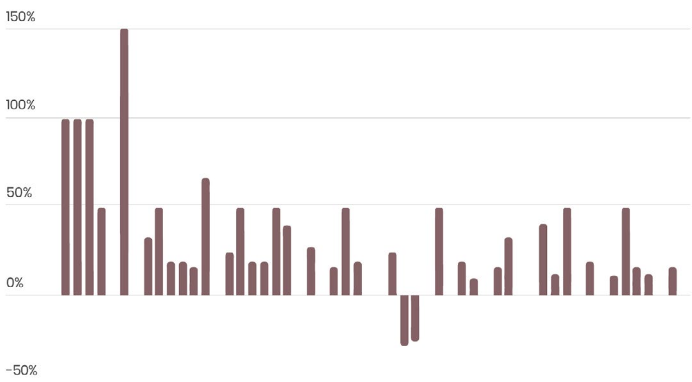
By and large, however, many roasters did not see their businesses grow in 2020 to the extent that they were expecting–and hoping for–before the COVID-19 pandemic. Growth in at-home consumption did not offset out-of-home consumption losses, and Sette from ICO estimated that, based on pre-COVID prediction modelling, the coffee industry lost two years of growth, translating to a total of 7 million bags of green coffee overall

1 https://www.cbi.eu/market-information/coffee/specialty-coffee/market-potential#which-trends-offer-opportunities-in-the-european-speciality-coffee-market
2 More on spot coffee purchases is shared later in this report.

– including both commodity and specialty. And, while on average, **roaster survey respondents did expect to increase purchases by 25% in 2022** (see Figure 3 below), levels of growth may not be as high as desired, and possible related inconsistencies between growth expectations of the commodity versus the specialty markets were not a part of this study.

It is important to note that, despite the pandemic considerably affecting coffee businesses on both ends of the value chain, some positive impacts were also reported during interviews with participants. Coffee actors, for example, had the opportunity to leverage technology more consistently to maintain relationships and run their businesses remotely. More details about the use of technology and its positive outcomes will be presented later on in the "Strategies for the Future" section of this report.

Figure 3
Percentage of predicted coffee purchases compared between 2021 and 2022



Rising prices

At present, compounding the challenges brought about by the COVID-19 pandemic are the recent increases in the C price. Ricardo Oteros, CEO of Supracafe, a roastery in Spain, summed it up by stating, "Just when we were getting back to normal growth and beginning to recuperate after the pandemic, prices skyrocketed."

Figures 4 (below) and 5 (page 16) respectively demonstrate the number of roasters who saw their prices of green coffee increase in 2021, and the number of producers who increased their prices for green coffee in the same year, compared with previous years. Additionally, Figure 6 (page 16) shows that the amount producers paid for cherry or parchment increased in 2021. Indeed, one roaster interview respondent even noted that, in some cases, they were paying **up to 90% more than in previous years for coffee of the same quality.**

Additionally, when looking at specific prices paid from roasters to producers, the researchers decided not to provide price ranges to survey respondents and rather request specific numbers to obtain more accurate figures. However, the variation in responses limited the comparison between 2021 prices and expectations for 2022.

The researchers were able to draw from a portion of the data for 2021 and see that **the lowest prices paid for green coffee in FOB were, on average, $5.03/kg, while the highest prices were $17.46/kg (all prices in USD)**. This data was extracted from 33 out of 54 roaster survey responses, and even though there is a lack of data to be able to formally predict prices projections for 2022/2023, Freda Yuan, Director of Coffee at Origin Coffee Roasters in the UK, stated that she has seen a **20% price increase** for all her latest contracts, which will cover her sourcing needs for 2022.

Figure 4
Price changes for green coffee purchased

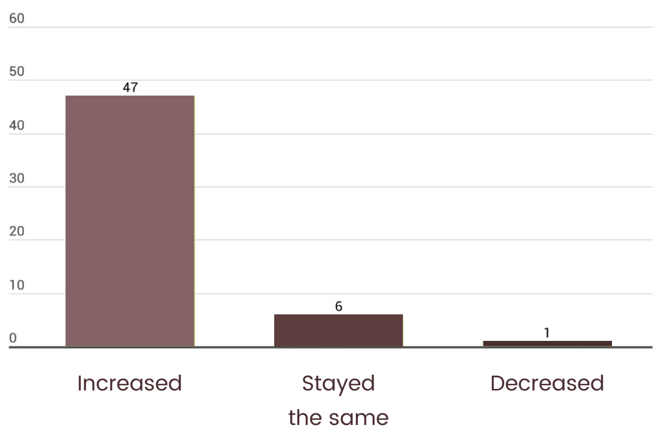


Figure 5

Price changes for green coffee sold

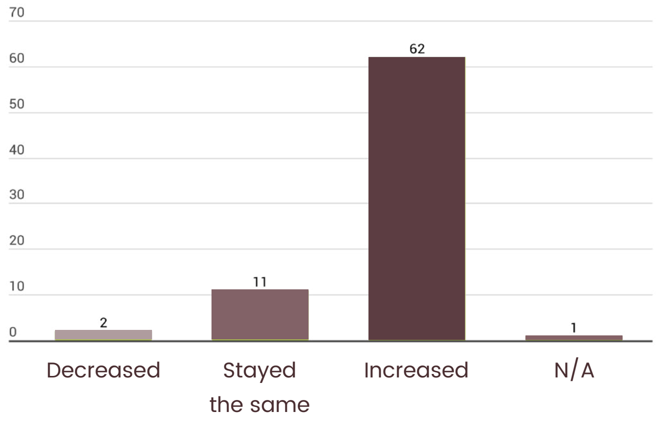
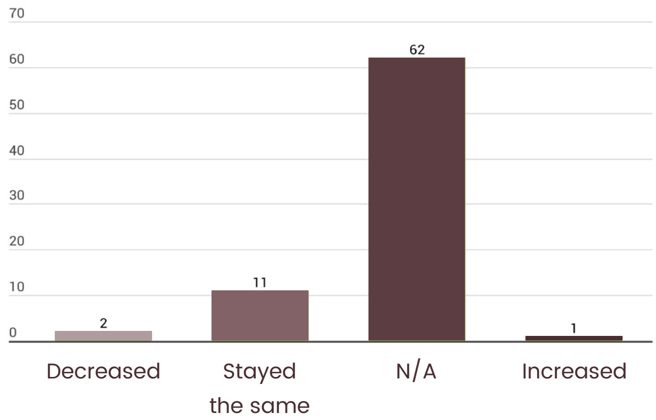


Figure 6

Price producer respondents paid for cherry or parchment in 2021 compared to previous years



While it is important to preface current market conditions with a discussion on the initial impact and ongoing effects of COVID-19, the remainder of this report focuses on the additional factors that contributed to the 2021 market rally and its significance for roasters and producers alike.

Production shortfalls and the 2021 market rally

In an interview with Chad Trewick of Recripocafe and the Specialty Coffee Transaction Guide in the United States, he rightly noted, "We can't talk about 2021 without talking about market rallies." We also can't talk about market rallies without talking about Brazil. As the country accounts for 40% of global coffee production[3], weather patterns and other factors impacting such production will have a major impact on global coffee supply, and therefore, on price.

In a market that bases price discovery, in part, on estimations about the global supply and demand of a product, any expected or actual decrease in supply will have an impact on the equilibrium (or C) price. Team members from the Company for Technical Assistance and Rural Extension of the State of Minas Gerais (Emater-MG) in Brazil, Sérgio Brás Regina, State Cultures Coordinator, and Bernandino Cangussu Guimarães, State Technical Coordinator, corroborated this fact during their interview with the researchers. They noted that recent weather patterns in Brazil – a prolonged drought that started in September 2020[4], followed by three frosts – caused severe production shortfalls across 174,000 hectares of coffee. In 2022, Brás Regina and Cangussu Guimarães estimate a further 35% loss in total exports from Brazil, a number that could be even greater as a result of current increases in rains and the resulting profusion of fungal diseases.

While climate in Brazil is not the only cause of C price increases this year, it is important to note that changes in global supply and in the C price do have an impact on the commodity and the specialty market alike, even if the specialty market attempts to discover price by diverse means, and behave differently than the commodity market. And, as many interview respondents noted, commodity prices for lower-quality coffee began to meet prices for specialty coffee in 2021. This eliminated the relevance of the dominant factor that incentivizes producers to grow specialty coffee over commodity: price premiums. In such a banner year for coffee prices, specialty roasters and producers were thus forced to implement new strategies to incentivize quality and maintain sales, and they began to make new educated guesses about the future. The next sections of this report discuss these strategies and predictions, as well as additional factors that compounded price increases in 2021.

3 https://www.statista.com/statistics/277137/world-coffee-production-by-leading-countries/

4 https://foodinstitute.com/focus/double-whammy-of-drought-frosts-in-brazil-propels-coffee-prices/

Section 3: Compounding Challenges and Resulting Trends

The supply chain crisis

Many of the challenges and opportunities that both roasters and producers face are context and business-specific, and 2021 saw no exception to this rule. Different producer geographies became subject to different local laws[1], while roasters in the UK, for example, were subject to new regulations due to their country's changing relationship with the European Union. Though many challenges were context-specific, several themes throughout the past year proved relevant for roasters and producers of all sizes and geographics. The first of these is logistics.

During their interviews, industry actors almost across the board described difficulty in accessing containers and noted the high cost of shipping. Sette from the ICO indicated that container costs went from USD 1,000 to USD 9,000 in Vietnam, while Troy O. Kiper, Director of Bright Java Coffee in Indonesia, noted that container prices for a shipping route to Chicago, USA went from USD 7,000 in 2020 to over USD 20,000 in 2021 – a price increase that importers were asked to cover. Meanwhile, according to the respondents from Emater-MG, logistics were also impacted by a lack of truck drivers and "manpower" in several ports, which in some cases, meant that the exporting of coffee simply decreased – an estimated 10% decrease in Brazil alone due to shipping challenges. Once again, the decreases in supply – and potentially subsequent changes in demand due to soaring shipping costs – impacted the global price equilibrium (i.e. the C price).

Furthermore, in addition to the costs of shipping and the scarcity of containers, several producers noted the impact of context-specific political challenges, such as the strikes in Colombia and the unrest in Ethiopia. In the first case, the resulting roadblocks from that occurrence exacerbated the already difficult delivery of coffee to international ports. Overall, they also contributed to currency devaluation and decreased supply, and increased investment risks. As the price of coffee and shipping was on the rise in 2021, exporters and cooperatives needed increased amounts of pre-financing to purchase and aggregate coffee, and with increased investment risks and high-interest rates, their ability to access funds, purchase the volumes they desired, and send coffee on time, was often limited.

Doubling down on quality despite shipping delays

Not only did such logistics challenges impact supply, demand, and price, but they also impacted coffee quality, the planning of purchases, and supply chain relationships. In some cases, roaster interview respondents noted that the quality of the coffee they received was impacted by shipping delays, citing, in particular, reduced freshness. One respondent mentioned having to reject a coffee upon arrival because of its quality, but such rejection of coffees was not a common trend, given that 2021 was characterised by widespread quality and sourcing challenges. A more common response to low quality upon arrival was offering new and diverse blends, a strategy that will be further discussed in later sections of this report.

On the producing side, interview respondents noted that impacts on quality were also due to climate change and the lack of recent investment in good agricultural practices (resulting, in part, by the severe dip in the C price in 2018, and the subsequent inability of producers to reinvest in their business). Some producers also noted that there were increases in robberies and often changing ripening times throughout 2021, leading to less selective picking. [2]

While 46.3% and 68.5% of surveyed roasters stated that they increased their quality purchases and their volume purchases respectively (see Figure 7 on page 19), it was not clear whether they would have wished to increase these numbers even more had they had access to greater qualities and bigger volumes. Similarly, 46% of producer survey respondents noted that they increased the total volume they sold in 2021, while 57.9% of producer survey respondents (see Figure 8 on page 19) indicated that they increased the amount of coffee they sold as specialty. Again, however, it was not clear whether such sales were below expectations, based on figures and estimations from previous years.

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1 For example, in Peru, new laws (law number 31335) allowed tax reductions for cooperatives (see http://www.camaratru.org.pe/web2/index.php/jstuff/multiplataforma-vision-empresarial/item/5587-ley-n-31335-ley-de-perfeccionamiento-de-la-asociatividad-de-los-productores-agrarios-en-cooperativas-agrarias-implicancias-tributarias and https://busquedas.elperuano.pe/normaslegales/ley-de-perfeccionamiento-de-la-asociatividad-de-los-producto-ley-n-31335-1980284-1/); meanwhile, in Colombia, new taxes on fertiliser imposed by the government could exacerbate even further the rising costs of inputs for coffee growers (see https://www.reuters.com/article/colombia-coffee-idINL1N2LN2OO).

2 In some cases, to avoid robberies, producers would pick all at once and sell immediately when the price increased, while, in other cases, due to labour shortages, both ripened and unripened cherries would get picked on only days when labour was available.

Figure 7

Changes in total volume of coffee purchased and quality of coffee purchased in 2021 compared to previous years

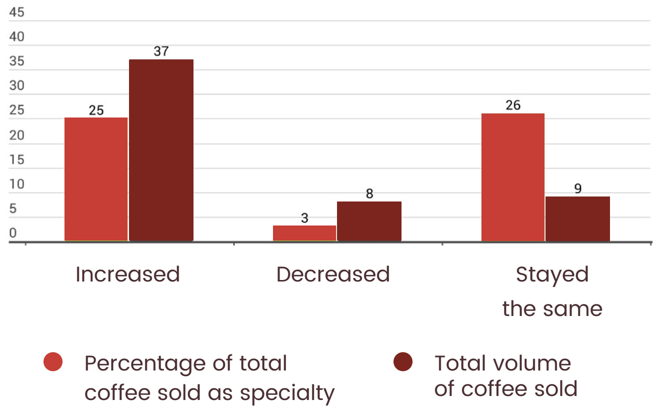
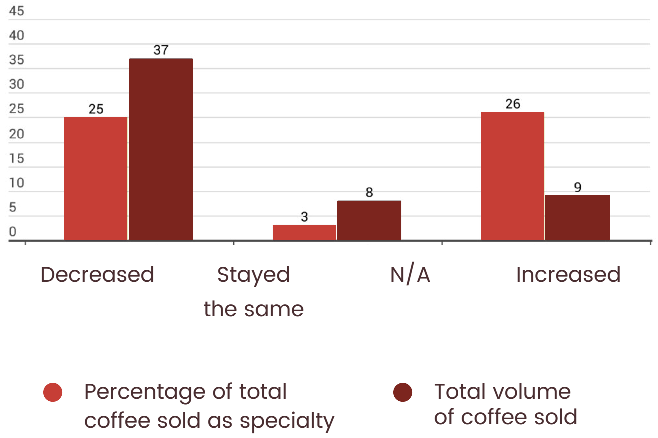


Figure 8

Changes in total volume of coffee sold as specialty in 2021 compared to previous years



Grower hesitation and the increase in local speculation

In terms of buying trends, co-operatives and other aggregators or exporters suggested that some producers with greater control over when to sell their coffee (e.g. those with enhanced processing capacities, sufficient labour supply, or reliable farm security) became more uncertain as to whether they should sell immediately, or hold onto their coffee to leverage future price increases. Kerissa Narine, Sourcing and Product lead at the Dutch roasting company Wakuli, said:

> *"This year we as a company observed hesitation from some farmer-partners on when to sell their coffee. Producers are trying to understand what's the best moment to sell in order to get the highest price possible in line with the current market fluctuations. This especially has been observed with partners that are relatively new to Wakuli, compared to long-term partners. So, hesitation has been higher where the business relationships are not so strong and the farmers haven't yet seen the value of the long-term relationship."*

As a result of this reality, cooperatives, in particular, had trouble securing coffee from their member farmers, as they either waited to sell or received offers from other buyers who promised them more money. According to José Rojas Hernandez, General Manager of Norandino Cooperative in Peru, "Local speculation grew exponentially as other aggregators were offering more money in desperation to fulfil their own contracts with buyers and meet their volume requirements." Other producer survey respondents agreed, with 35 of 76 saying that the number of local merchants or middlemen in their area has increased.

In addition, when asked to identify the extent of increased competition globally on a scale from 1 to 5, with 5 being the highest, 52.6% of producer survey respondents indicated a value of either 4 or 5 (Figure 9, page 20). Meanwhile, on the other end of the value chain, when roasters were asked to consider increased competition levels within Europe on a scale of 1 to 5 (with 5 being the highest), 51.9% of survey respondents indicated a value of either 4 or 5 (Figure 10, page 20).

