

# Transparency Update 2016 - 2017

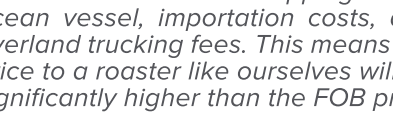
## What is the purpose of this update?

In 2015 we released our first transparency update. In that update, we showed three different breakdowns of where the money goes within an FOB (free on board) pricing structure. Another goal was to share our FOB prices for the 2014 - 2015 season. At the end of this update, you will find our FOB prices paid for coffee for the 2015 - 2016 season.

This year, our intention was to explore the cost of producing specialty coffee and if an increased investment in quality would lead to a greater profit for the farmer. This proved to be a difficult task. It meant a lot of back and forth emailing and chats in person with our exporter partner Azahar Coffee and many chats on WhatsApp with producer, Carlos Guamanga.

We have decided to present this information in the form of a case study, providing the facts gathered from Azahar and Carlos about his farm. The goal of this update is to continue an open dialogue about sourcing specialty coffee with our peers and customers. If you have questions or thoughts, we would love to hear from you. You can get in touch via email or social media channels which are provided at the end of the update.

FOB means "Free on Board". This acronym represents the price paid for coffee to the point of export when it is ready to be loaded onto a ship at port. This price includes everything up until this point: farming, processing, milling and preparation for export.



FOB does not include shipping on an ocean vessel, importation costs, and overland trucking fees. This means the price to a roaster like ourselves will be significantly higher than the FOB price.

## Our Approach to Sourcing



Laura Perry & Angel Arturo Paz at La Colmena in Santa Barbara, Honduras

For us, the coffee purchasing decisions we make must be financially sustainable for all involved - especially for those who make a living growing coffee. The quality of the cup is critical to our sourcing model, so that you will continue to love and enjoy the coffees we share. In order to achieve the quality we want, we tread carefully to choose partners we trust. The goal here is consistency in quality and production over the years with each producer we buy from.

We love chatting with our producer partners all year round where possible. It helps us understand what's going on through the seasons, what's going well, and what challenges are being faced. The way that we have structured our sourcing model is focused on open communication and strong business partnerships with producers and the exporters/importers who help facilitate and act as service providers for us and the farmers.



Martín Fernández at Finca Bonanza in Santa Barbara, Honduras



Grafting project at San Juan in Guatemala

We provide feedback to producers by working collaboratively with them, reviewing together what's working and what's not. It's not simply a matter of telling a producer they need more drying beds or a different system and expecting them to do it. The producers we work with are our business partners, and they ultimately make the decisions about what happens on their farms. The idea is to be there to listen and be as much of a partner in this supply chain as the producer is to us.

## Key Terms:

**Parchment** is unroasted coffee that hasn't had its paper-like husk removed. Removing the parchment is known as dry-milling.

**Carga** is a unit of measurement used in Colombia.  
1 Carga = 125 kg of parchment  
125 kg of parchment = 87.5 kg exportable green coffee

