

Kua

**Ethical Sourcing and
Partnership Framework**

CONTENTS

Glossary	3
Overview	4
Background	5
Framework	7

GLOSSARY

FOB	Free on board (FOB) is an International Commerce Term established by the International Chamber of Commerce. FOB prices include the price of the coffee and all costs incurred while preparing it for shipment. This includes everything from milling and warehousing, to intermediary fees and the exporter's profit margin. Under FOB, the seller – specifically, the coffee exporter – assumes full responsibility for the coffee until it is on the shipping vessel.
Farmgate	Farmgate price is the price paid directly to the farmer, generally for cherry or parchment coffee. Farmgate prices indicate how much of the contracted revenue of the FOB price reaches the farm level.
C Price	Coffee is most commonly traded as a commodity bought and sold through regulated markets known as commodities exchanges. The Intercontinental Exchange (ICE) trades Arabica coffee under what is known as the C Price. The C Price treats coffee as a homogenous raw material, regardless of origin or other factors. Even prices for specialty coffee are usually derived from the C Price. Most coffee is traded on future contracts - promises to purchase coffee at a future date at a price determined today - so the C Price is determined by speculation rather than real market conditions.
Floor Pricing	To ensure farmers' costs of production are always covered, despite market conditions, Kua makes context-sensitive minimum price commitments that serve as price floors to guarantee income stability regardless of what is happening in the futures market.
Smallholder	Producers farming on less than 20 hectares (Enveritas 2018).
Cherry	A coffee cherry is the fruit, or berry of the coffee tree, growing in clusters along the plant's short stems. The seed inside is what most people know as the coffee bean.
Parchment	Dried but unhulled coffee cherries.
Milled	Coffee cherries that have been hulled. Hulling is the process of removing the parchment layer. This can be done through a wet or dry process.
Q Grade	Both Arabica and Robusta coffees are graded by the Coffee Quality Institute's certified Q Graders to determine quality. Q Graders analyse coffees based on a series of sensory attributes - flavour, acidity, body, balance - then add them together to give a score out of 100. 80+ is generally classed as specialty grade (but some specialty roasters will only accept 82+ in single origins).
Co2e	CO ₂ e is an acronym for 'carbon dioxide equivalent'. It is a term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO ₂ e signifies the amount of CO ₂ which would have the equivalent global warming impact.

OVERVIEW

Coffee is a catalytic commodity. Every day, it connects millions of growers to a billion drinkers. But by 2050, 50% of the world's coffee growing regions will be wiped out due to climate change ([The Climate Institute 2016](#)).

Climate change is an ethical, legal and political issue as much as it is an environmental one and the impacts of it will not be born equally or fairly.

Of the 12.5 million smallholder coffee farmers who grow that coffee around the world, almost 70% are subsistence farmers who live below the international poverty line ([Enveritas 2018](#)).

Deeply rooted inequities in the coffee supply chain will only be exacerbated by climate change and as such, Kua advocates for purchasing coffee in a way that considers social, economic and environmental dimensions, with respect to conditions of the past, the present and the future.

The problems listed in the table below are present in most coffee growing communities but in each one, their presentation differs.

Global Problems			
1	Ethical Sourcing	1.1	Price
		1.2	Transparency
		1.3	Sustainability
		1.4	Gender
		1.5	Smallholders
2	Climate Resilience	2.1	Climate Change
3	Carbon Negative	3.1	Footprint

Founded on the principle of 'Universal Problems, Regional Solutions', this framework creates space to challenge global problems while accounting for variations in local situations.

We hope you find it useful.