Figure 9

Competition has increased from last year, both within the country from other sellers, and from other countries of origin with similar profiles

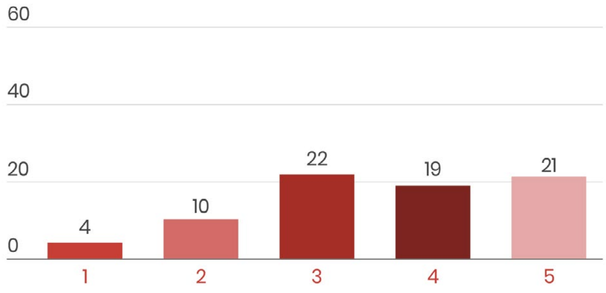
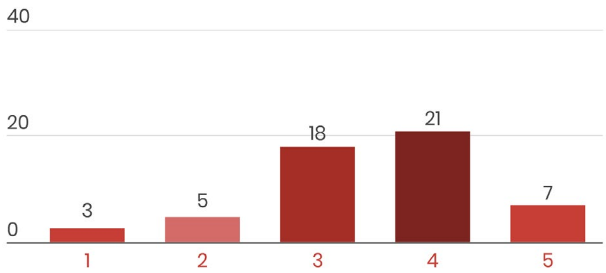


Figure 10

Competition with other European specialty roasters has increased from last year

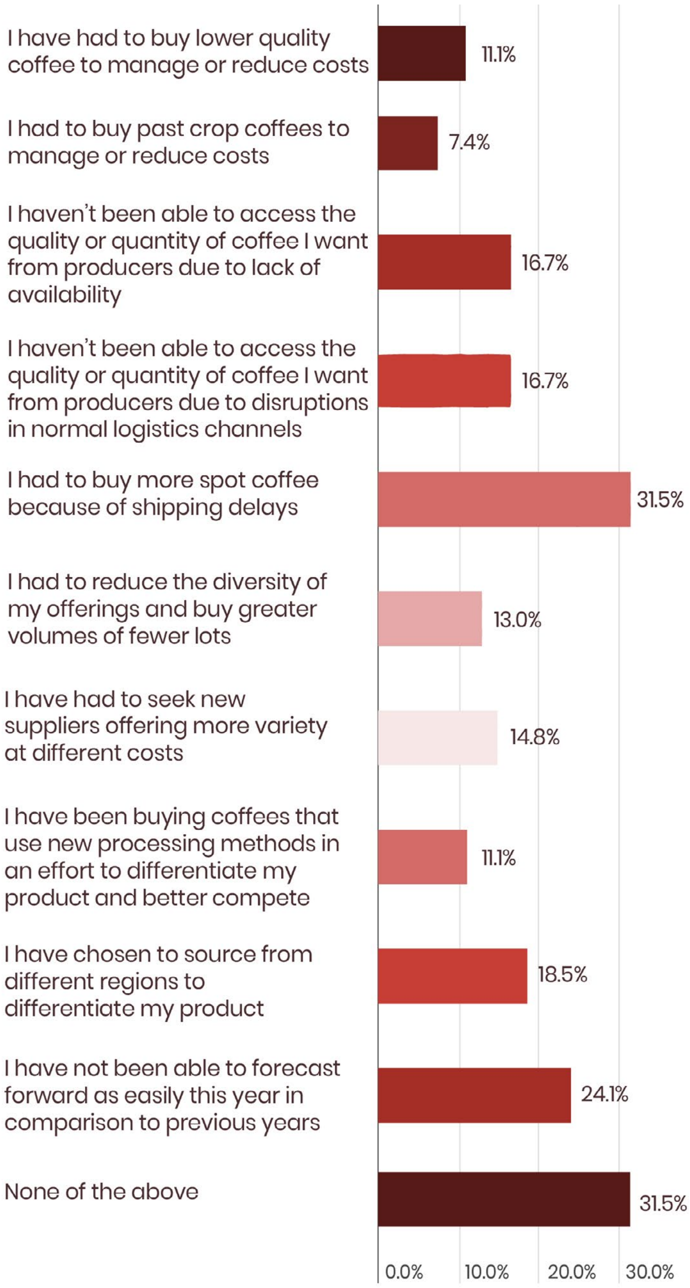


Of course, such speculation and increased competition can exacerbate local expenditures, decreasing trader margins despite global market rallies and a higher C price. More information about profitability will be provided later in this report. In terms of logistics, however, local competition trends led many exporters and cooperative representatives to encourage roasters and importers to contract immediately when coffee became available, suggesting that if they did not contract immediately, the coffee could not be guaranteed down the line.

Despite this strategy, accessing coffee remained difficult throughout 2021 overall, as in total, 16.7% of survey roaster respondents said they weren't able to access the quality or quantity of coffee they wanted this year due to unavailability and/or because of disruption in normal logistics channels. Figure 11 on the right column demonstrates these figures, as well as other impacts of recent price increases for roasters.

Figure 11

Has the recent price increase or have the recent market trends affected any of the below?



The overstocking dilemma

To combat timing challenges, some roaster interviewees confirmed that they procured more coffee than they needed when they could – and this was due to both uncertainty in supply and because of delays in shipping[1]. Narine from Wakuli noted,

1 Of note, one producer interview respondent noted that such a strategy is typically employed by commercial buyers to decrease prices. They indicated that if this trend were to continue in specialty (i.e. become an ongoing strategy for specialty roasters rather than remain as a stop-gap measure in only some instances), it could lead to a broader price depression over time.

“Since [our] company is based on a subscription-based model that delivers coffee directly to the doorsteps of the client, we need to comply with strict timelines. [This year’s] logistics challenges called for even more organization relying on transparent communications with producers, and back-up plans with more than one green coffee option incorporated into planning. So, instead of buying only the quantity needed at the right time, we started buying with more flexibility to always have coffee in the warehouse, in case any delays might happen. We will continue to do this in the future.”

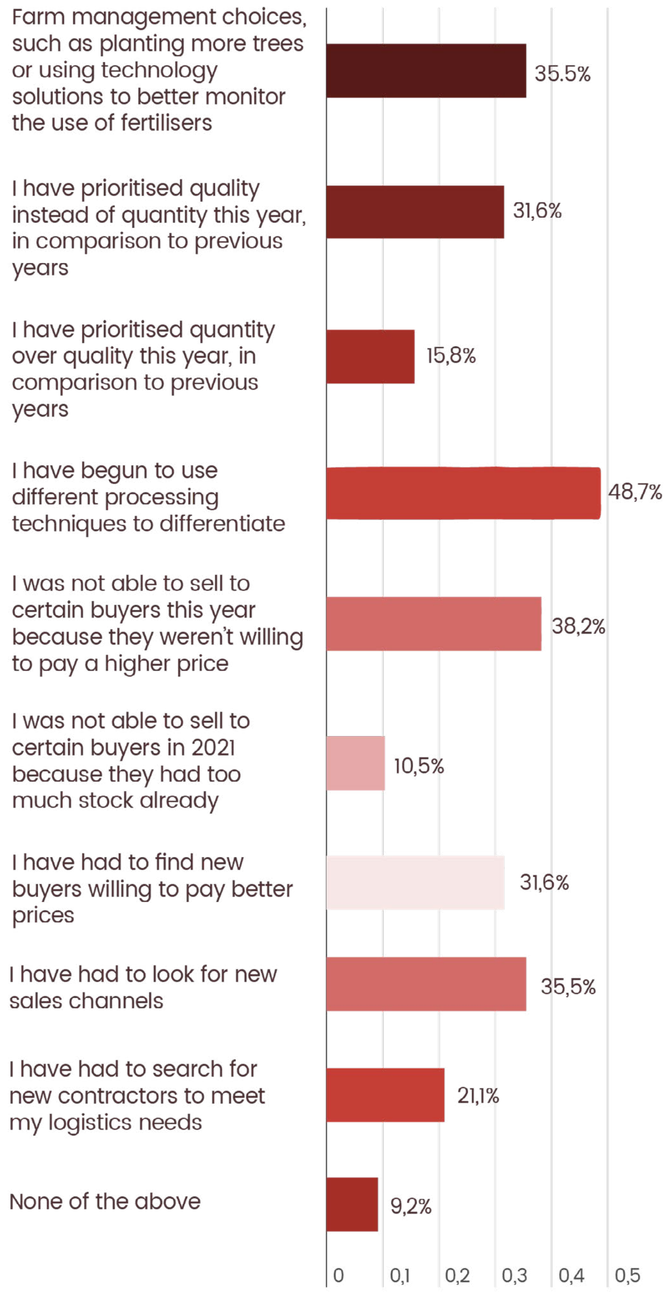
Overstocking, however, depending on one’s business model, is not always the best strategy. Roland Glew, Green Coffee Buyer at Hasbean and Ozone Coffee Roasters in the UK, noted that “Traditionally, we have been very seasonally focused, but with current logistics scenarios, this has become very challenging. We had to become more flexible with blends and accept more variation in profile, but we also worried about overstocking and having too much coffee from older crops.”

As this quote reveals, overstocking can be a huge risk for some specialty coffee businesses that are dependent on the quality of their product. Perhaps that is why, on the producing side, the trend of overstocking did not seem too widespread for survey respondents – **only 10.5% indicated that they were not able to sell to certain buyers in 2021** because those buyers had too much stock. Figure 12 on the right column demonstrates this number, as well as other impacts of recent price increases for producers.

Of note, Abel Ayele, Managing Director of Bunaroma Coffee Exporters, did point out that overstocking from bigger commodity traders is still common, though it is a trend that precedes the recent price increases. “Big trading companies were ordering and keeping stock in the ports in Europe, the United States, China, and the Middle East [during the pandemic],” he said. “They knew the pandemic was going to go away and that things would go back to normal in a short period. But for us as suppliers, the insecurity and unrest [as a result of the pandemic] have been a very big challenge.” In other words, producers, just like small specialty buyers focused on quality and ensuring they purchased only what they needed and when they needed it, were not afforded the same luxuries as big commodity players.

Figure 12

Has the recent price increase/fluctuation or have the recent market trends affected any of the below?



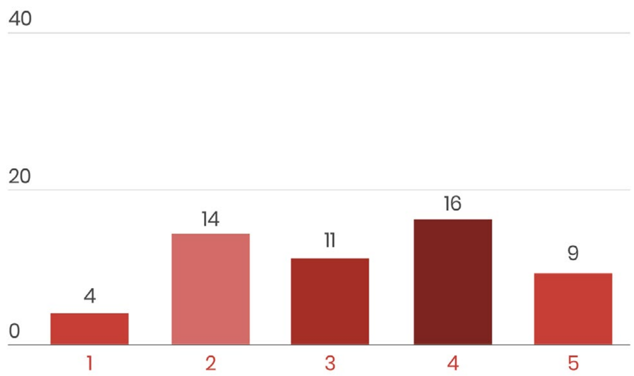
Changes in purchasing timelines

More common than overstocking was the strategy of purchasing coffee earlier than was typical to manage shipping delays. On average, roaster interview respondents said that they needed to buy coffee four to six months in advance instead of two or three, expecting two more months than usual to receive the product. Respondents also indicated they planned to maintain this purchasing schedule into 2022. However, despite such verbal claims during the interview process, roaster survey respondents did not corroborate that this schedule would be seen across the board.

When asked to identify whether they expected to have to source coffee earlier than usual in 2022 - with 1 being that they definitely did not expect this and 5 that they definitely did - roaster survey responses were very mixed (see Figure 13 below). Of note, the different perspectives in opinion between roaster survey respondents and roaster interview respondents could be the result of selection bias. As the interviewees recruited for this study were of a similar profile (they were industry leaders who represented established businesses), their responses were perhaps more likely to be uniform in comparison to roaster survey respondents.

Figure 13

I am sourcing more coffee earlier in the season to guarantee supply and keep the roastery organised



The value of ongoing relationships

As one positive impact of these market challenges, producers and roasters alike noted that they increased communication with each other throughout 2021. As each actor sought to find new strategies to access coffee and fulfil contracts, they were engaged in purchase conversations earlier than ever before and kept one another informed about the state of their business in an attempt to meet halfway.

Of course, such conversations were only possible when there were pre-existing relationships, and, as most interview respondents agreed, not all relationships should be considered equal. According to Glew at Hasbean and Ozone Coffee Roasters," Having a relationship with a coffee provider means that you bought coffee from them for at least three years in a row. [In other words], until the ongoing relationship is there, the relationship is not there" (emphasis added by the authors).

Other roasters noted that while navigating the pandemic together with suppliers, they strengthened many of their best relationships, and believed their strongest relationships became even more evident during this time. Later, in 2021, these relationships were crucial, as supply chain actors began to rely even more on their partnerships to manage the new challenges, which were price increases and the changing market.

Across the board, while it was noted on both the consuming and producing side that some of the weaker relationships were challenged when coffee of certain types was unavailable, roasters and producers still agreed that the majority of their relationships were not damaged in 2021, despite ongoing cost increases, delays in shipping, and some quality reductions. Indeed, both roaster survey respondents (Figure 14 below) and producer survey respondents (Figure 15 below), identified the high value of relationships for the long-term viability of their businesses on a scale from 1 to 5–with 5 being incredibly valuable.

Figure 14

Long-term relationships with suppliers is key to the long-term viabiltiy of my business

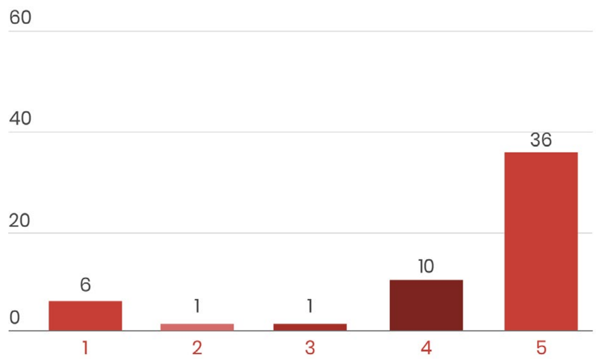
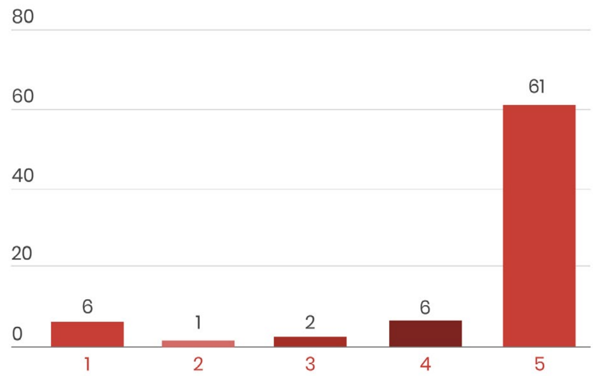


Figure 15

Maintaining long-term relationships with buyers is key to selling my coffee



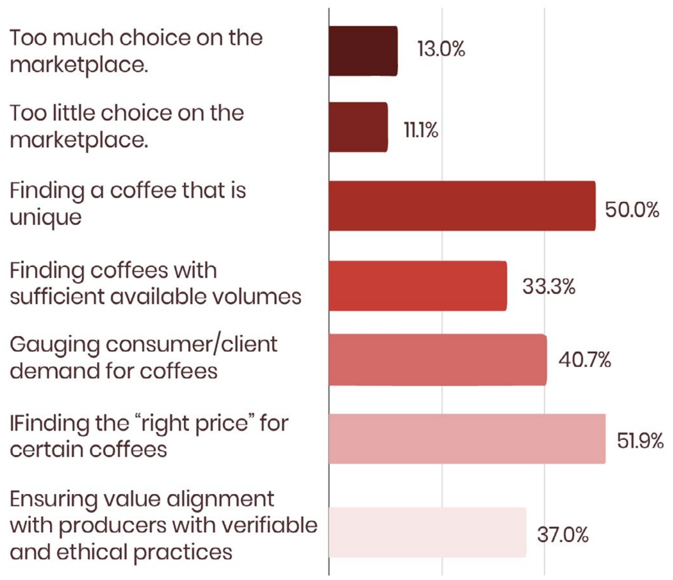
Demand uncertainty around the "new normal"

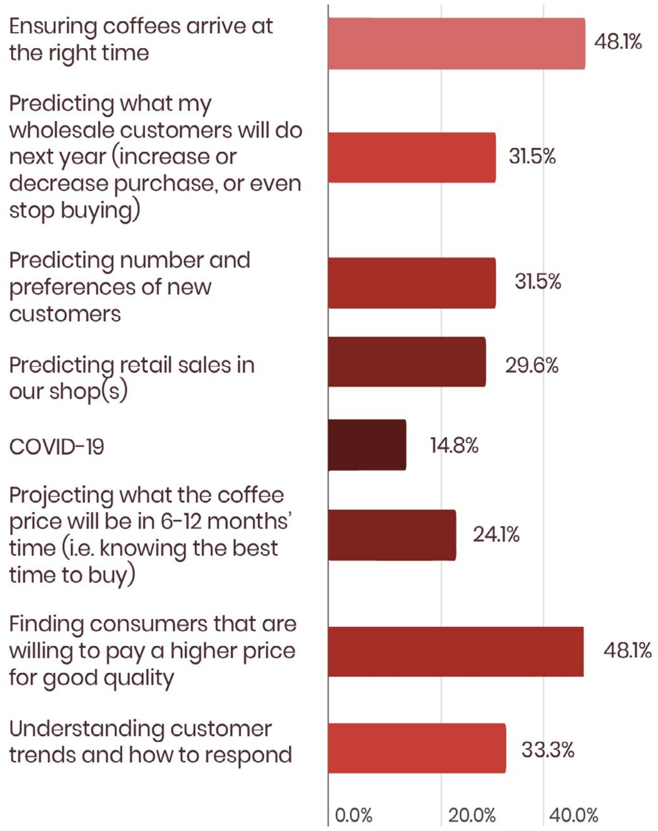
Where greater challenges did present themselves, however, was in the forming of new relationships. Roaster respondents indicated that one of their major challenges in 2021 was understanding what customers wanted – and when – in the "new normal." This new normal did come with a great deal of uncertainty, as 24.1% of roaster respondents noted that they were unable to forecast as easily, and that planning ahead became more difficult (see Figure 11 on page 20). And while some roaster respondents said they were buying more volumes of coffee than usual when it became available to stock up in case of future delays (as discussed previously), other respondents said they were not procuring a lot of coffee at once due precisely to uncertainty in consumer demand.