**Commodity Market** is a base rate used to sell coffee as commodity.

**COP** refers to the currency of Colombia, Colombian Peso.

Huila, Colombia



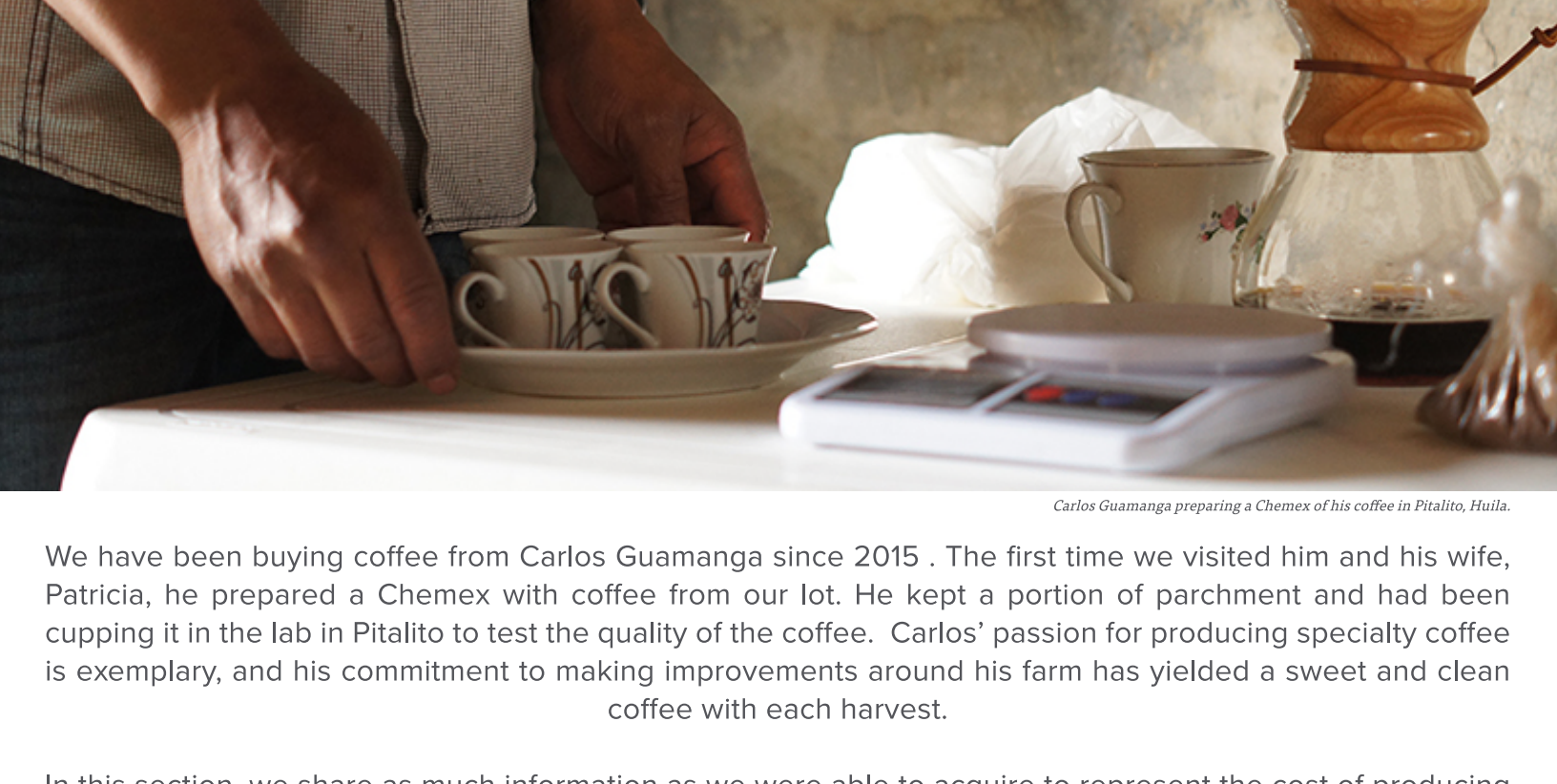
## Considerations

All coffee is bought and sold in USD. It is common, that the producer is paid in their own currency. In this case, Carlos was paid in Colombian Pesos. Without the exact date and time that he was paid, we cannot accurately translate the amounts to USD.

It's important to keep in mind that the figures listed in this report are based on the exchange rate of July 10th, 2016, when Carlos was paid, and should be interpreted as a general figure rather than an exact amount.

EXCHANGE RATE JULY 10th, 2016  
USD \$1.00 = COP \$2940.39

## Case Study: Carlos Guamanga In Huila, Colombia



Carlos Guamanga preparing a Chemex of his coffee in Pitalito, Huila

We have been buying coffee from Carlos Guamanga since 2015. The first time we visited him and his wife, Patricia, he prepared a Chemex with coffee from our lot. He kept a portion of parchment and had been cupping it in the lab in Pitalito to test the quality of the coffee. Carlos' passion for producing specialty coffee is exemplary, and his commitment to making improvements around his farm has yielded a sweet and clean coffee with each harvest.

