

The background is a dark grey color with a white line-art illustration of coffee leaves and beans arranged in a circular pattern. The leaves are scattered around the perimeter, and the beans are clustered in the center. The entire design is composed of fine lines and dots.

49TH

PARALLEL
COFFEE ROASTERS
VANCOUVER

TRANSPARENCY REPORT
2018



In 2015/2016, we released our first transparency report. Our aim was simple – to help customers understand how we buy coffee and how **Free on Board (FOB) pricing**¹ works. This report focused on the cost of producing **specialty grade coffee**² as well as the kind of investment required to increase its quality globally. The following year we built on this report with a case study of Carlos Guamanga, one of our Colombian producers. This study was used to give consumers a better understanding of how investing in quality can lead to an increase in profit.

This year's report will begin by defining what Direct Trade coffee means to 49th Parallel Coffee Roasters. We will go on to detail the key components of our sourcing philosophy, introduce the case study of Martir Fernandez and examine our purchase history, approach to buying Martir's coffee and the challenges that prevail. We will also include a breakdown of costs involved in exporting coffee from our long-term partner in Honduras, Beneficio San Vicente. The final section of this report will focus on the 2018 **Commodity Market (C-Market)**³ controversy and its impact on the specialty coffee industry, despite it not directly affecting our personal business model.





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WHAT DOES DIRECT TRADE COFFEE MEAN TO 49TH?

We strongly believe in having our own definition of Direct Trade. When it comes to transparency, 49th Parallel Coffee Roasters shouldn't decide what information is disclosed and what is not. Information should be readily available for our consumers and other coffee companies alike.

When we sat down with our team to brainstorm what Direct Trade coffee really means, the following questions were raised; is simply visiting producers considered Direct Trade? What must be done on the farm or with the farmer for it to be Direct Trade? How many bags of coffee need to be purchased from the farm? Is it only specialty coffee that's available under the Direct Trade heading or is it all coffee? Half premium/half commercial? What does buying directly even mean? Could Direct Trade be a way to minimise other interactions with the farm and create **Farm Gate Prices**⁴?

Much like other coffee certifications, including Fair Trade and Rainforest Alliance, Direct Trade loses more meaning each year. Buyers are desperate to know whether products are fairly priced and sustainably grown, but certifications like the above simply add more players to the game without generating any more income. Essentially the same amount of capital is involved, but more players are vying for a cut. This means farmers are being forced to share their income with other parties.

To reduce this financial impact, 49th has taken a different approach and has begun working one on one with farmers, investing in their businesses directly. While this approach involves a larger financial risk for us, it allows us to eliminate the middleman and increase income for farmers. We have thus concluded that Direct Trade is simple; when we visit a farm and launch a new partnership, our goal is to become a key investor in the farms crop. Becoming a key investor creates stability in our relationship and assures the farmer of a long-term partnership, allowing us to collaborate to increase quality and yield. Our main goal is to define a **Farm Gate Price**⁴ with more farmers in the future and separate it from **FOB (Free on Board)**¹ prices. This will help us work together more efficiently, pay better prices and in turn, help us to see results faster. We believe the constant pursuit of quality and sustainability is integral to any specialty coffee business, which is why both are critical factors in our coffee sourcing philosophy.

Photo by: Brandon Thiessen



CRITICAL FACTORS IN THE 49TH PHILOSOPHY OF SOURCING COFFEE

TRANSPARENCY

We are open and clear about each step of our purchasing process and aware of the impact Direct Trade has on the price of our product.

COMMITMENT

We commit to creating long-lasting partnerships with mutual benefit and encouraging development.

RESPECT

Each of our relationships is built on transparent communication and mutual respect.

IMPROVEMENT

We strive to better learn and understand the challenges faced by farmers so we can help them improve their business.

GROWTH

We strive to create initiatives that benefit both our supply chain partners and us.