In total, 40.7% of roaster survey respondents noted that gauging consumer and client demand for coffees was an ongoing challenge, while 31.5% said that predicting their wholesale customers' business decisions, as well as the potential number and preferences of new customers, was difficult. Figure 16 below demonstrates these numbers and shows other challenges that roasters typically face when buying, selling, and selecting coffee. For instance, 50% of roaster survey respondents indicated they consider it a challenge to find a coffee that they find to be unique, while 51.9% said finding the "right price" for coffee is also an ongoing difficulty.

Figure 16

What are your typical challenges when it comes to buying, selling, or selecting coffee?





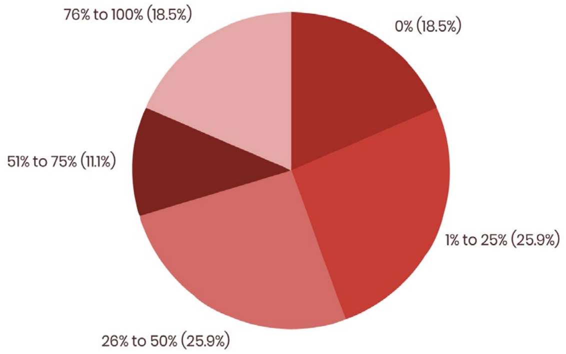
Growing competition in the spot market

Of course, an inability to predict led many roasters to increase their spot purchases. In total, 31.5% of roaster survey respondents indicated an increase in spot purchases in 2021 (Figure 11 on page 20). In addition, Figure 17 below on page 24 shows that 25.9% of roaster survey respondents purchased only between 1 and 25% of coffee on spot, whereas 18.5% purchased between 76% and 100% of their coffee on spot.

Of note, spot purchases still proved difficult to access at times throughout 2021, according to both roaster and producer interview respondents. Glew from Hasbean and Ozone Coffee Roasters noted, for example, "The overall market is more competitive and the spot market particularly has been extremely competitive in the past six months. Even when working with an importer, things were agreed upon very early, three months earlier than usual. This year, this is a market where you have to be very agile and quick and, at the same time, push producers to be quick and responsive before the coffee gets sold to someone else."

Figure 17

Percentage of coffee bought on spot in 2021



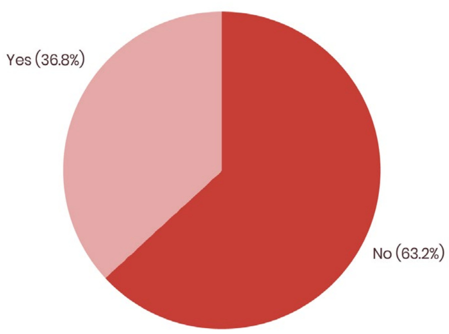
The challenge to form new relationships

Regarding the impact of such spot purchases on relationships, as spot coffee purchases increased, fewer long-term relationships were being built between buyers and suppliers. Even in cases where roasters wanted to get to know new suppliers and vice versa, they could only do this virtually as travel was restricted.

In addition, supply was also low, which further exacerbated the difficulty in the forming of new relationships. Figure 18 below demonstrates that 36.8% of producer survey respondents had to turn away new buyers to prioritise supply for their existing buyers. Karthick Anbalagan, Managing Director of Muraho Trading Company in Rwanda agreed, noting, "We always prioritise relationships with recurring clients before looking for new ones."

Figure 18

Did you have to say no to new buyers this year so that you could prioritze supply for long-term buyers?



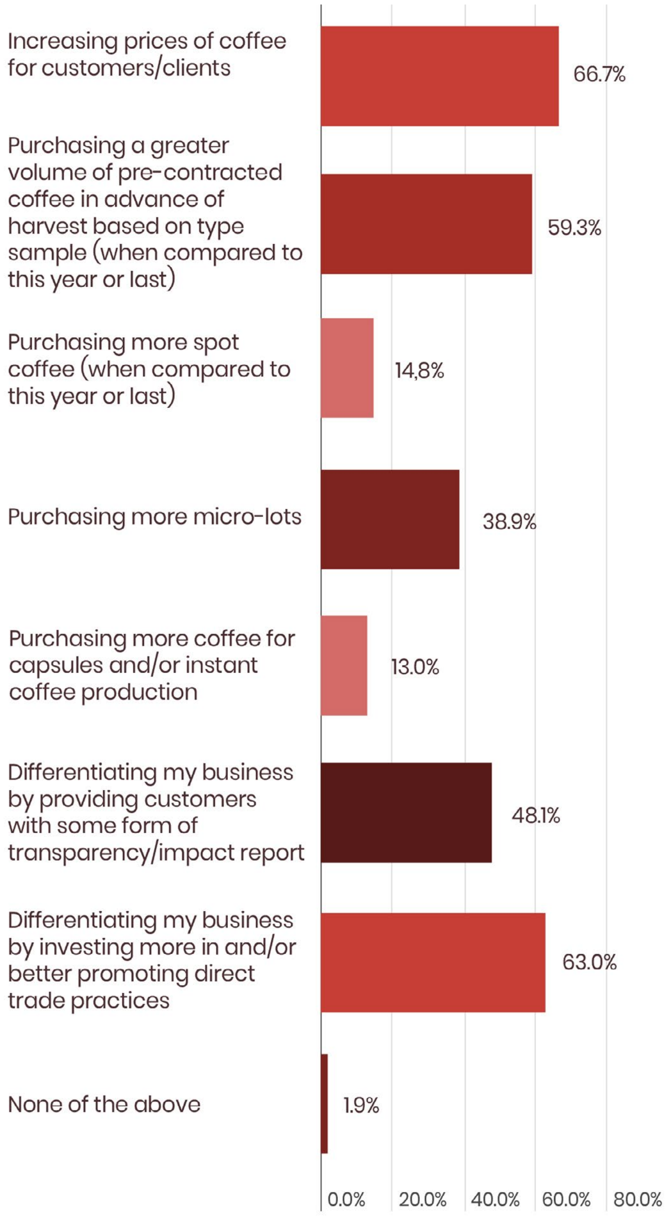
Additionally, producers noted that their inability to access trade shows increased the need for digital networking on platforms such as Zoom, and this caused both parties to act more conservatively in contract negotiation and relationship building. On the roaster side, they were less apt to contract coffees earlier without a pre-existing relationship – even if logistics realities demand this, while producers were less willing and able to take on risks and extend payment terms (e.g., wait an extended period for final payments from roasters, even if this was needed for the sale). However, when roasters could visit suppliers and vice versa, both actors felt relationships were strengthened. Hannes Fendrich from Coffee Circle noted, for example:

> *"We are very happy with the relationships we made in the past. For example, when we added the Guatemalan [coffee] we talked to an exporter that visited us and we had been in touch for a couple of years. Normally, when we add a new origin, we have the desire ourselves to visit the origin ourselves to see if the coffee is what we stand for. For Guatemala, we made an exception because we knew the person for a long time, and [because they visited us], we decided that it was enough for us."*

Finally, in some cases, due to shipping delays, roasters, especially those in the UK and Spain, mentioned that it was hard to access timely samples. This reality further confirmed the importance of trust and strong relationships, as these roasters indicated that they were forced to contract coffees without a pre-shipment sample. However, despite these claims by some roasters, across the board, 59.3% of roaster survey respondents still noted that they expected to pre-contract a greater volume of coffee in 2022 based on a pre-shipment sample. See Figure 19 on page 25 to view this prediction, as well as others noted by roasters.

Figure 19

Are you planning for 2022?



Section 4: Profitability and Consumer Pricing

Higher prices and lower profits

Many exporters and cooperative representatives indicated that the price increase of 2021 was, of course, welcomed by producers. They noted that both the costs of coffee production and the costs of living (e.g., the basic food basket) have steadily increased over the years. And, without an equally steady rise in the price of green coffee, profitability has decreased for many producers. The increase in the C price in 2021 was thus welcome; however, unfortunately, this fluctuation did not automatically translate into increased profitability for farmers, and it certainly did not translate into increased profitability for exporters, cooperatives, and aggregators.

Across the board, producer interview respondents suggested that as a result of the rising C price, local costs of production continued to spike exponentially in 2021, as local market actors selling fertiliser and other inputs took advantage of the changing market to increase their own earnings. This increase compounded already-inclining labour costs, which have been based on the growing need to offer higher wages – even if those wages threaten farmers' already precarious ability to break even[1].

Decreasing or low profitability for coffee farmers results in a decreased ability to reinvest back in the farm. In bumper years, however, farmers are often more stimulated to invest in production and increase their quality of scale as much as possible, but the focus, process, and outcomes of these investments are and will continue to be impacted by other market factors.

Interview participants for this report noted that if prices for commodity coffee remain high, the incentive to invest in quality will be decreased, potentially leading to a greater focus on commodity investments. Furthermore, current logistics challenges are reducing access to seedlings and new varieties for planting, preventing farmers from reinvesting in their farms even if they want to do so.

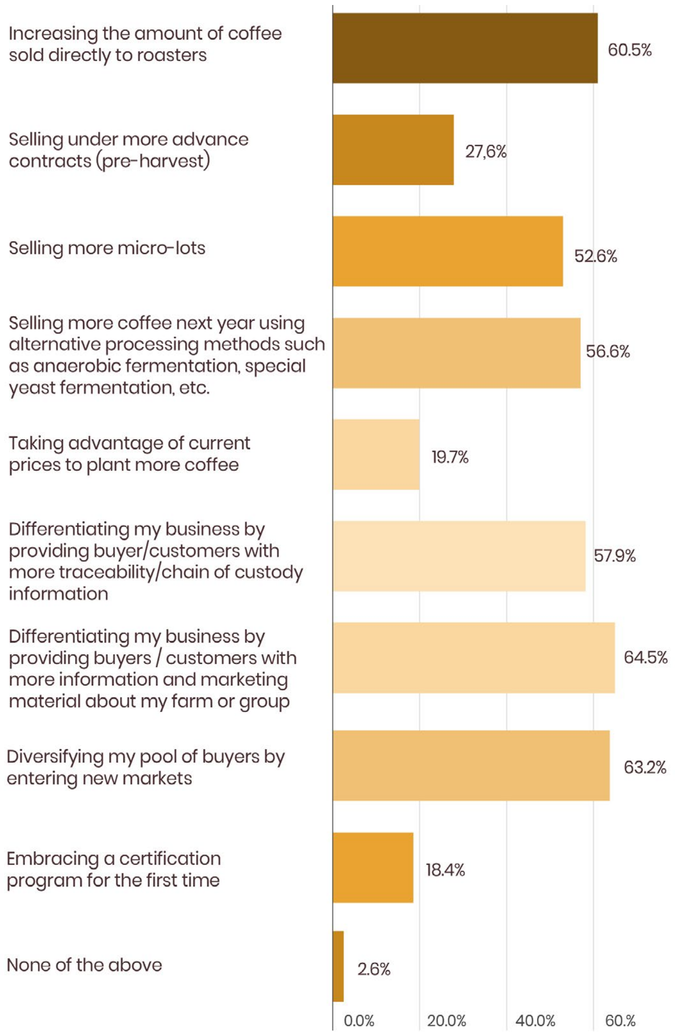
Meanwhile, as global temperature continues to rise, farmers understand that there is no assurance that their production will increase despite their investments (and no assurance that their costs of production will decrease or stay the same to allow for greater profitability). On the other hand, if production does increase due to increased on-farm investments, this could lead to even greater supply and decreased prices.

On-farm investments and co-operative solvency

Interestingly, as shown in Figure 20 below, in the case of producer survey respondents for this study, only 19.7% of producer respondents planned to take advantage of current market prices to plant more coffee – a low percentage indeed, as suspected by Algrano. Rather, producer survey respondents have shown greater interest in providing buyers with more information and marketing material about their farm (64.5% of total respondents) and selling more coffee using alternative processing methods (56.6% of total respondents). A more detailed analysis of these figures will be provided later in this report.

Figure 20

For your current or upcoming harvest, are you planning to focus on the following?



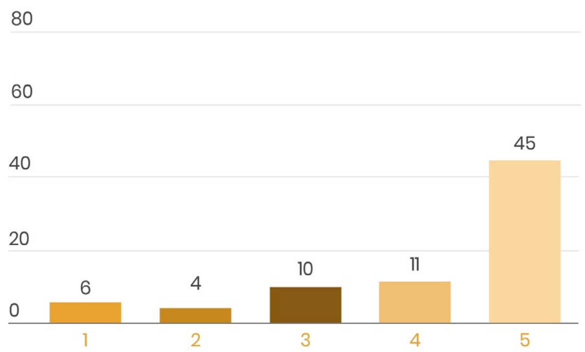
1 Labour costs are rising as ripening calendars are becoming more unstable due to climate change, causing a need for more workers at increasingly random times. In addition, more people have been choosing to migrate to cities or to other countries to find gainful work, and they require higher wages to return to farms. As labour can account for up to 70% of the costs of production according to the Specialty Coffee Association (SCA), any changes in labour costs have a huge impact on total costs of production.

Of course, such concerns about the best investments and the import of farm management decisions are future-facing. At present, to provide producers with a competitive price for their coffee in 2021, exporters, cooperatives, and aggregators saw their margins decrease, which challenged them from engaging with important internal activities, such as farmer trainer or staff capacity building. It also challenged them from reinvesting in their growth and plans to increase their economies of scale. And, according to many producers, maintaining an economy of scale and growing their sales volumes was the only way to remain solvent.

Unfortunately, according to Rodolfo Peñalba, General Manager at COMSA (Café Orgánico Marcala) in Honduras, throughout the past four seasons, production in Honduras has declined from 10 million bags to 6.5 bags annually as a result of climate change and other market factors. The same was observed in Costa Rica by Guillermo Trejos Soto, Chief Executive Officer of Coope Libertad, who stated that the quantity of coffee harvested this past season reached its lowest level in the last 40 years.

Producer survey respondents also indicated that climate change was a considerable challenge, with 45 of 76 producers marking five on a scale from 1 to 5 (where 1 indicated definite disagreement and 5 definite agreement) that it was the biggest challenge they face in securing a future from coffee production (see Figure 21 below)

Figure 21
Climate change is the biggest challenge we have as producers in securing a future from coffee



While production continues to decrease – leading to potential price increases as a result – will challenge market actors in producing and consuming countries to grow and scale their businesses, despite these realities, many of the research participants did not foresee future obstacles in fulfilling their contracts, as long as they maintained good relationships.

Rojas Hernandez from Norandino said, "In this market, it is important to think in terms of the long-term. We have to fulfil our contracts on time and meet the quality requirements. [Not only are we doing that, but] we are obtaining new clients because of our responsibility and professionalism as partners. Relationships help us when the market price is lower, so we need to prioritise them now too."

For Norandino, this concept expanded to relationships with producers as well, and they believed their responsibility and professionalism with growers allowed them to expand to new areas of the country to ensure greater volumes of coffee for the clients. Local markets in producing countries are also growing in some cases, leading to more openness to a larger range of qualities in comparison to the international specialty market.