In this section, we share as much information as we were able to acquire to represent the cost of producing specialty coffee for Carlos as well as, with his permission, sharing his profit for 2015.



Caturra cherries at El Recuerdo

**Farm Facts:**

**Farm Name:** El Recuerdo

**Region:** Pitalito, Huila

**Elevation:** 1750 m.a.s.l.

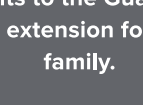
**Variety:** Caturra

**Total Land:** 4 hectares

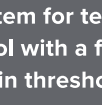


3 hectares in production

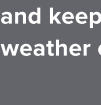
## Improvements made to El Recuerdo from 2015 - 2016



Improvements to the Guamanga home as well as an extension for his extended family.



Carlos uses a new drying set up with a computer system for temperature and humidity control with a fan that turns on when a certain threshold is reached.



Carlos built a bodega to store parchment and keep it safe from sudden weather changes.

## Production Breakdown

Annual Production Cost 2015: USD \$13 603.59

Annual Profit 2015: USD \$8502.25



70%

**SOLD AS SPECIALTY**

USD \$476.13 / Carga  
FOB Price 2015: \$3.38 / lb  
FOB Price 2016: \$3.75 / lb, \$4.12 / lb

The quality of Carlos' late harvest in 2016 was exceptional. As a result, he was able to negotiate a higher price.



30%

**SOLD AT DAY RATE  
ON COMMODITY MARKET**

The commodity price for coffee ebbs and flows and is volatile. It can range from USD \$204.05 / Carga to USD \$375.10 / Carga.

Carlos knows that if his coffee is good quality he will receive a minimum of USD \$340.10 / Carga with the standard being USD \$476.13 / Carga by selling to a specialty coffee buyer.

By selling the large majority of his production as specialty, Carlos has a much higher cost of production than if he was to focus on only commercial grade and volume. With this approach he has greater potential for a larger profit margin. Producing coffee that is intended to be sold as specialty costs more and is riskier, but the Guamanga family believes in this model and was kind enough to break down that cost for us.

## Why does the Guamanga family sell their coffee to the commodity market?

No farm can sell 100% specialty. The small beginnings and the tail ends of harvest mean picking cherries that are not super ripe and fairly low yields for export. Carlos has chosen to grow some varieties, such as Castillo and Catimor, for volume alone without intention to export.

This is his choice since he feels his other varieties cup better and will achieve a better price on the commodity market.



Carlos Guamanga at his farm, El Recuerdo

## Final Thoughts

Our goal in sharing this information is to communicate the work that not only we do, but the additional efforts that our producer partners put into growing specialty coffee.

It's important for us to provide transparent information about our sourcing practices, the relationships we have with our producer partners and the prices that we pay for coffee. It is our belief that sharing our knowledge, information, and stories, will help with understanding the importance of questioning where your coffee comes from, and if the person or group of people who produced that coffee were paid a fair amount.

Additionally, we would like to see the dialogue continued with consumers and specialty coffee industry professionals. If you have any questions or thoughts about our sourcing practices, a particular coffee or something you read in this update, please reach out to us. Get in touch with us by sending us a message on social media, or by emailing [info@49thcoffee.com](mailto:info@49thcoffee.com) with "Transparency" as the subject line.

Special thanks to Patricia Guamanga and Carlos Guamanga for contributing all of the information about El Recuerdo, and a big thanks to Sara Velásquez and Tyler Youngblood of Azahar Coffee for their collaboration and support throughout this project.