BACKGROUND

1.1	Price	<p>Inequity and exploitation in coffee supply chains is longheld: from the 1700s when vast populations of people were enslaved to labour on plantations for colonial powers, to today where FOB prices are ruled by volatile free-market philosophies, unsustainable pricing has and continues to poverty trap millions of coffee farmers globally.</p> <p>In recent decades, one of the biggest challenges to fair prices for farmers has been the C-Price. While originally intended as a regulation and stabilisation tool, the 1980s saw free-market economic policy transform the C-Price into the opposite; a mechanism informed by supply and demand. As several new regions began to produce coffee in the 1990s (at the recommendation of development banks pushing export-led development and multinational corporations ceasing the market opportunity), the glut caused the C-Price to crash, leaving swathes of farmers unable to meet their costs of production and thus earn a livelihood from coffee. Over the last two decades, peaks and troughs in supply due to increasingly unpredictable weather patterns have resulted in increasingly volatile pricing. Climate change will only intensify this instability.</p> <p>Using the C-Price as a benchmark for coffee transactions is misrepresentative and unsustainable. As such, we use floor pricing or pricing based on direct trade negotiations to ensure coffee as a crop is profitable for the farmers it purchases from. When purchasing coffee direct, Kua's conversations are relatively simple. We ask what price a producer group wants for their coffee, and their answer is usually the price that we pay. We aim to understand how value is distributed amongst different stakeholders at the farm level and where possible, provide pre-harvest financing with negotiated fixed prices and volumes so farmers can plan, budget and cover their costs during the harvest season.</p> <p>Where farmers are able to gain access to the tools they need (fiscal and other) to run a profitable coffee business, coffee farms will become a catalyst in improving livelihoods for those living below the poverty line.</p>
1.2	Transparency	<p>Coffee is an opaque industry, with complex supply chains that are often hard to disentangle.</p> <p>The lack of detailed information available about the supply chain means that most stakeholders – from the producer to the consumer – have little understanding of where profit and value sit in the chain. In some cases, this ambiguity is capitalised on by different actors – intermediaries, exporters, importers, traders, roasters – who exploit low prices paid to the farmer and add high margins at their supply chain node (oftentimes at the retail end). Generally, only 7-10% of the retail price of coffee remains in the country of origin (World Vision 2016). This inequity is further compounded when coffee brands undercut ethical players by falsely representing themselves as 'fair' or 'sustainable', allowing them to take market share, even though no price premiums are passed onto farmers.</p> <p>Kua is passionate about value chain equalisation and connecting consumers with the economic and human stories of their products. We believe with transparency comes trust. The more drinkers know, the more questions they know to ask and the more informed decisions they can then make. As such, we aim to work with producers who are interested in connection and transparency as much as we are.</p>
1.3	Sustainability	<p>Defined generally, 'sustainable' coffee is coffee that is grown in a way that conserves nature and provides better livelihoods for the people who grow and process it.</p> <p>As in many other sectors, coffee buyers want to buy low and sell high but in increasingly volatile markets, this does not always work in the favour of farmers or the environment. Meeting low prices can compel farmers to clear land, use low-quality pesticides, monocrop and crop strip. To ensure the sustainability of coffee into the future, purchasing coffee on terms that reward producers who invest in sustainable practices, like intercropping, shade-growing, prioritising increasing yield over new plants, will transform the industry by ensuring farmers meet the cost of sustainable production.</p>

		Note: Kua acknowledges that unsustainable practices are often the by-product of poverty / desire for income and that is balanced when choosing partners. Kua supports not only farmers with existing sustainable practices but those that are on the sustainability journey.
1.4	Gender	<p>Despite up to 70% of labour in coffee production being provided by women (region dependent), they often have limited say in decision making, are constrained in their access to training and extension programs and lack control over income derived from agricultural production as well as investment decisions. This differential in access to resources and empowerment translates into a gender gap in agronomic and economic outcomes, such as yields, revenues from crop sales and household welfare. Strengthening the role of women supports broad-based development through improved livelihoods and rural incomes as well as greater community resilience in the face of climate change (International Coffee Organisation 2017).</p> <p>Note: Kua acknowledges that in most cultures around the world, gender still functions as the dominant organising principle for society whereby expectations about roles appropriate to different genders vary. As such, Kua approaches the issue of gender with great cultural sensitivity.</p>
1.5	Smallholders	<p>2/3 of the world's coffee is produced on 12.5 million smallholder farms, almost 70% of whom are subsistence farmers who live below the international poverty line (Enveritas 2018). For most, coffee is their only cash crop.</p> <p>As such, Kua only purchases from disadvantaged smallholders and where possible, attempts to source from those with additional barriers to export access (i.e remoteness / scale).</p> <p>Note: 60% of the world's coffee is produced by smallholder coffee farms with less than 5 hectares of land (Enveritas 2018).</p>
2.1	Climate Change	<p>Rising temperatures will cause severe weather events, increase the range of coffee plant diseases and kill large swaths of the insects that pollinate coffee plants. By 2050, it's predicted that half of the land around the world that currently produces coffee will become unproductive (Climate Institute 2016).</p> <p>To fight this, each kilogram of coffee purchased by Kua the Foundation has a 'climate margin' applied before being sold to Kua the Company; a margin that is directly invested back into climate resilience work.</p> <p>Where possible, Kua invests in projects that will benefit the same smallholder farmers it purchases coffee from.</p>
3.1	Footprint	Kua's carbon emissions are measured, reduced and offset every year, at 200% in line with our Climate Positive business model. The regions we source from and the activities undertaken to validate supply chains contribute to our product footprint.