Julián González, General Manager of Cafenorte in Colombia, meanwhile, noted that some countries were becoming more competitive over others in the international market, while Yuan from Origin Coffee Roasters noted that the current market could be an opportunity for lesser-known origins, and especially for more climate-resilient origins. As roasters search for new origins, Yuan confirmed the value of relationships for sourcing, noting, that in her case:

> *"I am looking for single producers that can produce really large volumes and provide similar value, create a relationship, and become a family of ours like [we have] in El Salvador, Nicaragua, and Brazil so that we can negotiate directly with the producer."*

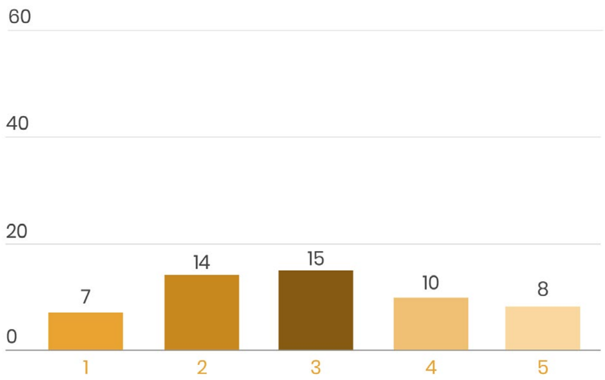
She also noted that her reason for looking for single producers is because of perceived flexibility and greater ease in connection with just one person. “We are looking for producers [that can support us] with our end customers and be introduced to customers on Zoom. That is intangible value and the more I can sell [of their coffee], the more I can buy.”

Passing on the price increase to the final consumer

Indeed, in reviewing profitability on the consuming side, many of the small, specialty coffee roasters interviewed for this report noted their interest in supporting producers in many unique ways. In the current market, this often meant a reduction in their margins, as by and large, they indicated they were maintaining a focus on quality and relationships – both client and supplier – over profit-seeking this year.

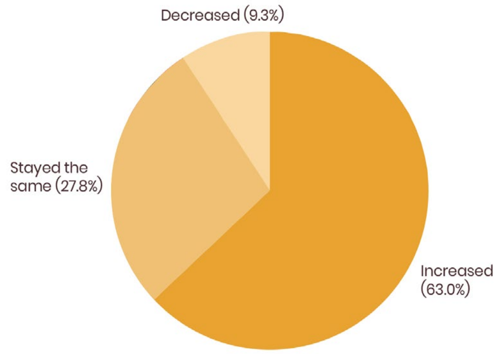
Hannes Fendrich of Coffee Circle in Germany said, “Instead of ripping off the farmer, I’d rather work on price reductions with freight forwarders.” And, when asked to identify whether roasters agreed that the recent increase in prices had a negative impact on their businesses, with 1 being low agreement and 5 being high agreement, responses from survey respondents were mixed (see Figure 22 below).

Figure 22
The recent increase in prices has had a negative impact on my business



To manage decreasing margins and increases in the C price, the majority of roaster respondents increased the prices they charged customers. In total, 63% of roaster survey respondents indicated that they increased the price to consumers in 2021 (Figure 23 on the right column), while 66.7% said they are planning to increase prices for 2022 – indicating that some roasters will be raising prices more than once (see Figure 29 on page 33).

Figure 23
Has the price you charged to customers/clients for coffee increased, decreased or stayed the same in 2021 compared to previous years?



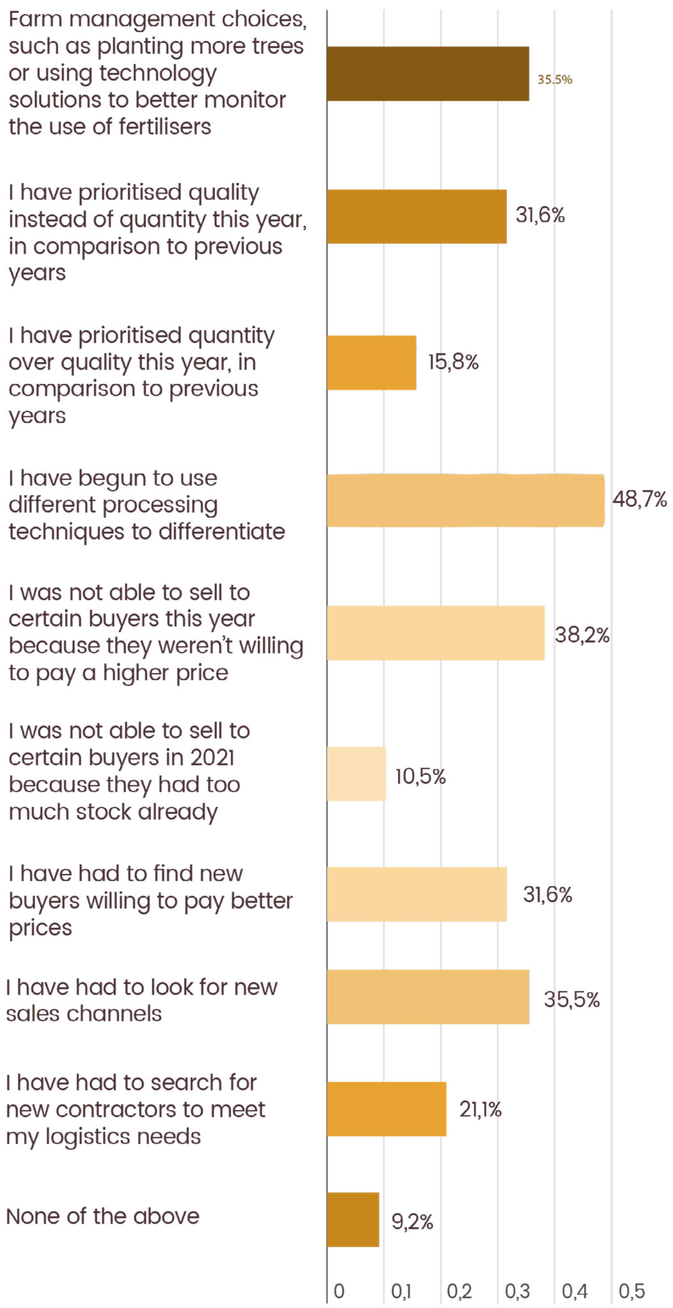
Roaster interview respondents reported that there were some customer complaints about price increases, but they said that those complaints were lessened when roasters were able to talk to their customers and consumers and explain global market forces. While a challenging reality to both navigate and communicate, many roaster interview respondents did suggest that these conversations were a positive development, as they allowed for deeper consumer understanding of the real issues facing the industry, and facing producers in general. In addition, customers were aware that the prices of many consumer goods were on the rise, leading to an acceptance of the increase in roasted coffee or coffee shop prices. Still, many roaster respondents indicated that they struggled both morally and economically to raise prices for their consumers and wholesale clients (such as restaurants and coffee shops), as they knew that many people were struggling themselves to remain solvent in the post-COVID world.

Anete Dinne, External Green Coffee Buyer and Barista/Sensory Trainer for wholesale clients at 80plus, said that in Spain, “While there is no specific price point for an espresso in the country, the average price is still significantly lower for specialty coffee than in most other countries that have been working with specialty coffee for years...[Still, increasing the price by even] 10 cents brings anxiety to café owners and regular clients, who tend to argue and show disappointment.” As a result, as roasters in Spain, 80plus worried that retail location clients were unable to afford higher prices for roasted coffee, being unable to push this price onto their consumers themselves – a needed reality to meet a break-even point or to maintain a slight margin on quality coffee, even before the pandemic.

Unfortunately, despite many roaster claims that they chose not to decrease prices they paid to farmers in 2021, producer survey respondents noted that their biggest challenge in the past year was finding buyers willing to pay a higher price. In total, 38.2% of producer survey respondents said they were not able to sell to certain buyers this year because they weren't willing to pay a higher price, while 31.6% of producer survey respondents said they had to search for new buyers that would be willing to pay better prices (see Figure 24 below).

Figure 24

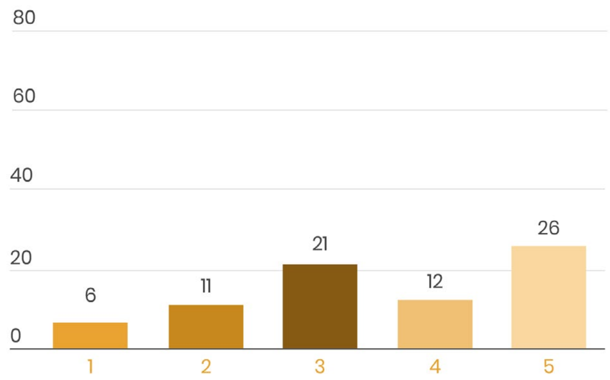
Has the recent price increase/fluctuation or have recent market trends affected any of the below?



Relatedly, only 26 of 76 producer survey respondents, or 34.2% in total (see Figure 25 below), said that the increase in C price definitely had a positive impact on their business. The reasons for this figure, as well as the reasons for roaster survey respondents' mixed results about whether the impact of this year was positive or negative (Figure 22 on page 29), were not elaborated in the survey.

Figure 25

The increase in coffee prices has had a positive impact on my business



Section 5: The Focus on Quality and Relationships

Micro-lots continue on the rise in the short-term

In some cases, the price increase of 2021 led some coffee shop chains to seek lower-quality coffee, though this was not a huge percentage. In total, only 11.1% of roaster survey respondents indicated that they chose to decrease the quality of their purchases, with 7.4% of roaster respondents noting that they bought past years' crops to reduce costs (see Figure 11 on page 20).

Producer interview respondents corroborated that this strategy was used by some, but not many, suggesting that one of the only ways to reduce price this year was to mix the current harvest with past lots. The reason this remained one of the only strategies to reduce price is that the C price (i.e. commodity pricing) met average pricing for entry level specialty coffee in 2021.

As a result, both roasters and producers indicated that commercial buyers were taking advantage of the current market to engage with quality. Krzysztof Barabosz, Co-Founder and Chief Production Officer at Hard Beans Coffee Roasters in Poland noted that, "If the coffee was 'expensive' anyway, people saw that now was a good time to pay for more transparent specialty coffee or premium coffee instead of commodity coffee."

Producer interview respondents also believed that it was a good time to work more with more commercial buyers, as well as maintain a good balance between direct and non-direct buyers to diversify the qualities they offer – even lowering their quality offerings in some cases. For the most part, however, they knew that banking on commodity coffee was not the answer.

Corroborating this suggestion, in total, 46% of producer survey respondents said that they increased the number of micro-lots they sold in 2021 (Figure 26 on the right column), while 57.9% said they expected to see this number rise again in 2022 (Figure 27). In addition, a majority of producers respondents indicated they wanted to increase the amount of coffee they exported directly (Figure 28).

Figure 26
Total volume micro-lots sold

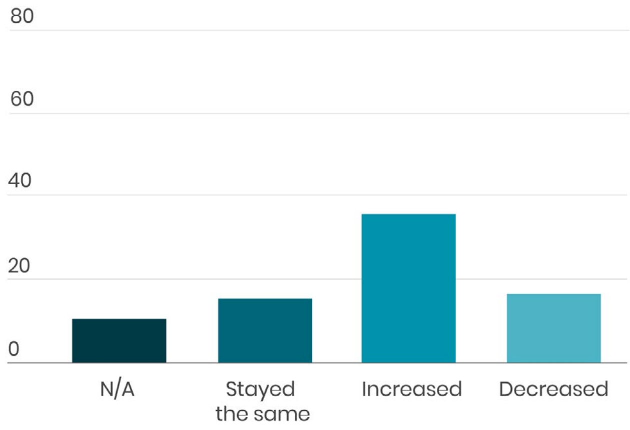


Figure 27
Total volume micro-lots to be sold in 2022

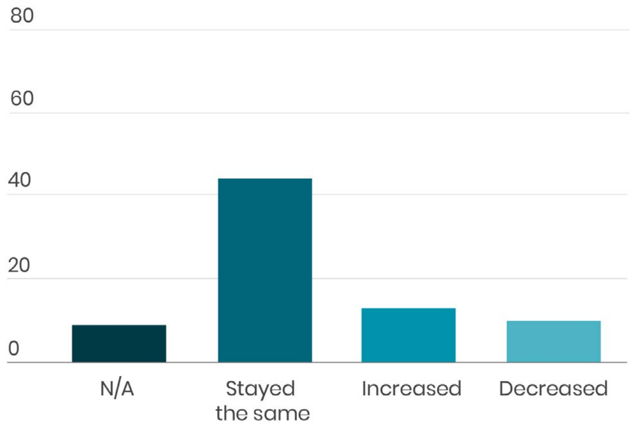
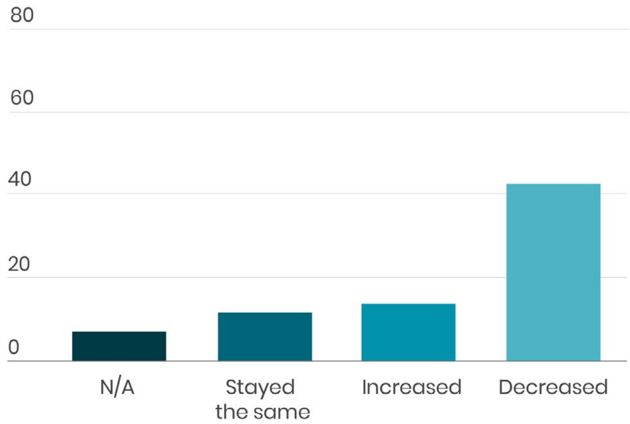


Figure 28
Number of associated producers wanting to export directly in 2021 compared to previous years



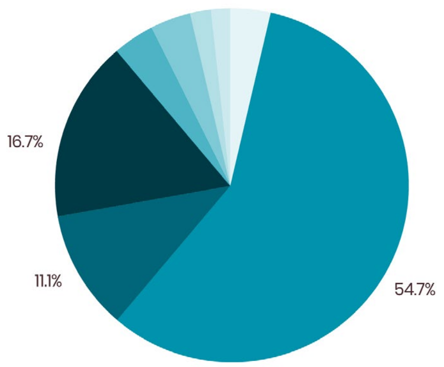
The push for a better base quality

Producer interview respondents – including many cooperative representatives and some exporters/aggregators – verbally reiterated the importance of continuing to invest in quality, especially if prices decrease in upcoming harvests, which many expect will happen. At that point, quality could return to being a monetary incentive (i.e., business as usual).

Looking toward the future, investing in quality does seem as though it will become increasingly relevant, as many producers and roaster respondents agreed that what is considered “base quality” in the market is being pushed up to almost 85 points on the SCA specialty coffee scale.

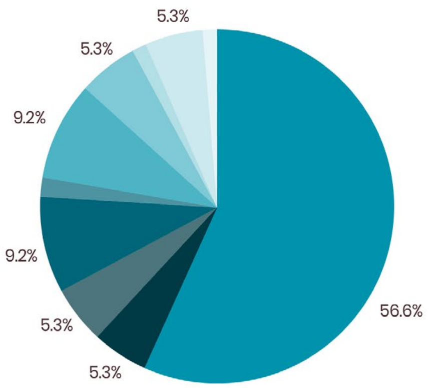
Furthermore, since the specialty market relies on quality to justify price increases to consumers – Figures 29 (below) and 30 (on the right column) indicate that 57.4% of roasters and 56.6% of producers, respectively, believe quality is the top criterion when purchasing or selling coffee – volumes of specialty coffee will likely need to increase, and new price discovery mechanisms may be required.

Figure 29
Top criteria for purchasing coffee



- FOB and farmgate price information is available (price transparency)
- Quality (cupping score, grade)
- Suitable price range
- Having a direct relationship with the producer or producing association behind my coffees
- Environmental sustainability compliance (certified or not, such as climate-smart practice)
- Processing preferences (washed, honey, natural, etc.)
- Affiliation with a specific certification scheme (FT, Rainforest, Organic, etc.),
- Social sustainability compliance (certified or not, such as a focus on gender equity)

Figure 30
Top 5 criteria for producers for their business



- Producing high quality coffee (cupping score, grade)
- Ability to securing pre-financing for the harvest
- Ability to offer different processing preferences (washed, honey, natural, etc.)
- Ensuring high production level in terms of volume
- Ability to demonstrate economic sustainability compliance (certified or not, such as the meeting of living wage targets)
- Having an affiliation with a specific certification scheme (FT, Rainforest, Organic, etc.),
- Ability to demonstrate environmental sustainability compliance (certified or not, such as climate-smart practices)
- Offering digital verification of coffee's provenance
- Ability to engage in alternative processing techniques (anaerobic fermentation, selected yeast, etc.)
- Ensuring FOB and farmgate price information is available upon reque

Buying criteria: relationships beat price

As seen in Figure 29, while quality remained the top criterion for roasters when purchasing or sourcing coffee, the next criterion was relationships (16.7%), beating out price (11.1%) by over 5%. Perhaps this is because both producer and roaster interview respondents noted that supply chain relationships in 2021 are what allowed them to find the right price point and maintain a win-win relationship. And, while producers did not suggest that they reduced prices for existing buyers as a way to meet in the middle, neither did roasters expect that.