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## FOB PRICES 2016

LH refers to Late Harvest

| COFFEE NAME            | COUNTRY   | PRODUCER                    | REGION                    | F.O.B. PRICE |
|------------------------|-----------|-----------------------------|---------------------------|--------------|
| Buena Vista            | Colombia  | Alcides Avendaño            | Huila                     | \$3.52       |
| El Porvenir            | Colombia  | Hugo Rojas                  | Huila                     | \$3.49       |
| El Recuerdo            | Colombia  | Carlos Guamanga             | Huila                     | \$3.75       |
| El Recuerdo LH         | Colombia  | Carlos Guamanga             | Huila                     | \$4.12       |
| Finca Carrizo          | Colombia  | Carlos F. Guzman            | Nariño                    | \$3.49       |
| La Coca                | Colombia  | David Barrios               | Nariño                    | \$3.74       |
| La Florida             | Colombia  | Duarte Small Producers      | Nariño                    | \$3.49       |
| La Guadua              | Colombia  | Miguel Antonio Daza Munoz   | Nariño                    | \$3.49       |
| Las Mercedes           | Colombia  | Edgar Heladio Ossa          | Huila                     | \$3.89       |
| Robert Pilliume        | Colombia  | Robert Pilliume             | Cauca                     | \$3.49       |
| Yacuanquer             | Colombia  | Smallholders                | Nariño                    | \$2.74       |
| Aroresa                | Ethiopia  | Sidamo Smallholders         | Sidamo                    | \$3.60       |
| Biftu Gudina           | Ethiopia  | 180 Smallholder Members     | Agaro                     | \$3.30       |
| Bokasso                | Ethiopia  | Bokasso Cooperative         | Sidamo                    |              |
| Deri                   | Ethiopia  | Sidamo Smallholders         | Sidamo                    | \$3.35       |
| Kayon Mountain         | Ethiopia  | Ato Esmael & Family         | Guji                      | \$3.20       |
| Kecho Tirtira Organic  | Ethiopia  | 400 Smallholder Members     | Jimma                     | \$3.30       |
| Wottona Bultuma        | Ethiopia  | Wottona Bultuma Cooperative | Sidamo                    | \$3.30       |
| El Llano               | Guatemala | Perez Family                | Acatenango Valley         | \$3.50       |
| La Bolsa               | Guatemala | Renardo OValle              | Huehuetenango             | \$3.75       |
| Poaquil                | Guatemala | Smallholders                | Chaltenango               | \$2.80       |
| Retana                 | Guatemala | Fernando Cofiño             | Antigua                   | \$3.40       |
| San Jacinto            | Guatemala | Smallholders                | Huehuetenango             | \$3.30       |
| San Juan               | Guatemala | Eduardo Figueroa            | Antigua                   | \$3.40       |
| Bella Vista            | Honduras  | Carlos Damian               | Los Andes, Santa Barbara  | \$4.00       |
| El Ocotillo            | Honduras  | Natividad Benitez           | El Cielito, Santa Barbara | \$4.25       |
| El Ocotillo LH         | Honduras  | Natividad Benitez           | El Cielito, Santa Barbara | \$4.24       |
| Finca Bonanza          | Honduras  | Martin Fernandez            | Las Flores, Santa Barbara | \$3.75       |
| La Bendicion           | Honduras  | Ramon Rodriguez             | El Cedral, Santa Barbara  | \$4.00       |
| La Colmena             | Honduras  | Angel Arturo Paz            | Las Flores, Santa Barbara | \$4.00       |
| La Maravilla Pacas     | Honduras  | Juan Evangelista            | Las Flores, Santa Barbara | \$4.00       |
| La Maravilla Parainema | Honduras  | Juan Evangelista            | Las Flores, Santa Barbara | \$4.15       |
| Los Robles             | Honduras  | Miguel Enamorado            | El Cedral, Santa Barbara  | \$4.00       |
| Piedras Amarillas      | Honduras  | Elio Diaz                   | El Cedral & Los Andes     | \$4.15       |
| Piedras Amarillas      | Honduras  | Elio Diaz                   | El Cedral & Los Andes     | \$3.99       |
| Proyecto Cabañas       | Honduras  | Smallholders                | Marcala, La Paz           | \$2.70       |