SUSTAINABILITY

We believe that for coffee to be sustainable, all practices along the supply chain must be taken into account. Our main goal is to increase the number of farmers that engage in **Farm Gate Pricing**⁴.

STRATEGY

To continue sustaining a steady supply chain and quality coffee throughout the years, we approach each of our partners individually. We meet each of our producers multiple times a year to help reinforce our dedication to their work. These trips give us a better understanding of the challenges they face and allow us to do our best to help maneuver these obstacles together. This process ensures the strength of our partnerships and by assisting in the process we get the best possible coffee.



CASE STUDY

Martir Fernandez

Cup of Excellence winner 2010 - 25th Place

Region: Las Flores, Santa Barbara

Altitude: 1450masl - 1500masl

Varieties: Pacas, Yellow Catuai, Parainema

We began buying coffee from Martir Fernandez in 2012. We will now examine some of the challenges faced and how we have worked together to find positive solutions.

Every year Martir continues to improve the fundamentals of his production by drawing on his incredibly high attention to detail. With climate change bringing new challenges for Martir, he decided to replace some of his varieties with Parainema. Parainema is a more resistant, higher yielding, compact dwarf hybrid, which Martir received from his Uncle, Juan Evangelista. Neither Martir or Juan were aware that Parainema requires a much higher nutrient content, which means a higher initial investment and larger ongoing production costs. 2019 marks the first year Martir has seen fruit on the trees from the seeds planted. Next season will yield the first “flight” crop, something we are very excited about.



IMPROVEMENTS MADE TO FINCA BONANZA SINCE 2011

- Dramatic improvements in picking practices – only ripe, high sugar content cherries are chosen
- Purchase of a new depulper
- Addition of a fermentation tank with an increased fermentation time (now 12 hours)
- Installation of a second fermentation tank
- Increased fertilization from once to twice per year
- Stumping and pruning of plants where necessary
- Installation of a new patio and two 10-meter drying tables
- Creation of a bank account allowing Martir to store his savings and pay pickers



CHALLENGES

One of Martir's major challenges has been remaining motivated through poor harvests. Many of these have been caused by heavy rainfall, which drain the soil of many nutrients. Over the past two years, we have seen a much lower quality and lower scoring coffees from Martir's farm due to this excessive rainfall. In Honduras last May, we scored a sample coffee at 85.25, which was below the usual standard – we generally only purchase coffee scoring much higher.

In order to maintain our unique relationship with Martir, we wanted to support him through these financial hardships. We devised a plan to pay the same price for this lower quality coffee, on the condition that the extra money would be used to fertilize Martir's crops at least three to four times a year at higher parts of the farm where the Pacas and Catuai's varieties are grown. Martir has earned an extra \$2,733 because of our higher purchasing price and reinvested it in order to complete this task so far. We expect to see the results in both taste and cupping score this season.

PURCHASE HISTORY

The table below shows our history of purchases from Martir Fernandez since 2011. Martir's journey with high-quality coffee started in 2010, when he qualified for the Cup of Excellence, eventually ranking 25th that year. Over the years his coffee has ranged in quality, scoring between 85.25 and 87. We continue to support him and help him to grow better coffee.

49TH PARALLEL COFFEE ROASTERS								
Purchase History								
2011 - 2018								
Date:	# Bags:	Bag Size:	Total KG:	Total lb:	Price/lb:	Price Total:	Pallets:	ETA:
05/2011	12	69kg	828kg	1822lb	\$3.5/lb	\$6375.60 USD	1.2	July
05/2012	38	69kg	2622kg	5768lb	\$4.19/lb	\$24,169.60 USD	3.8	July
05/2013	21	69kg	1449kg	3179lb	\$3.60/lb	\$11,444.00 USD	2.1	July
05/2014	36	69kg	2484kg	5476lb	\$3.72/lb	\$20,388.18 USD	3.6	July
07/2014	8	69kg	552kg	1217lb	\$4.32/lb	\$5254.79 USD	0.8	Oct
01/2015	26	69kg	1794kg	3955lb	\$3.98/lb	\$15,737.30 USD	2.6	Aug
08/2015	11	69kg	759kg	1673lb	\$4.17/lb	\$6977.69 USD	1.1	Nov
03/2016	15	60kg	900kg	1984lb	\$3.97/lb	\$7877.11 USD	1.5	June
02/2017	13	69kg	897kg	1978lb	\$4.00/lb	\$7910.18 USD	1.3	June
05/2017	11	69kg	660kg	1455lb	\$4.00/lb	\$5820.20 USD	1.1	Nov
05/2018	24	69kg	1656kg	3651lb	\$4.05/lb	\$14,785.95 USD	2.4	July/Aug