Instead, supply chain actors focused on having regular conversations and remaining transparent about purchasing capacity and credit availability. Again, in the case of producers, as seen in Figure 18 on page 24, 36.8% of total producer survey respondents chose not to contract with new buyers precisely to prioritise supply for their long-term buyers, which further demonstrates the power of relationships.

In addition, once more, it can be seen that contracting challenges resulted mostly when pre-existing relationships were not present. For those actors whose businesses did prioritise relationships, contract terms were able to grow more flexible, without impacting the underlying partnerships.

In particular, the current market put into a brand new perspective the relevance of fixed-price contracts. While such contracts have been important for producers when prices are low or expected to fall, fixed-price contracts for this year caused some producers to sell below market rate. Fairtrade contracts also became more challenging this year, as the USD 0.20/lb premium was still required above market price, pushing final contract prices up even higher.

Moving forward, as a price risk management strategy, many producers plan to keep all their contracts open. In total, only 27.6% of producer survey respondents want to sell more under advance contracts in 2022, while, at the same time, 63.2% expressed their interest in diversifying their pool of buyers by entering new markets (see Figure 20 on page 27).

As mentioned previously, producers are less likely to engage in closed contracts or significant contract negotiations with new buyers; thus, it can be assumed that any new relationships would have open contracts. This move toward less fixed-price contracting is positive for roasters as well, who noted the need for greater flexibility, given ongoing challenges in their ability to assess demand. Indeed, looking toward 2022, 31.5% of roaster survey respondents said they expect to have trouble predicting consumer needs and wholesale demands, and 31.5% said they expect to struggle to identify consumer trends and preferences (shown in Figure 16 on page 23).

Section 6:
Product Diversification and Consumer Preferences

Managing blends for added flexibility

Understanding consumer demand is important to both producers and roasters, as is meeting those demands despite ongoing or one-time market challenges. As previously mentioned in this report, some roasters, though not many, chose to overstock. This strategy was not necessarily a preferred one even for those few roasters who employed it, but they felt required to do so given shipping delays. Then, to sell their additional coffee – as well as any coffee that was of a lower quality than expected – many roasters indicated that they were managing more blends.

Howard Gill, Head of Coffee at Grind in the UK, agreed that being agile with blends was not only a way to manage quality control, it was also a way to manage shipping delays. He said, "We have some components for our new house blend in a container due to arrive next week, but it will be 3 to 4 weeks late. [In the meantime], one container from Brazil arrived and one is coming on Wednesday. So, we'll be able to use some of our similar quality [coffees from these containers] to fill the gaps in our blend."

In many cases, such agility was already commonplace, as many roasters learned to be more creative with sales throughout the worst of the COVID-19 pandemic. Barabosz from Hard Beans Coffee Roasters in Poland, for example, said the company began to share information about how to brew coffee in the traditional Polish style with their consumers. And while the strategy employed by this roaster was one of introducing new concepts to consumers to grow their interest or demand, most roaster interview respondents noted that the future products they would offer would depend on existing consumer interests and trends moving forward (i.e., not demands that roasters would need to create independently).

In addition to their assumptions that they would maintain blends to manage market challenges and meet consumer demand, many roaster interview respondents expressed that they have seen a growth in the capsule market, ready-to-drink (RTD) coffee, cold brew, and single-serve packets. In the coffee shop, roasters noted that growth in batch brew seemed to be outpacing pour-over, while interest in fine robusta was increasing as well.

A shift in roasters' appetite?

Roasters, as well as organisational interview respondents, indicated that more "average" coffees were being sold (e.g. coffees in the 80-82 range), and noted a greater focus on simplicity rather than rarity as the specialty coffee industry grows. Roaster interview respondents expressed less interest in anaerobic fermentation, and more interest in diversifying through decaf or low-caf varieties, or through biodynamic or organic certification.

According to Narine from Wakuli, for example, "A large group of people still want traditional coffees and are not looking for light-roasted coffees with new fermented flavours." Ever Meister, who has supported communication efforts for the Specialty Coffee Transaction Guide, concurred. They noted that there has been a shift in appetite away from the highest quality coffees, which they said is a good thing. They believe that micro-lots have always been too much of a challenge for producers, and indeed, separating small lots has never been easy. In this market, González from Cafenorte in Colombia noted that the challenge has finally been seen in a fresh light, and roasters are understanding more and more the expense of logistics and shipping small lots.

Despite verbal confirmation during interviews with roasters and organisations that interest in rarity was decreasing, while interest in diversified products like capsules was increasing, survey data from roaster survey respondents presented a different picture (see Figure 31 on page 37). The majority of roasters survey respondents suggested that, for 2022, they planned to continue to focus on sourcing from new origins (77.8%), experimenting with new processing methods (51.9%), and trying rare varieties (42.6%).

In addition, as shown in Figure 19 on page 25, 38.9% of roaster survey respondents said they planned to purchase more micro-lots in the future, while only 13% suggested they would focus on diversifying through capsule sales. It is important to note that such stark differences in opinion between roaster survey respondents and roaster interview respondents could be the result of selection bias. As the interviewees recruited for this study are leaders in the industry, it is possible that they have acknowledged and capitalised on a new trend ahead of any others, and that this trend will eventually become more mainstream among specialty roasters in the next few years.

Figure 31
If planning to differentiate your business, indicate the new offerings you plan to sell

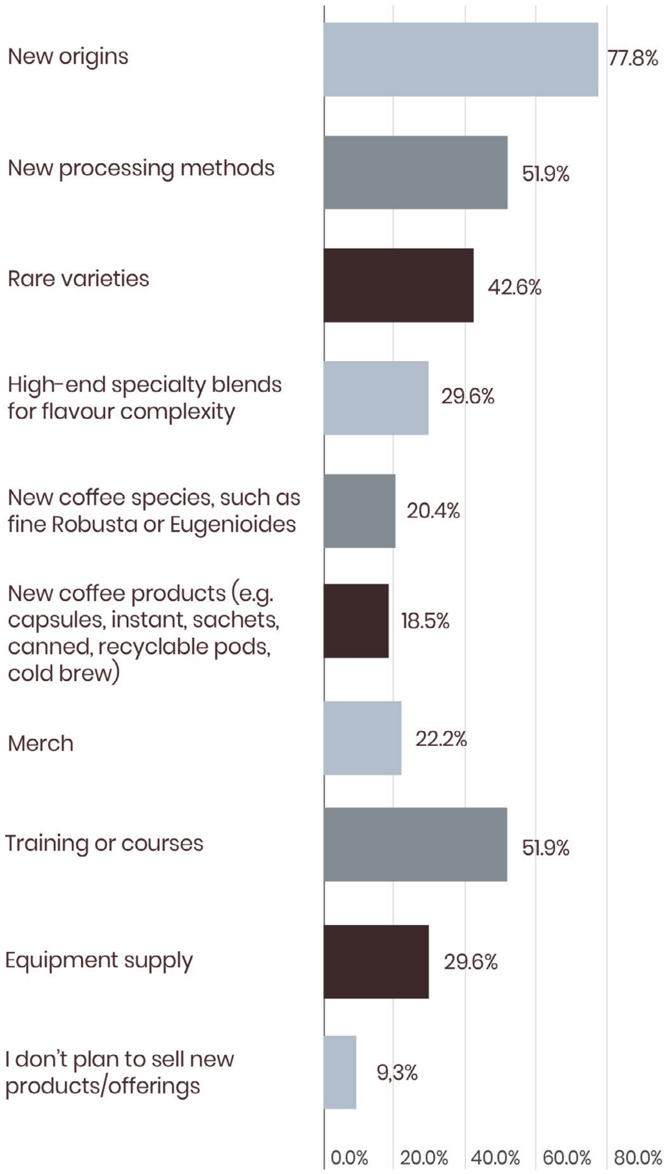
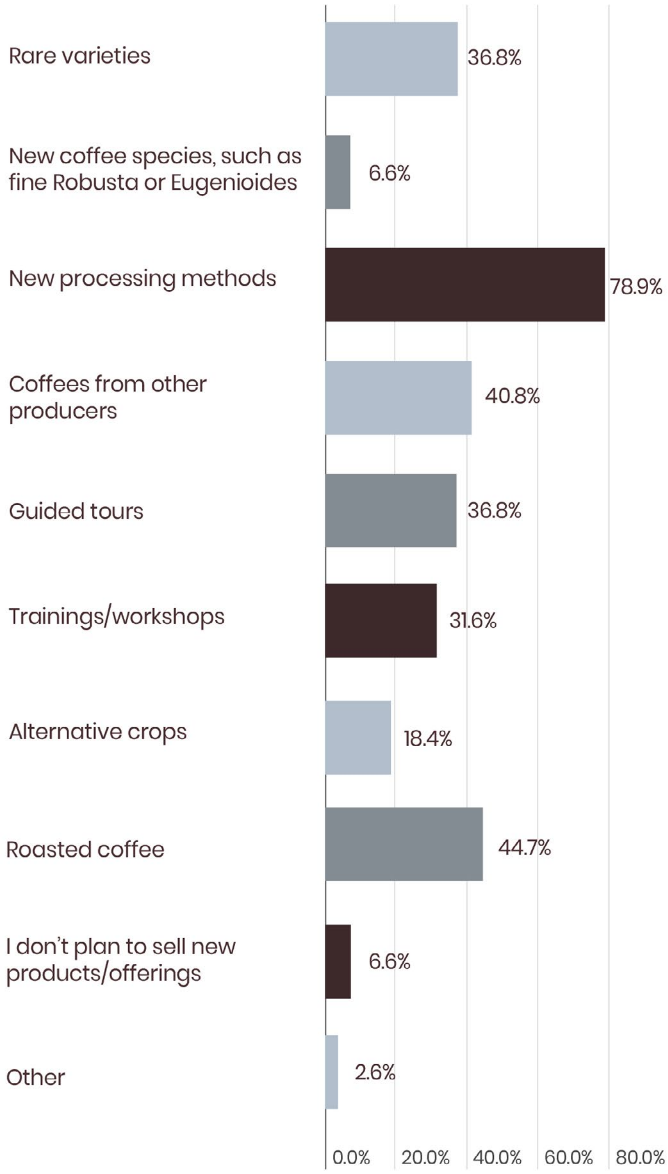


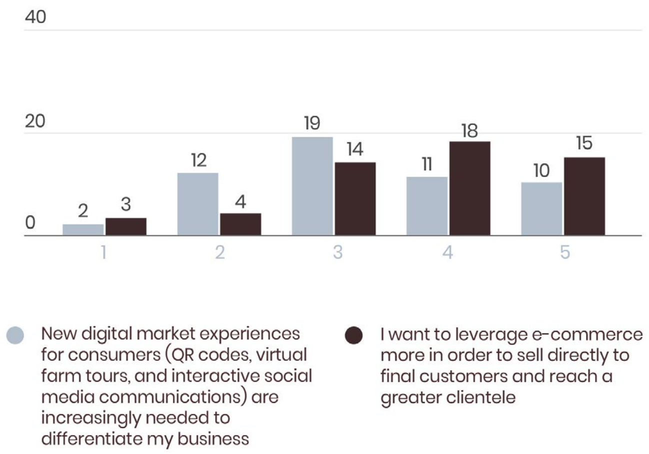
Figure 32
If you are planning to differentiate your business, what new offerings do you plan to sell?



Producer survey respondents, meanwhile, seemed to have a greater awareness of what the majority of roasters may be looking for at present, suggesting that their goals for the future would include a focus on innovation, improved and new processing methods (78.9%), and rare varieties (36.8%). They also indicated they would focus on differentiating by buying from new producers themselves (40.8% of total respondents). These and other predictions are shown in Figure 32 above. Additionally, it can be noted that 56.6% of producer survey respondents said that they would focus on selling more coffee next year using alternative processing methods, such as anaerobic fermentation and alternative yeast fermentation (see Figure 19 on page 25).

Unfortunately, for those looking to better understand overall consumer demand from this above data, customer preference remains elusive. There was an even split between those roasters who said their customers were looking for more complex flavour profiles, versus those looking for a simpler cup (see Figure 33 on the next page).

Figure 33
How much do you agree with the following statements?



Quality as the way forward

What was conclusive, however, was the importance of diversification in general for coffee supply chain actors. In total, 77.8% of roaster survey respondents indicated they would diversify through sourcing from new origins (see Figure 31, page 37), and both roasters and producers expressed interest in finding new clients and customers – with many producers survey respondents once again (63.2%) noting that they planned to diversify their pool of buyers by entering new markets, such as China and the Middle East (see Figure 20 on page27).

Of course, to grow these new markets, both roasters and producers alike need volume. Unfortunately, on the consuming side, 33.3% of roasters survey respondents (see Figure 16 on page 23) indicated that it was an ongoing challenge to find sufficient volumes, while, once again, producer survey respondents expressed a growing challenge in finding buyers willing to pay the price for volumes of high quality (see Figure 24 on page 30).

Still, despite the challenges, in the specialty coffee sector, the quality of coffee is as relevant – if not more relevant – than the quantity, and most respondents agreed that quality would need to be their primary focus as they grew their businesses. For example, see Figure 24 on page 30 shows that while only 15.8% of producer survey respondents prioritised quantity more than quality this year, 31.6% said they prioritised quality over quantity, even more than in previous years. The next section of this report describes the strategies that both roasters and producers expect to employ to increase their sales in the future, without compromising the quality of those sales.

Section 7: Strategies for the Future

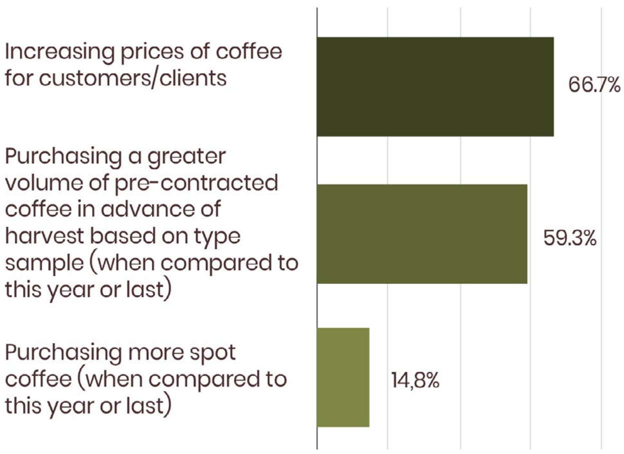
Price expectations and the behaviour of fluctuations

Looking towards the future, neither roaster nor producer interview respondents expected the C price to decrease for some time. While many assume the price will decrease eventually – given coffee's boom and bust crop cycle – Brás Regina and Cangussu Guimarães from Emater-MG in Brazil agreed that the price is likely going to remain high for three harvest seasons.

The extent to which the price will then decrease, according to some, will depend on climate change and ongoing decreases in production due to related weather patterns and events. One roaster interview respondent noted that several producers are at the maximum of what they can even offer, suggesting that the market will never really "go back to normal." In other words, for decades, price decreases were typical after bumper years due to increased investments in production. However, if ongoing increases in production cannot be guaranteed, price fluctuations may also behave differently moving forward, or prices may simply remain high.

To manage high prices, as previously stated, 66.7% of roasters said they would increase prices to consumers moving forward (see Figure 34 below, the same as Figure 19 on page 25), and they also noted they would need to continue talking with investors and customers about the new reality. This was due to current fears that consumers would not be willing to pay more than they are now, further affecting roaster company margins. Figure 35 on the right – the same as Figure 16 on page 23 – shows that 48.1% of roaster survey respondents face challenges in finding consumers who will pay the price for their coffee.

Figure 34
Are you planning for 2022?