Kua's sourcing framework is founded on the principle of 'Universal Problems, Regional Solutions', creating space to challenge global problems while accounting for variations in local situations.

This framework helps us to learn about new sourcing partners and identify opportunities to have an impact in disadvantaged smallholder farming communities. The checks are designed to understand, not to penalise. Answers to checks will act as justifications for our decision to partner (or not) and in line with our value of build in public, will be available to anyone that's interested*. Answers to each check should be discussed and reviewed with partners annually.

To use this framework, simply make a copy of this document and save it in the relevant regional research folder.

*When filled out for different regions, some information will not be available for public distribution due to privacy and security concerns expressed by some of our partners. As such, region specific information should be treated as confidential until permission to share is sought and confirmed.

Region (i.e Uganda)	
Location (i.e Mt Elgon)	
Cooperative / Partner (i.e Zukuka Bora)	

Sourcing Framework				
Region	Location	Partner	Check	Response
1.1	Price	1.1.1	For commodity coffee, is the FOB price per kilogram higher than Fairtrade FOB floor pricing? *Note: differentials for Arabica and Robusta.	
		1.1.2	For specialty coffee, is the FOB price per kilogram higher than the median FOB price listed in the most recent Specialty Coffee Transaction Guide for that grade/region? *Note: differentials for Arabica and Robusta.	
		1.1.3	How does the farmgate price per kilogram / pound compare to regional benchmarking for that season taking both processing stage (i.e cherry/parchment/milled/FOB) and local and international grading scales into account (i.e size / colour / q-grading).	
		1.1.4	What percentage of the FOB price does the farmgate price represent?	
		1.1.5	Are there any additional cash bonuses paid to farmers for livelihood purposes (i.e hungry season) or community co-benefits from the cooperatives / producer groups profits or activities (i.e farmer training)?	

		1.1.6	Is pre-harvest financing possible?	
1.2	Transparency	1.2.1	Is there substantial information available on the activities carried out at each node of the supply chain?	
		1.2.2	Are farmers interested in connection / shared storytelling? If so, how? If not, what are limitations / concerns around sharing information?	
		1.2.3	Has the origin been visited / audited by the Kua team?	
		1.2.4	Has the broader supply chain been audited?	
		1.2.5	Are there any modern slavery / forced labour / child labour concerns in the supply chain? If so, are there mitigation strategies in place?	
1.3	Sustainability	1.3.1	Are there any sustainability certifications for the producer group? (Rainforest Alliance, UTZ, Organic, Triple A, 4Cs, Bird Friendly, Fairtrade, Enveritas).	
		1.3.2	Are there any incentivisation schemes to enhance sustainability in the coffee growing region?	
		1.3.3	Are there already sustainable practices in place? See Conservation International Interventions .	
		1.3.4	What are the barriers to sustainable practices?	
1.4	Gender	1.4.1	What is the gender composition of farmers?	
		1.4.2	Is there gender policy in place?	
1.5	Smallholders	1.5.1	Are we purchasing exclusively from smallholders (farm on less than 20 hectares)?	
		1.5.2	Are they living below the international poverty line?	
		1.5.2	Is there a way to prioritise remote farmers / farmers with access issues / unorganised smallholders / those on less than 5 hectares?	
2.1	Climate Change	2.1.1	How will / is climate change affecting the specific coffee growing community?	
		2.1.2	What local organisations are working to build climate resilience in the region?	
		2.1.3	Does the climate resilience work occur in the coffee growing community and are there co-benefits for farming families / the broader community?	
		2.1.4	Does the local community identify climate change as a concern?	

		2.1.5	If a localised project is not appropriate / available, what are the alternate options?	
3.1	Footprint	3.1.1	How does the particular location contribute to Kua's Co2e emissions, considering distance / staff travel?	
		3.1.2	Can Kua limit its emissions in any way by partnering with the producer? (i.e no need for physical audit, purchasing through trusted / verified distributors).	
		3.1.3	Can offsetting be done in a way that delivers co-benefits to coffee growing communities? (ie. Trees for Global Benefits / ECOTRUST).	