PRICE BREAKDOWN: BENEFICIO SAN VICENTE

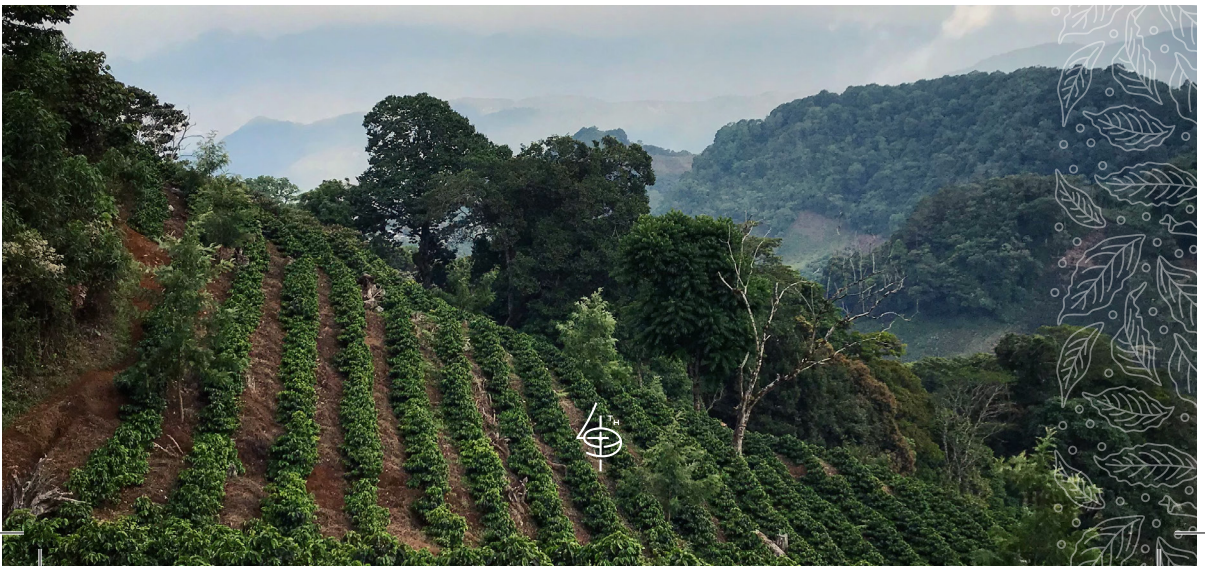
Price Breakdown/100lb	Cost:
Processing & Dry milling	\$33.00
Export Permit	\$4.25
Packing	\$5.00
Transportation & Insurance	\$3.60
Marketing & Promotion	\$6.65
IHCAFE Escrow	\$9.00
Management Costs	\$15.00
TOTAL:	\$76.50

Beneficio San Vicente is a coffee mill that has existed for many years. They are a large exporter of green coffee from Santa Barbara in Honduras. Benjamin Paz (to the right) is the owners son. He is a producer/exporter and a very key figure in helping build our relationships in Honduras.