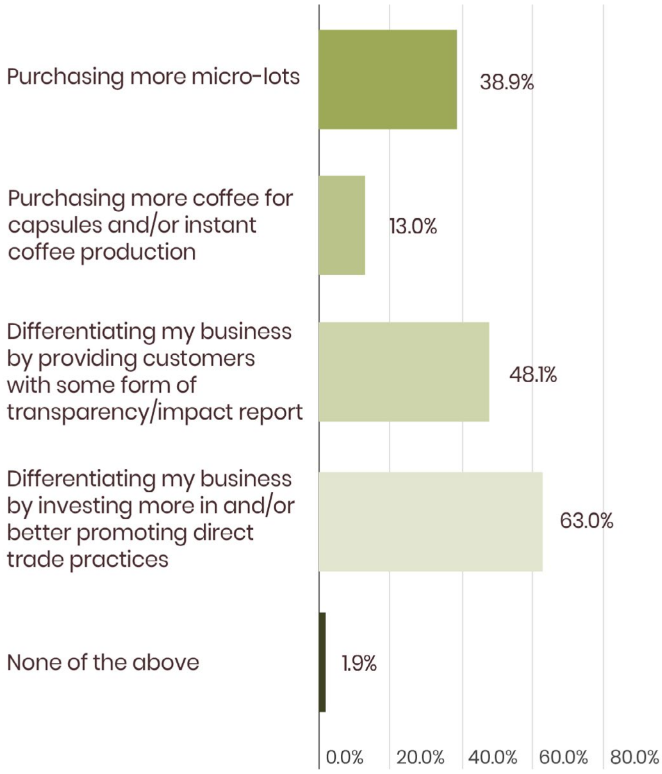
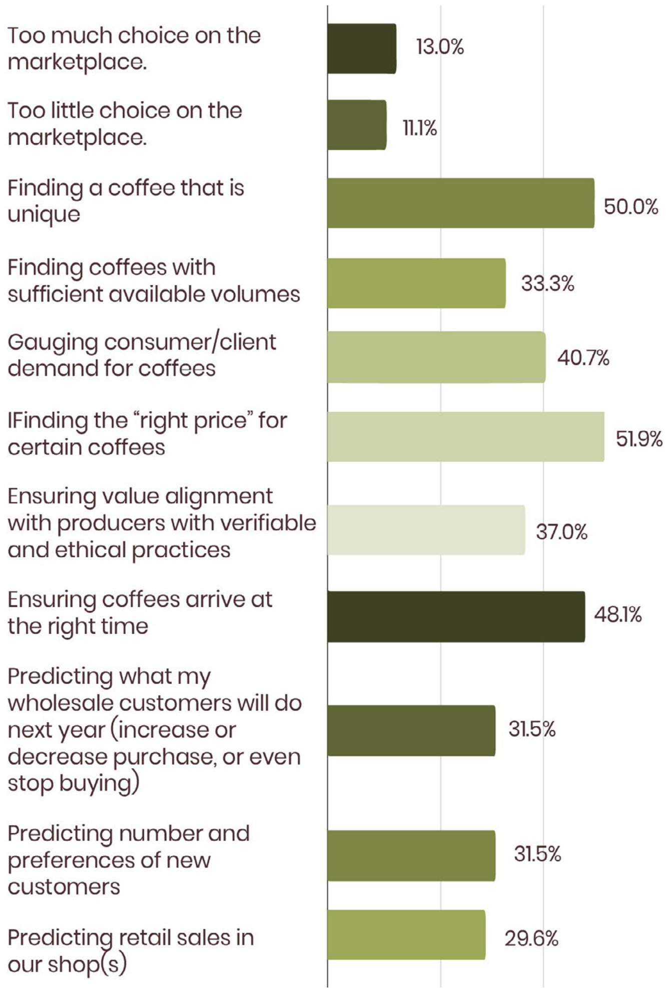
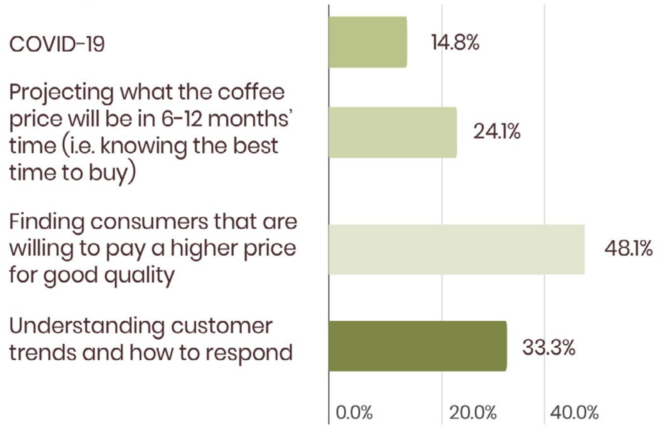


Figure 35
What are your typical challenges when it comes to buying, selling, or selecting coffee?





Volumes and timelines

Both roasters and producers expected shipping delays to continue, with 48.1% of roaster survey respondents (see Figure 35 above) suggesting that ensuring coffees would arrive at the right time was an ongoing challenge. To combat this reality, various respondents said they would continue contracting and shipping coffee earlier into the next harvest seasons and would continue having conversations about sales – focusing on both availability and quality – even earlier than usual. Importantly, not only was this strategy suggested as a way to manage shipping delays but it was also suggested as a way for roasters to offer producers pre-financing earlier in the year.

Producers also expressed hope that roasters could be less conservative in the volumes they request in 2022 in comparison to 2021, especially if they can grow more certain about their own needs and consumer demand. Such hope is not without evidence, as 59.3% of roasters survey respondents hoped to pre-contract more volume this year based on type sample, while only a much smaller percentage, 14.8%, expected to increase spot purchases (see Figure 34 on page 40).

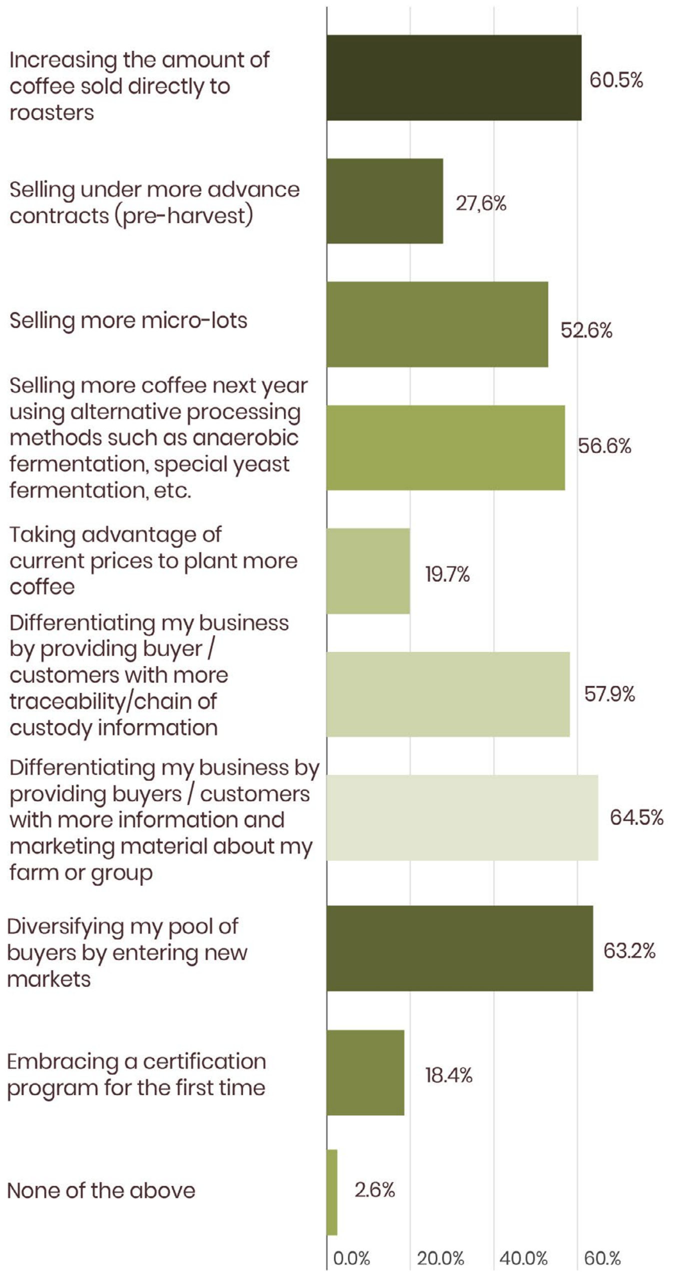
Of course, as contracts are finalised throughout the 2022 harvest seasons, both roasters and producers once again agreed that quality remains paramount (refer back to Figures 29 and 30 on page 33). While some producers did suggest they might like to engage with more commercial buyers to sell their coffees of lesser quality, they did not desire to decrease specialty sales on the whole or lose focus on the quality market. Not a single producer or roaster mentioned any interest in changing their overall, long-term sourcing strategy during the interview process; rather, they planned to focus on growing the volumes of their sales by doubling down on quality, relationships, traceability, and sustainability.

Relationships and direct trade

In terms of relationship-building, many producer interview respondents suggested they would like to grow or maintain their direct sales, as it allowed them to receive feedback on the quality of their coffee, and meet roaster demands without having to guess. In total, Figure 36 below (or Figure 20 on page 27) shows that 60.5% of producer survey respondents want to increase their direct sales to roasters for the current or upcoming harvest.

Figure 36

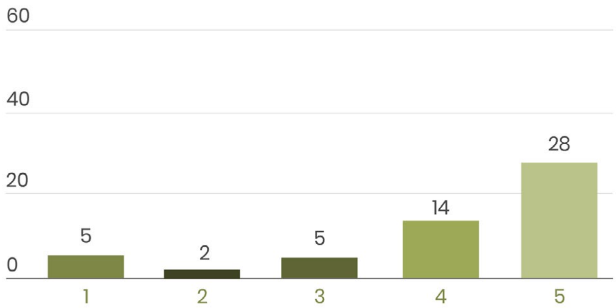
For your current or upcoming harvest, are you planning to focus on the following?



On the consuming side, when asked to indicate how valuable direct trade was to their business, 51.9% of roaster survey respondents indicated that it was extremely valuable, and 25.9% stated that it was very valuable, counting for 77.8% of all total respondents (see Figure 37 below). In addition, 63% of roaster survey respondents expressed interest in investing in more direct trade practices (see Figure 28 on page 32 or Figure 20 on page 27).

Alongside growing interest in direct trading practices, both roaster and producer interview respondents reiterated the importance of logistics support. In other words, direct trade did not mean reducing the role of the logistics middle-man, but rather, it meant a focus on ongoing conversation and negotiation between suppliers and buyers, with the ability to work together to reduce shipping and logistics costs or other challenges.

Figure 37
Being able to conduct direct trade is important to my purchasing patterns



In some cases, roaster interview respondents suggested they did not believe that direct trade was the right term; they suggested that what direct trade truly referenced was trade with transparency, strong relationships, and a focus on sustainability. And, by and large, this type of trade was seen by both roasters and producers as the only way forward for the specialty coffee industry.

The need for digitalization in a conservative sector

Digitalization has an important role to play in this kind of direct trade, as digital tools can support both transparency efforts and sustainable relationships among buyers and suppliers. Roaster and producer interview respondents alike suggested that understanding the full chain of custody information was valuable, but there seemed to be a greater degree of interest in using existing platforms like WhatsApp (over new platforms) to connect with their supply chain partners and source traceability information.

Producers spoke of using WhatsApp to send pictures of the harvest to their buyers, while roasters thought of connecting consumers to buyers by sending pictures of a producer's coffee being enjoyed by a customer. In other words, a more personalised experience was favoured, as was simply trusting the information received by partners through existing communication platforms.

Indeed, while information sharing was deemed important, with 48.1% of roaster survey respondents indicating that they planned to provide transparency and impact reporting to their customers moving forward (see Figure 34 on page 40), and 51.9% indicating that they planned to diversify through the provision of coffee education to consumers[1] (Figure 31 on page 37), many roaster interview respondents questioned the relevance of certain platforms. For example, respondents revealed scepticism about Blockchain technology and even wondered how relevant QR codes were for accessing traceability data and information.

Glew at Hasbean and Ozone Coffee Roasters noted, "I am hearing a lot of conversations about new technologies and how these can be implemented. However, this is all very complex and the sector has always been very anachronistic in the way it operates. Many sectors are moving towards more digital strategies, while coffee seems pretty conservative." Perhaps this can explain why many roaster interview respondents found greater value in more common types of technologies for their business. For example, many roasters mentioned roasting room technology and e-commerce in their interviews, highlighting the use of Cropster, e-commerce website platforms, e-newsletters, and more.

Narine of Wakuli said, "We are using [an online] coffee quiz to better understand what our customers want and to monitor trends. This helps us to understand what customers demand compared to our offering and the wider available market. In 2022, we expect even more data to be available."

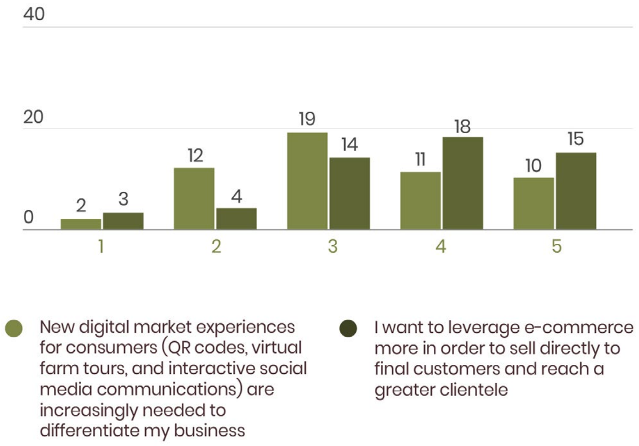
1 Of note, though consumer education can be done digitally, the survey did not ask what percentage of education offerings roasters expected to conduct digitally.

Nevertheless, when assessing the survey results, roaster survey respondents did indicate, by and large, positive perspectives regarding investment in digital market experiences. And, on a scale of 1 to 5, with 5 being high agreement, 38.9% of roaster survey respondents indicated (at a rate of four or five) that digitalization was increasingly needed to differentiate their businesses. Furthermore, 61.1% of roaster survey respondents indicated that they would leverage e-commerce more (at a rate of four or five) to reach more clients. See Figure 38 below.

Of note, to leverage digitalization more, roaster interview respondents did suggest improvements needed to be made to various platforms and systems. Yuan from Origin Coffee Roasters noted, for example, the challenge of interoperability. "Our warehouse has their sheet, the importer has their sheet, and sometimes they don't talk to each other," she said. "There is a lot of work [involved. I need] a platform to update all the inventory sheets in one place, and it can tell me where [the coffee] is and how much I have in total."

Figure 38

How much do you agree with the following statements?



Part of the challenge is that interviewed roasters believed that traceability tools did not give them the exact and verified information that they were most looking to source. In addition, producers expressed concerns surrounding connectivity and digital literacy, though they did also claim that they wanted to move beyond using Excel sheets and some basic software.

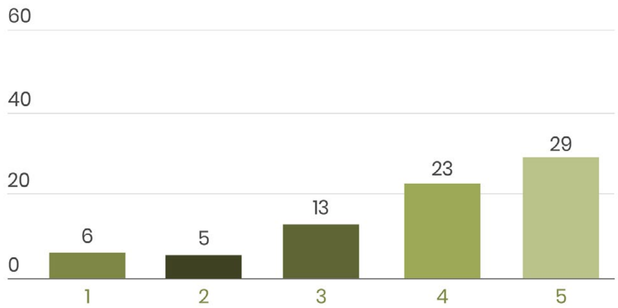
Producer interview respondents noted an interest in engaging more with digital marketing, traceability, and social media; digital credit; digital weather forecasting; and digital inventory management and quality control. They believed this would be a way to engage more with youth in the value chain, especially because, as one organisational interview respondent put it, with digitalization there is no "turning back."

Rodolfo Peñalba from COMSA stated, "We have some young people in our organisation who are designing digital information systems to manage data more easily. We know that [digitalization] is going to evolve and that we need to incorporate [these systems] in order to lessen inefficiencies, expenses, and risks. Even though digitalization is not an easy process for everyone and it's not easy to use and implement digital tools, we know it's something very useful for the future."

Farmers are even beginning to engage in e-commerce locally (B2C), not just internationally (B2B), interviewees said. Producer survey respondents corroborated these findings by indicating interest in technology investment, with 38.2.6% of total respondents very strongly agreeing (at a rate 5 out of 5) and 30.3% of total respondents strongly agreeing (at a rate of 4 out of 5) that digitalization could help them counteract supply chain challenges in the future. See Figure 39 below for more detail.

Figure 39

Investment in technology solutions such as traceability tools, climate-smart applications, and managing inventory online is needed to counteract the complexity behind growing and selling coffee, now and into the future



Meanwhile, Brás Regina and Cangussu Guimarães from Emater-MG stated, "We have already acquired two drones that can fly fast, reading the amount of chlorophyll on the leaves of the plants, the disease index of the plants, and soil humidity….[In addition], we are learning how to use these tools and we are doing virtual meetings. We communicate very often, having almost daily meetings with our technical staff and growers [via digital technology]."