The graph above illustrates the breakdown of costs per 100 pounds of exportable green coffee. It can be seen that processing and milling constitutes almost half of the overall costs. Another significant number is management costs and IHCFE Escrow (Instituto Hondureño del Cafe) adding up to 24 dollars per 100 pounds. Export permit, packing, transportations, and insurance, as well as marketing and promotion, are residual costs ranging from approximately 3 to 7 dollars making up about 25% of the final cost.



Photo by: Brandon Thiessen



C MARKET CONTROVERSY

Even though we, along with other specialty roasters, buy coffee outside the **Commodity Market (C-Market)**³, there is no denying that commodity price indexes continue to affect negotiations for specialty coffee. The problem is these price indexes do not account for the differing quality or quantity of coffees, yet they directly affect the price that coffee commands.

On August 20, 2018, the C-Market price for 1lb of green coffee dropped to \$0.98, the lowest since 2006. In comparison, the cost to produce 1lb of green coffee ranged from \$1.05 to \$1.40. It should be noted that in most producing countries, the cost of production includes labour, which accounts for approximately 70 per cent of total cost. This means that on farms selling coffee at C-Market pricing, most workers receive less than the living wage and most farms are running at a loss. With the international market not accessible to these farmers, it no longer makes sense for these people to continue growing coffee.

Another major issue with the C-Market is that it relies heavily on speculation and overreactions. This means many major players involved are using short-term projections and the market is being controlled by investors working on a “buy low, sell high” business model. A major consequence of this volatility is that the financial sector has stopped providing loans to producers because of the potential to lose money. Consequently, this has had a flow and effect across the entire coffee sector.

There is no simple solution to the C-Market controversy; it is a long-term process that will require commitment from the broader specialty coffee industry. However, it is agreed that a good starting point would be increased access to information, a conversation between importers and exporters about transparency and shared information between roasters and retailers. A commitment to collecting, analysing and sharing information relating to recent specialty coffee purchases could help to move away from the specialty coffee market being dictated by commodity pricing and towards a structure that recognises and rewards quality. The commodity market can not be compared to specialty coffee as these coffees are rarely scored, often defected and generally very poorly processed.

We believe an open and honest dialogue throughout the coffee buying community is crucial to achieving a healthy, stable market. While we admit this will be difficult, it is necessary. Without change, access to great coffees will decrease and fewer opportunities for farmers will arise.

US Coffee C Futures ▼ 100.05 -2.55 (-2.49%)



FOOT STEP TRACKING

During our trips to origin, we visit with our partners to analyse current crops, soil and trees. We tend to spend between 30-35 hours at each farm. 2018 was a relatively short year for our origin trips due to change in buyer however we still managed to spend 75 days overseas making visits. Last year we visited partners in Honduras, Colombia, India, Kenya, Ethiopia, Uganda, Mexico, Guatemala and Brazil. We often visit each farm 2-3 times per year.

TOTAL DISTANCE 2018

2018 Distance Covered – 66.72km

Highest Ascent – 1618m

Lowest Ascent – 3m

Plan for 2019 – Peru, Ecuador, Panama

Honduras - Distance travelled while at origin inspecting the farm.

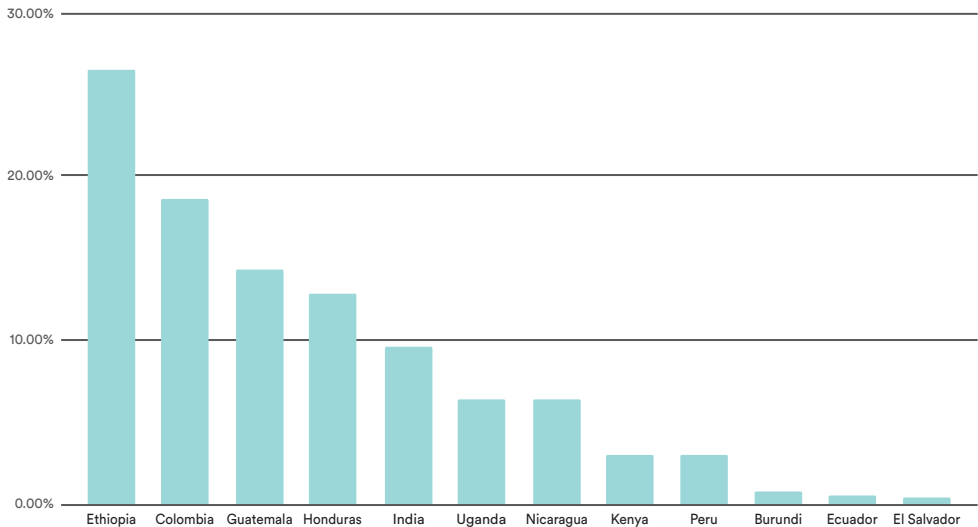
Summary of
12 Moves

Duration
8:26 Hours

Distance
18.96km

Ascent
1618m

ORIGIN PURCHASING PERCENTAGE





FOB - (Free on Board) Pricing

49TH PARALLEL COFFEE ROASTERS				Honduras
Purchase History				
2018				
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:
Honduras	Proyecto Cabanas	128	69kg	\$2.70 USD
Honduras	Juan Evangelista Fernandez	17	69kg	\$4.10 USD
Honduras	Natividad Benitez AB	19	69kg	\$3.85 USD
Honduras	Natividad Benitez May	12	69kg	\$4.10 USD
Honduras	La Colmena	1	69kg	\$4.20 USD
Honduras	Elio Diaz Bourbon	10	69kg	\$4.00 USD
Honduras	Martir Fernandez	24	69kg	\$3.75 USD
Honduras	Ramon Rodriguez	17	69kg	\$3.90 USD
Honduras	Miguel Enamorado	42	69kg	\$3.20 USD
Honduras	Benjamin Paz Bourbon	5	69kg	\$4.30 USD
Honduras	SWP Honduras Organic	12	60kg	\$2.41 USD
Honduras	Proyecto Cabanas	203	69kg	\$2.70 USD
Honduras	Natividad Benitez	17	69kg	\$4.40 USD
Honduras	Elio Diaz Pacas	29	69kg	\$4.20 USD
Honduras	Carlos Damian lot 2	12	69kg	\$4.10 USD
Honduras	Carlos Damian lot 1	4	69kg	\$4.10 USD
Honduras	Miguel Enamorado	10	69kg	\$4.10 USD
		Total Bags: 562	Avg Price: \$3.77 USD	

49TH PARALLEL COFFEE ROASTERS				Colombia - Part 1
Purchase History				
2018				
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:
Colombia	Swiss Colombia Excelso	13	60kg	\$2.49 USD
Colombia	Swiss Colombia Excelso	20	60kg	\$2.45 USD
Colombia	Luis Alberto jojoa - Perla del Otun	1	70kg	\$3.60 USD
Colombia	Luis Alberto jojoa - Perla del Otun	4	70kg	\$3.60 USD
Colombia	Norbey Quimbayo - La Esmeralda	3	70kg	\$3.60 USD
Colombia	Norbey Quimbayo - La Esmeralda	2	70kg	\$3.60 USD
Colombia	Carlos Guamanga - El Recuerdo	5	70kg	\$3.60 USD
Colombia	San Augustin Blend Platino Screen 17+	138	70kg	\$2.71 USD
Colombia	San Augustin Blend Platino Screen 14-16	90	70kg	\$2.71 USD
Colombia	Mariano Motta Chavarro - El Portugal	6	70kg	\$3.66 USD
Colombia	Carlos Guamanga - El Recuerdo	5	70kg	\$3.60 USD
Colombia	Alcides Avendaño - Buena Vista	9	70kg	\$3.48 USD