The problem with current traceability systems and their implications on sustainability

Such drone technologies have been useful in developing crop insurance, and for many organisational respondents, these uses of digitalization are key. But, as both Trewick and Meister of the Specialty Coffee Transaction Guide pointed out, digitalization cannot just collect information for information's sake; data needs to be used to promote important behavioural change. Peter Kettler and Sarah Charles from the International Trade Centre (ITC) agreed, noting the following:

"If a coffee is traceable, it doesn't necessarily mean that it was sustainably produced. As an industry, we need to do a better job of defining these terms and to make clear distinctions about what is meant by traceability, transparency, and sustainability. We also need to ensure that whatever technology is used, it establishes a two-way street for the flow of information to avoid it from becoming merely an extractive process. If our goal is to use technology to provide greater value within our supply chains, to make them truly sustainable and more efficient, producers will need to have access to the data stream and be able to analyse how their coffee is valued as it moves along the entire chain and how it compares to similar coffees from other regions. In many cases, the current drive toward traceability is in response to new or emerging legislation in consuming countries related to human rights and environmental standards in global supply chains. However, we need to be sure that we are not making a false equivalency between traceability and sustainability while ensuring that the responsibility for data collection is not placed solely on the shoulders of producers. Any technology that is implemented at the farm level needs to provide support to producers and organisations, in terms of capacity-building, policymaking, etc., to make sure the tool aligns with co-op priorities."

Despite the aforementioned burden and cost of data collection and the sometimes extractive nature of traceability processes, all producer interview respondents did speak often of their desire to maintain traceability and sustainability efforts. And, while some roasters questioned how much a coffee's sustainability truly impacted sales, and some organisational interview respondents questioned the veracity of roaster claims, many roasters and organisational representatives alike did verbally agree that customers are demanding more and more accountability – and thus, the industry can and will comply. In addition, the majority of producer and organisational interview respondents believe that sustainability efforts do bring value, and go hand in hand with quality.

Sustainability as a farmer-facing necessity

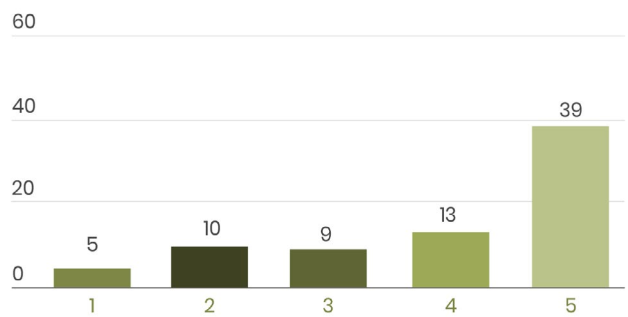
On the producing side, one respondent noted that even if there were no roaster demands for sustainability, only quality demands, the producers would focus on sustainability efforts anyway as such efforts helped their businesses and their relationships with farmers. Other producer interview respondents agreed, noting that the basis of their business is the farmer, so while they also focus on market-facing strategies like certifications, their main commitment is to ensure producers can maintain their livelihoods and their lands. In other words, according to Rojas Hernandez from Norandino, a focus on sustainability was more of a necessity, not a marketing strategy.

Some producer interview respondents also believed it was a matter of pride, and that farmers wanted to work with exporters or cooperatives who prioritised sustainability. Producers expressed, too, that they wanted to work with more roasters who understood the importance of sustainability, even if, for many producer interview respondents, roaster demand is not what primarily drove their commitments.

Of note, in Figure 40 below, 68.4% of producer survey respondents indicated very high agreement (on a scale of 1 to 5, aggregating values 4 and 5) that a higher price for coffee now and into the future was connected with being able to verify sustainable practices. However, it was not clear whether these high prices could also be attributed to sustainability's relation to increased quality, volume, or traceability claims.

Figure 40

Investment in the adoption and verification of sustainable practices will be key to selling coffees at a higher price, now and into the future



A growing complexity and the limitations in verifying sustainability claims

While organisational interview respondents rightly noted that no one size fits all, producers did suggest that they were working on a variety of sustainability efforts alongside quality increases, from sourcing from women growers to offering social programs or premiums. Some examples of social programs that the respondents shared with the researchers for this report included supporting education for the children of farmers, the provision of hygiene products and training for women, and the expansion of credit systems.

Many producers were also supporting farmer training and working to reduce costs of production. Others were focusing on protecting natural springs, installing solar power at their processing centres, and entering the carbon market. Ultimately, many of the efforts undertaken were context-specific, and as such, it is also important to note that because producer interview respondents for this report were specialty growers and cooperatives, their answers were likely biassed in the direction of a greater focus on sustainability.

Importantly, organisational respondents did note that while there has been steady growth in sustainable efforts in some parts of the value chain, there needs to be greater interest taken on the part of larger players – both producers and roasters alike.

Fortunately, there has been some growth in new reporting protocols for larger players; for example, the ICO mentioned that the Global Coffee Platform is attempting to make sustainability and accountability easier and more standardised through their Common Code. Still, other organisational respondents suggested that sustainability efforts are becoming more complex, eschewing basic standardisation (carbon accounting and industry efforts to reach net-zero being one example). And, of course, with greater complexity comes greater challenges in verifying claims, and ensuring value alignment. In total, 37% of roaster survey respondents suggested that they already found it difficult to source from producers that had aligned verifiable and ethical claims (Figure 35 on page 40).

Verification and claims go both ways, however, as noted by the respondents from ITC. Some large companies, according to Sette from ICO, may be reluctant to share their data; unfortunately, this will challenge the industry from leveraging shared data to scale solutions. Notably, organisational respondents suggested that such reluctance was an underlying market condition, and has not been caused or even exacerbated by the recent increase in C price.

A further reluctance was noted concerning the three pillars of sustainability (i.e. the social, economic, and environmental pillars). Several roasters, producers, and organisational representatives alike all expressed the importance of ensuring underlying economic sustainability before a company or business – farming businesses included – could focus on environmental and social sustainability. This begs the question, in years when margins for many companies decrease, could reluctance to engage in more sustainable efforts be exacerbated?

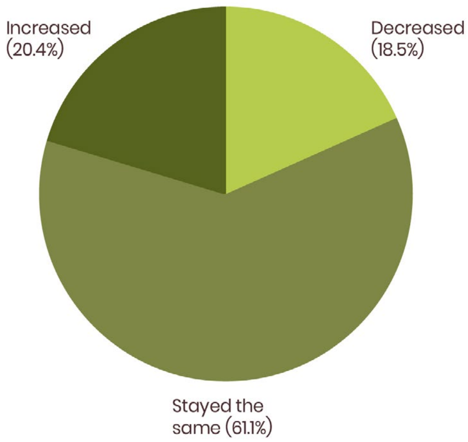
The good news is that social and environmental sustainability isn't a choice for many people and it goes hand-in-hand with economic sustainability and business longevity. And, while producers and organisational interview respondents agreed that there is greater awareness about sustainability in consuming countries versus producing countries presently, they noted that awareness is growing worldwide. They further see an opportunity in equipping youth from producing countries with the tools they need to impact the market toward greater sustainability in the future, and to raise awareness through greater communication with local customers.

Finally, on the consuming side, roasters talked about the importance of focusing on their cafes and internal operations as well when thinking about sustainability, rather than just focusing on the farm level. They indicated an interest in reducing greenhouse gas (GHG) emissions through more sustainable packaging, electric vehicles, and plant-based milk in cafes, alongside sourcing from producers with sustainable practices. They also noted that paying a good price for coffee was part of sustainable sourcing.

Certifications

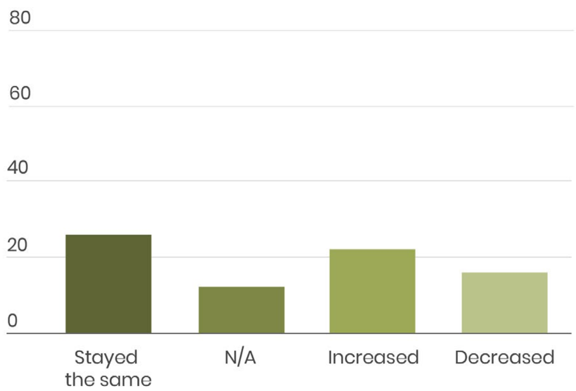
B Corp certification was one way that roasters believed they were able to demonstrate internal company sustainability and agreed that this certification was trusted by their consumers. However, sourcing certified coffees was not as relevant moving forward. Only 20.4% of roaster survey respondents increased their purchases of certified coffees in 2021 versus previous years, while 18.5% decreased their purchases, and 61.1% of respondents maintained the same levels (see Figure 41 below).

Figure 41
Volume of certified coffees purchased



Meanwhile, only 28.9% of total producer survey respondents planned to increase the percentage of their coffee sold as certified in 2022. In contrast, 21.1% of producer survey respondents planned to decrease their certified coffee sales, and 34.1% planned to maintain the same levels (see Figure 42 below). Additionally, it is interesting to note that among the top criteria for roasters when purchasing coffee, certification is a lesser consideration (Figure 29 on page 33), while for producers, affiliation with a certification scheme also ranked quite low in importance (Figure 30 on page 33).

Figure 42
Percentage of total coffee to be sold as certified in 2022



Section 8: Conclusions and Lessons Learned

Relationships have a stabilising effect

The qualitative and quantitative data from this study, while at times contradictory about current market trends, demonstrates that uncertainty about the future remains an underlying condition of the specialty and commodity coffee industries. This condition is not likely to change anytime soon. The importance of both coffee quality and relationships between buyers and sellers, roasters and producers – especially for specialty actors – is also likely to continue, if not increase. Long-term relationships, in particular, may become even more relevant or more strengthened, as awareness among specialty producers and roasters grows that such partnerships are as valuable when coffee prices are high as when they are low.

Of note, both supply chain actors agree that to navigate the uncertain future – uncertain regarding coffee prices and supply – they must maintain close conversations and strong, long-term relationships. Such relationships will allow both roasters and producers to build future growth strategies and resilience in the face of climate change, price fluctuation, and their related social impacts.

The industry needs collective action

In addition to quality and relationships, building more transparent and sustainable supply chains is believed to be of paramount importance, as is working in tandem with other supply chain actors to achieve goals. According to Barabosz from Hard Beans in Poland, we can't solve our problems and challenges independently if we want to create a bright future, combat climate change, and maintain our quality, specialty markets. Peter Kettler and Sarah Charles from ITC agreed, noting:

> *"The challenges that the industry faces today are going to be best solved by building consensus among the industry's stakeholder groups and by creating a groundswell of collective will to address these issues through collaborative action. Only by working together will we have a chance at creating a sustainable coffee future for the next generation."*

In addition, sustainability, in the minds of many respondents, also needs to become a cost of doing business, and this includes a focus on social sustainability to build staff and producer morale, environmental sustainability to ensure climate resilience, and economic sustainability to prioritise living wages for producers and the long-term viability of coffee businesses worldwide.

Claims of specialty coffee roasters are being put to the test

Another lesson learned from this year's market is how much green coffee – the raw material this industry depends on – can truly cost, and how much roasters are truly willing to pay, despite hopeful claims of harmony. Trewick from the Specialty Coffee Transaction Guide noted that before, many people in the specialty coffee market never considered that the C price could be all that high, stating:

> *"These rallies have really shifted people into thinking about their raw materials costs...Now, there has been this idea that now green coffee can represent a higher value as a cost of a good sold. I see this happening a lot with normal, average coffees. They are now trading two or three dollars above [what they were before] just to get them out of the country and to a destination. This is an evolution in terms of how we add value to the raw material. But it is happening four decades too late. And, while this market is temporarily showing the industry that coffee can be worth more...it does not mean it will be worth more [going forward] if market pricing follows historical movements and declines again in the future."*

Meanwhile, Meister, also from the Specialty Coffee Transaction Guide, further indicated that this year was a wake-up call for many roasters, as their claims about wanting, or even being able, to increase livelihoods through quality coffee were really put to the test.

In assessing the roaster to such a scenario, Algrano noted that many companies have struggled to continue paying above the C price, and started to question the need for a premium in the current market to sustain positive sourcing practices. Roasters also want to feel that changes in market dynamics are absorbed on both sides. They may thus expect, when relationships are present, that producer partners can help alleviate price increases moving forward. One roaster respondent put it this way:

> *"Right now, the commodity market price is putting pressure on the lower-end of the specialty price range. Our overall spending capacity is limited due to these changes and, therefore, it's going to be a tricky conversation between us and the coffee producers we buy from to continue to maintain these long-term relationships. At the same time, we recognize that a lot of producers are undergoing higher costs for production. Still, the price paid needs to be sustainable for both sides, and direct relationships work both ways. We paid good prices when the market was low, so we will benefit this year from a more competitive price from our suppliers, now that the market is high."*

The industry needs to redefine the value of coffee and the price of standard specialty

Given global power dynamics and resulting inequities in the share of value between producing and consuming countries, the researchers wonder how feasible – or even fair – it is to expect that producers will be willing to continue absorbing price risks into the future. Along with Algrano, they wonder whether such strategies are also reactive instead of proactive on the part of roasters. Many interview respondents hinted at needing to find a "better deal" or more "value for their money".

In an industry – specialty coffee – that has prided itself on divorcing value and price from the C market, what constitutes value, however, is constantly changing and constantly elusive. This underlying condition has perhaps not changed, but what has changed is that the value of the C-price has met the values that have been offered by specialty coffee roasters in the past. Algrano suggests that, if producers are not willing to negotiate contracts for these same values now, perhaps base prices for standard specialty coffee (80-84 points) may need to be adjusted moving forward. The goal in adjusting them would be to reach both long-term sustainability for producers, and account for previous years of producers working at a loss.

Algrano also notes that continuing to rely on the C price, even in part, as a price-discovery comparative mechanism only dilutes the capacity of the specialty coffee industry. Rather than focusing on what individual buyers can do and the value they can pay above C in years of low prices, they must focus instead on more collective action. This is especially when considering, as noted Trewick, "These prices we're seeing (on the market today) don't even come close to a living wage or prosperous income for farmers, let alone costs to produce in certain environments." He also noted that, "We can all pretty much count on prices going down again at some point in the future," so, if prices aren't meeting living income benchmarks now, they certainly will not when the C price dips again.

The status of underlying supply chain inequities remain the same

In addition to the current market having little to no impact on meeting living income benchmarks, it also, unfortunately, has had little to no impact on underlying power dynamics. Though some producers saw their prices increase this year and they were able to hold onto their coffee to wait for a higher price, the underlying inequities in the supply chain have, according to some, remained in place, if not worsened.

Jesiel Chagas, Specialty Coffee Affairs at CooperRita in Brazil, noted that the big coffee players with access to financial tools have been able to continue hedging in the market and managing price risks, which has further allowed them to consolidate and gain more power, while others lose business due to their inability to leverage such financial tools.

Meanwhile, many producers noted their belief that roasters, even smaller roasters, are still able to better manage risk, as they can move to another origin to find cheaper coffees when they need to.

They also noted that local speculation is not as high in consuming countries as it is in producing countries when the market fluctuates, as it did this year, and that interest rates remain more stable for roasters, further providing them with more tools to manage risk.

Peter Kettler and Sarah Charles from the ITC agreed, noting that by and large, producers lack access to risk management strategies in comparison to their consuming country counterparts. Importantly, Brás Regina and Cangussu Guimarães from Emater-MG in Brazil did note that this market is forcing producing countries to think more about insurance and digital tools, and other financial risk management tools. Still, such strategies may only be relevant when maintained year over year and available to all, and without further intervention, they will not change underlying inequities in value distribution. Peter Kettler from ITC noted the following:

> *"As an industry, we have so far been unsuccessful in addressing the need to reform value distribution in our supply chains. Every 'price crisis' generates a new round of benchmark studies, white papers and policy proposals that are never fully tested at scale. Many price-risk management tools have been designed to protect downstream stakeholders, but are mostly out of reach to producer groups. The stakeholder group that bears the most risk, producers, have the fewest tools at their disposal to address the inevitable market fluctuations."*

We need to tackle fluctuation to achieve real change

Finally, while some market trends in the past few years have been unprecedented, such as trends sparked by the COVID-19 pandemic, price volatility is not new, and because of that, Rojas Hernandez from Norandino was quick to point out in his interview that the current market is, in many ways, no different than years past. Additionally, Trewick noted that change won't happen if we are addicted to price volatility as an industry, and, the authors would add, change won't happen if we continue coming up with only individual solutions for short-term trends. Change also will not happen if our long-term solutions never go to scale, or become abandoned when price fluctuations occur.