FOB - (Free on Board) Pricing

49TH PARALLEL COFFEE ROASTERS				Colombia - Part 2	
Purchase History					
2018					
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
Colombia	Alcides Avendaño - Buena Vista	5	70kg	\$3.48 USD	
Colombia	Alcides Avendaño - Buena Vista	7	70kg	\$3.60 USD	
Colombia	Eladio Ossa - Las Mercedes - Lot 1	10	70kg	\$3.81 USD	
Colombia	Eladio Ossa - Las Mercedes - Lot 2	10	70kg	\$3.81 USD	
Colombia	Eladio Ossa - Las Mercedes - Lot 3	10	70kg	\$3.81 USD	
Colombia	Carlos Guamanga - El Recuerdo	16	70kg	\$3.96 USD	
Colombia	Carlos Andres Vergara - Las Flores	6	70kg	\$3.96 USD	
Colombia	Carlos Guamanga - El Recuerdo	2	60kg	\$4.01 USD	
Colombia	Eladio Ossa - Las Mercedes	11	70kg	\$4.10 USD	
Colombia	Huila Decaf Blend EA	60	70kg	\$3.15 USD	
Colombia	Planadas Tolima II ORGANIC	40	70kg	\$3.00 USD	
Colombia	Carlos Guamanga - El Recuerdo	3	70kg	\$4.10 USD	
Colombia	Heladio Ossa - Las Mercedes	16	70kg	\$4.02 USD	
Colombia	Jesus Maria Guluma - Las Brisas	5	70kg	\$3.59 USD	
Colombia	Jose Angel Rivera - Los Lirios	3	70kg	\$3.49 USD	
Colombia	Jair Borda Perez - El Hebron	3	70kg	\$3.43 USD	
Colombia	Pedro Nel Trujillo - El Jardin (EP)	10	70kg	\$4.10 USD	
Colombia	Pasto Blend - La Caldera (UGQ)	13	70kg	\$2.97 USD	
Colombia	Pasto Blend - La Caldera (EP)	200	70kg	\$3.07 USD	
Colombia	Pedro Nel Trujillo - El Jardin (UGQ)	21	70kg	\$3.91 USD	
Colombia	Diomed Montano - Pensilvania	21	70kg	\$3.91 USD	
Colombia	Blend Tello (17+ screen size)	100	70kg	\$2.81 USD	
Colombia	Blend Tello (14-16 screen size)	100	70kg	\$2.81 USD	
Colombia	Hector Jojoa - Madrigal (EP)	9	70kg	\$3.85 USD	
Colombia	Robert Pillume - La Reforma	15	70kg	\$3.85 USD	
Colombia	Julio Corpus - Cuatro Vientos	5	24kg	\$4.20 USD	
Colombia	Carlos Guamanga - El Recuerdo	20	24kg	\$4.20 USD	
Colombia	Jesus Maria Guluma - Las Brisas	12	24kg	\$4.20 USD	
Colombia	Jesus Maria Guluma - Las Brisas	13	24kg	\$4.50 USD	
Total Bags: 1042			Avg Price: \$3.65 USD		



FOB - (Free on Board) Pricing

49TH PARALLEL COFFEE ROASTERS					Guatemala
Purchase History					
2018					
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
Guatemala	Poaquil A	176	46kg	\$2.90 USD	
Guatemala	Poaquil B	238	46kg	\$2.80 USD	
Guatemala	Rincón - Dos Rios (Ovalle)	75	60kg	\$3.20 USD	
Guatemala	Terrazas - Senegal (Ovalle)	13	60kg	\$3.85 USD	
Guatemala	La Bolsa - Los Rios (Ovalle)	48	60kg	\$3.20 USD	
Guatemala	La Bolsa - El Puente (Ovalle)	91	60kg	\$3.20 USD	
Guatemala	Peña Blanca - Rincón (Ovalle)	21	60kg	\$3.85 USD	
Guatemala	El Cabro - La Bolsa (Ovalle)	13	60kg	\$3.85 USD	
Guatemala	El Diamante	26	69kg	\$3.75 USD	
Guatemala	San Isidro	30	69kg	\$3.60 USD	
Guatemala	Santa Marta	24	60kg	\$3.60 USD	
Total Bags: 755			Avg Price: \$3.44 USD		