In the case of fixed-price contracts, perhaps it will be important to continue analysing their value, rather than abandoning them completely, simply because the C price is high at the moment – especially when a high C price is something that the specialty coffee industry has claimed to want for years. Oteros from Supracafe in Spain put it best when he noted, "A high price isn't the problem. Fluctuation is the problem."

If this is true, the authors must then ask, what is our capacity as a specialty coffee industry to keep the price high, and even close to living-wage benchmarks? Meister, for example, believes that the price will go down again, but they ask, what will our response be then? They noted, "Nobody needs [one coffee roaster over another]...so for us to operate in a sustainable way as a society, we better be doing something special with this work, or it's just a vanity project." In other words, it is critical that we do not view the current market as another "turn of the wheel," but as a jumping-off point to something more equitable, transparent, and resilient.

This report has reinforced the paramount importance of relationships, sustainability, and quality along the value chain. Our work now as a specialty industry is to keep building on the tools and strategies that have provided positive results for all, and to continue sharing information and leading ongoing discussions about the best solutions. Such solutions must represent all stakeholders involved, and consider long-term goals, even if they don't lead to short-term gains. This report should not be considered as a starting point to merely grow important dialogue among industry members, but a call to action. As we pursue more cohesion and justice in the sector, it is time to make decisions that go beyond economic bottom lines, but instead, prioritise holistic – and dare we say – more radical goals.

Appendix

Figure A.
Geographic representation of producer survey respondents

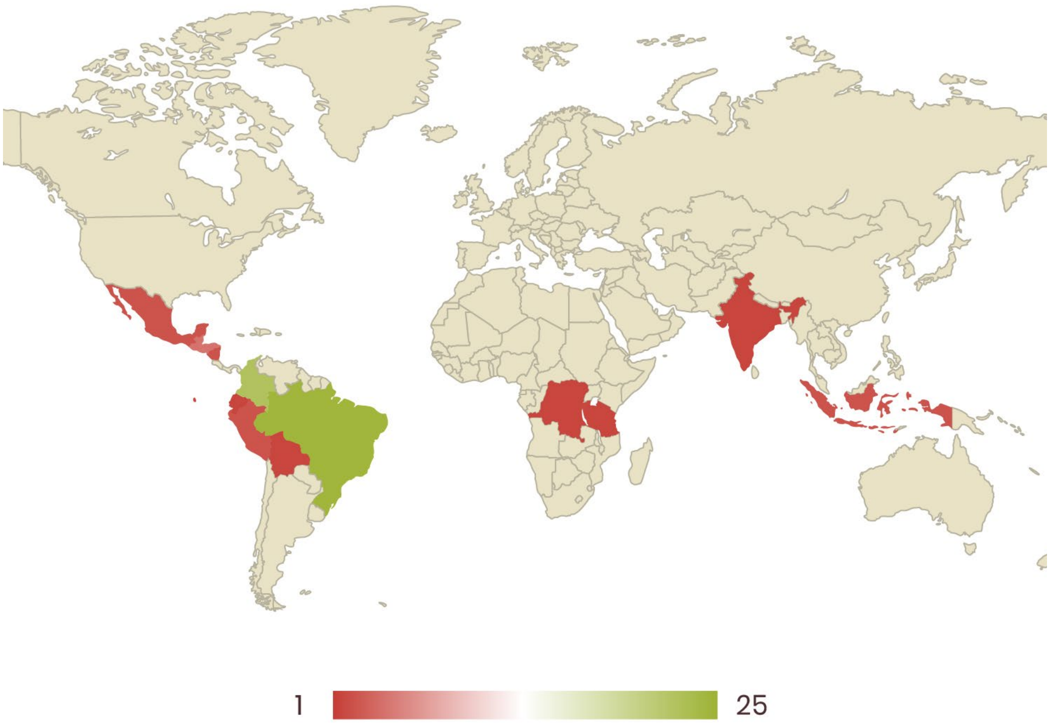


Figure B.
Geographic representation of roaster survey respondents

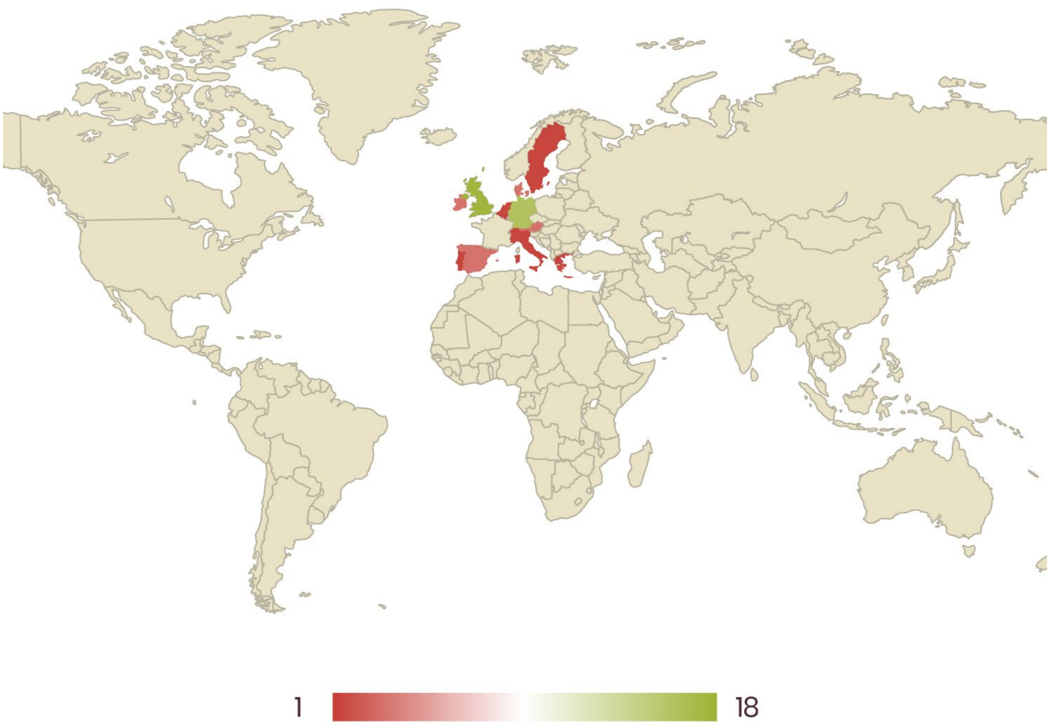
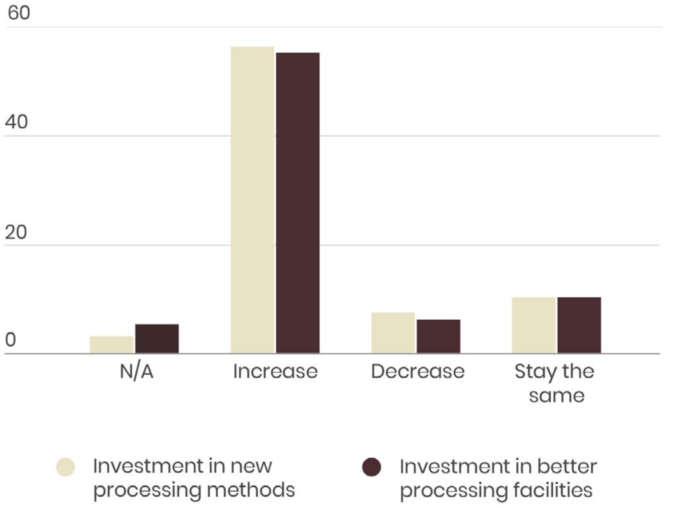
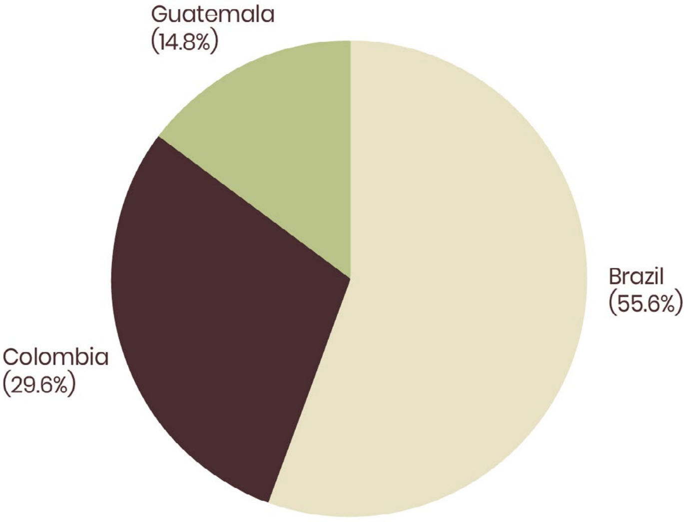


Figure C.
Changes in investments in processing methods and facilities predicted in 2022 by producers

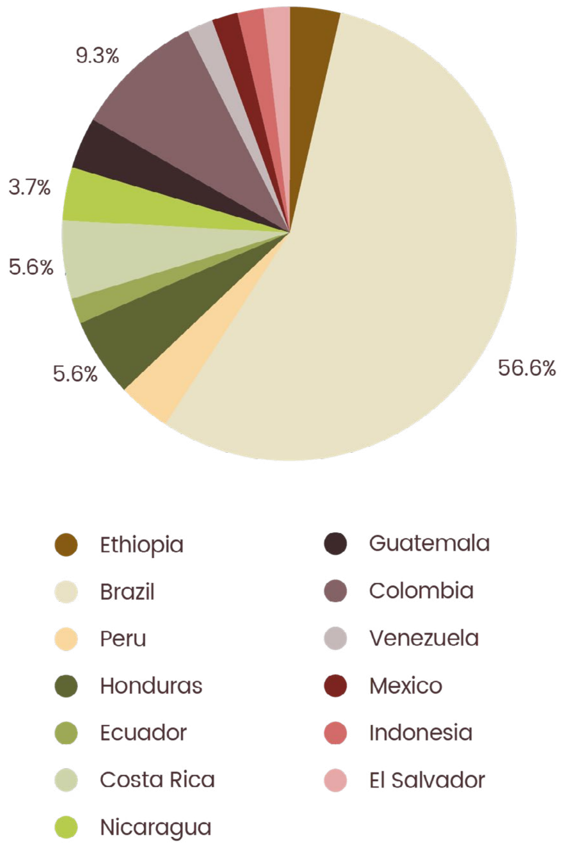


Figures D.
Roaster survey respondents on their first and second countries of choice in terms of volumes purchased in 2021

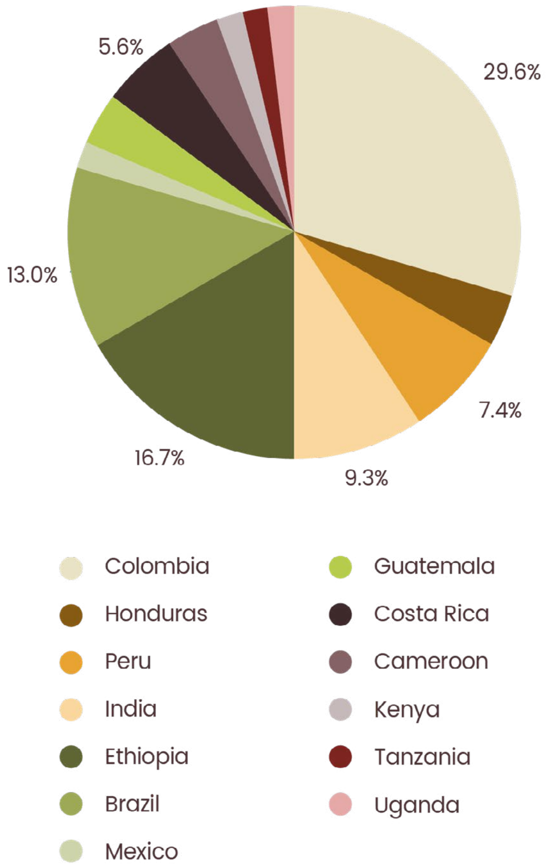
Top 3 countries roasters source from in terms of quantity



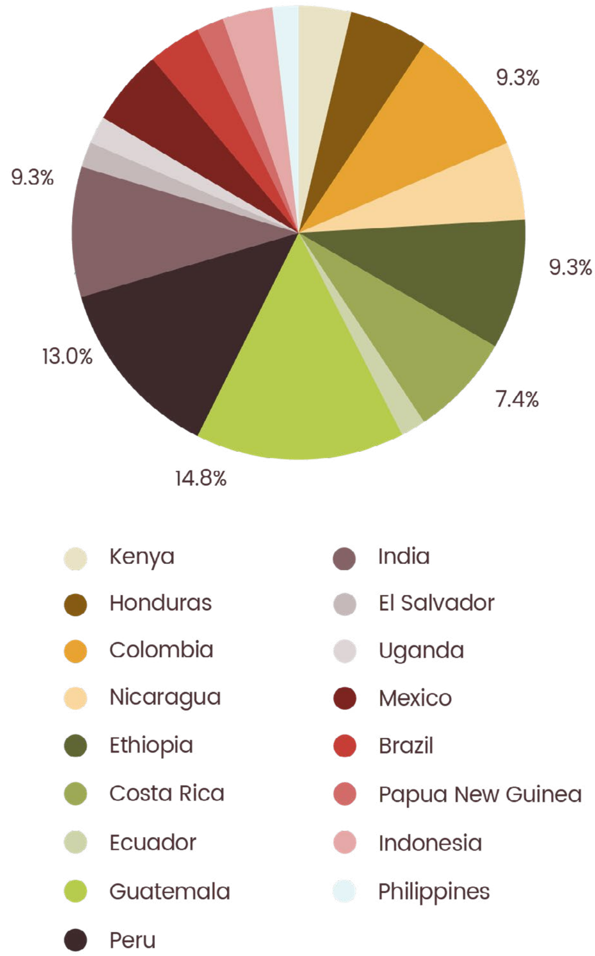
First country for volume of coffee purchased



Second country for volume of coffee purchased

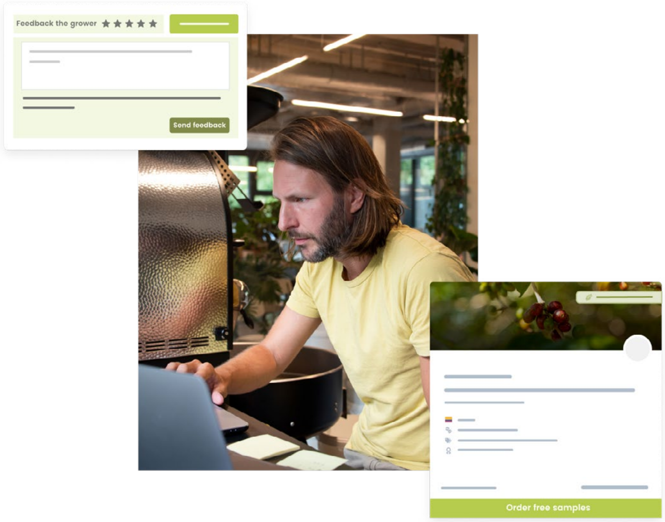


Third country for volume of coffee purchased

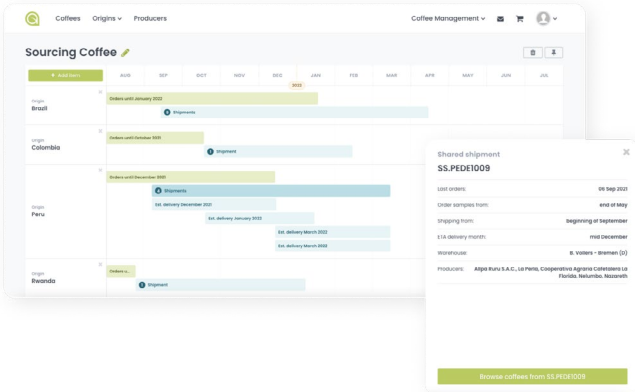


Algrano

Algrano is an award-winning Swiss start-up that offers a unique solution for the supply chain. The company is the main fully price transparent service provider in green coffee sourcing and logistics in Europe. Hundreds of roasters in 23 countries source directly from producers through Algrano's marketplace. The company was distinguished by the Specialty Coffee Association in 2015 when it won the Best IT & Technology Innovation award at the World of Coffee in Gothenburg.



The marketplace is Algrano's interface, a digital ecosystem where producers and roasters can connect and build relationships. By integrating Algrano's digital platform into their businesses, coffee roasters gain full control of their supply chain with price visibility, a planning structure, inventory management and direct communication channels to growers in 18 countries.



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