49TH PARALLEL COFFEE ROASTERS					Kenya
Purchase History					
2018					
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
Kenya	Mitondo AA	30	60kg	\$4.72 USD	
Kenya	Kiunyu AA	30	60kg	\$4.49 USD	
Kenya	Kiranga AA Kirinyaga	25	60kg	\$4.65 USD	
Kenya	Karimikui AB Kirinyaga	20	60kg	\$5.16 USD	
Kenya	Karumandi PB Kirinyaga	18	60kg	\$4.48 USD	
Kenya	Kiri AB	20	30kg	\$5.33 USD	
Kenya	Kiangoi AA	30	30kg	\$5.93 USD	
Total Bags: 173			Avg Price: \$4.97 USD		

49TH PARALLEL COFFEE ROASTERS					
Purchase History					
2018					
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
India	Pearl Mountain Ratnagiri Estate	480	60kg	\$2.33 USD	
Uganda	Sipi Falls Organic	320	60kg	\$2.37 USD	



FOB - (Free on Board) Pricing

49TH PARALLEL COFFEE ROASTERS Purchase History 2018					Ethiopia
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
Ethiopia	Mesina Guji	320	60kg	\$3.42 USD	
Ethiopia	Deri Kochoa	160	60kg	\$3.51 USD	
Ethiopia	Primerose Guji	320	60kg	\$2.42 USD	
Ethiopia	Gigesa	320	60kg	\$3.40 USD	
Ethiopia	Kayon Mountain	320	60kg	\$3.33 USD	
Ethiopia	Chelelektu	100	60kg	\$3.51 USD	
Ethiopia	Gedeb	60	60kg	\$3.51 USD	
Ethiopia	Hallo Fuafuate	25	60kg	\$4.35 USD	
Ethiopia	Tirtira Goyo	25	60kg	\$4.35 USD	
Total Bags: 1650			Avg Price: \$3.54 USD		

49TH PARALLEL COFFEE ROASTERS Purchase History 2018					
Country:	Coffee Name:	# Bags:	Bag Size:	Price/lb/USD:	
Burundi	Cyril Saviolot 39	32	60kg	\$2.70 USD	
Ecuador	Gilda Carrascal Pacamara	18	50kg	\$5.55 USD	
Ecuador	Arnaud Causse Caturra	19	25kg	\$4.30 USD	
El Salvador	San Jose	15	69kg	\$3.65 USD	
Nicaragua	La Roca AA	230	69kg	\$3.09 USD	
Nicaragua	El Jardin AA	48	69kg	\$3.37 USD	
Peru	Fairtrade Organic	20	60kg	\$2.85 USD	
Peru	Swiss Water Peru FTO	15	60kg	\$2.85 USD	
Total Bags: 397			Avg Price: \$3.55 USD		
Total Bags Purchased in 2018: 5379			Avg Price Paid in 2018: \$3.45 USD		

DEFINITIONS

¹ **Free on Board (FOB) pricing:** When a seller pays for everything up until a product reaches the local port. It is an all-inclusive price that essentially includes everything from farm to boat.

² **Specialty Grade Coffee:** According to the Specialty Coffee Association of America, specialty grade coffee is a coffee that scores above 80 points on a 100-point scale.

³ **Commodity Market (C-Market):** A commodity market is a market that trades in primary economic sector rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa, fruit and sugar. Hard commodities are mined, such as gold and oil

⁴ **Farm Gate Pricing:** The price for the sale of a product produced by the farm when sold direct to the end consumer. This price is typically higher than when sold into a consumer market where the profit is shared with a middle man.



49TH PARALLEL COFFEE ROASTERS

TRANSPARENCY REPORT

2018

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