



Our Covid-19 Tea and Coffee Supplier Commitments: Q&As

In April 2020, given the Covid-19 pandemic, we launched five Commitments to our Tea and Coffee Suppliers, outlining how we are committed to the principles of Taylors Sourcing Approach throughout the global health crisis. This document explains more about the commitments, how they were produced, why they're important and how they'll work in practice.

1. How has the pandemic impacted on our global supply chain?

We continue to watch the situation closely. So far, the spread of the virus in the tropics has concentrated on large cities, with modest or no recorded infections in the rural tea and coffee growing regions. It's also been reassuring to hear how our suppliers have quickly implemented prevention measures, including strict standards of social distancing and hygiene. And to date, given tea and coffee are considered essential sectors, there have been no significant delays in the movement of commodities.

However, the lockdowns – while essential for public safety – are having far reaching impacts on farmers, workers and growers, and their communities. Some of the challenges include potential health impacts in areas already living with inadequate health care, lack of safe water and sanitation (including access to handwashing facilities), and risks of food insecurity, with local supply chains disrupted and increasing costs of basic food items in remote and rural communities.

There's also an impact on livelihoods. In many supplying countries, governments have made it mandatory for people to wear face masks in public. Without them people can't make a living. And in countries where harvesting is dependent upon seasonal labourers, the lockdown is likely to mean people are unable to travel to work.

2. What's the purpose of our commitments and how do they work in practice?

Lockdowns, while necessary for public safety, are having far reaching impacts on producers and farmers. The decisions and actions of businesses – whether it be cancelling orders or changing suppliers – can impact on thousands of lives.

We've worked with many of our suppliers for years, sometimes decades, and our business success depends on them producing quality tea and coffee for the long-term future. We're committed to continuing to act as leaders in our sector, by offering some certainty to our suppliers in these uncertain times.

Our five Supplier Commitments clearly communicate – to our suppliers, our customers and our industry peers – the standards we're committed to uphold. They provide the reassurance that we're working together to support each other through the crisis.

Along with issuing them to all our suppliers, we've also made them publicly available on our websites. This demonstrates that we're committed to holding ourselves to account and, we hope, encourages other businesses to work with their suppliers in the same way.

3. How did we go about producing them?

The commitments honour the principles of Taylors Sourcing Approach – long-term, mutually beneficial relationships, with shared commitments to supporting the sustainability of the value-chain. They were developed after we'd worked with our suppliers, and other experts, to understand the impact of the pandemic on their business and their people.

Covid-19: Our Supplier Commitments

1. Our commitment to humanitarian support

With immediate effect, we've set up a global Emergency Response Relief Fund – to the value of £0.5m – to support the humanitarian impacts caused by the pandemic. Our focus will be food security, maintaining healthcare services and supporting measures designed to reduce the spread of the virus.

2. Our commitment to long-term agreements and contracts

We will honour every one of our long-term agreements and contracts already in place and look to grow volumes where practical. We understand that in times of uncertainty providing security of business enables the ability to plan. To that end, we will continue to share our forecasts and buying commitments with suppliers, underpinned with mutually agreed and transparent pricing models. We will continue to pay promptly, on time and in full for every contract, now and in the future.

3. Our commitment to payment terms and credit

Liquidity is essential, even more so in a crisis when conventional flows of cash may be compromised, leading to an impact on livelihoods. We will shorten our payment terms to Net Cash Against Documents (NCAD) on a needs basis to speed the flow of money to suppliers where it's needed. We will further work with our suppliers to ensure credit lines are in place and will triage with our growers and social lenders to maintain financial liquidity.

4. Our commitment to sustainability

While we respond to the immediate impact of Covid-19, we will continue to champion our existing global sustainability programme, which includes Carbon Neutral products, working towards a living wage across our value chain, and eliminating oil-based plastics from our packaging.

5. Our commitment to collaboration and communications

We will publicly report on our progress against these commitments each month, while continuing to collaborate with suppliers and other stakeholders, to share learning, maximise our collective impact and ensure that we're honouring our commitment to be a Force for Good.

4. What's our Emergency Response Relief Fund and how will it work? What sort of issues will it address?

It's been established to provide a rapid response to immediate needs, recognising that some of our suppliers need support to minimise the impact of the pandemic on people and communities.

We're working with our suppliers to understand priority areas and issues. These vary from country-to-country and region-to-region, but include improving hand-washing facilities, providing soap and sanitizer, supplying touch-free thermometers (for example in factories and buying centres), purchasing PPE (face masks, gloves, etc), and supporting the food security of vulnerable groups. The Fund will benefit factory workers, smallholders and growers, co-operatives and wider communities.

In many cases we're working directly with our suppliers so we can have an immediate impact. However, we're also exploring how we can work with others, including providing funding for cross-industry humanitarian relief programmes or with local or regional government schemes. We're also looking at what will be needed in the medium and longer term.

5. Is our Emergency Response Relief Fund a new cost to the business or reallocated fund?

The first wave of funding come from the significant investment we make in our supply chain each year. In other words, it's funded by the budgets we had in place for 2020, utilising contingency or unallocated budgets. We'll continue to monitor our investments to ensure that we're making a meaningful and substantive difference as the situation develops.

6. Why are long-term agreements and contracts so important to suppliers? How is this different to the way other companies operate?

Our commitment to long-term relationships, supported – where possible – by long-term commercial contracts is central to Taylors Sourcing Approach, our sustainable sourcing strategy. It allows both us and our suppliers to develop a deep understanding of each other's needs, supports planning ahead, encourages investment in farms and factories, and provides a sense of security in volatile commodity sectors. Long-term contracts also allow our producers to access credit, if needed. By using our forward contracts as collateral, our suppliers can access pre-financing (for example, business loans so cooperatives can pay farmers promptly).

It's very different to the way most businesses in the tea and coffee sector operate. Due to the nature of these commodities, they can often be easily substituted. And while the quality may differ slightly between producers/regions, tea and coffee can often be blended into a uniform product where the change in ingredient is unnoticeable to the consumer. In many businesses this interchangeability and uniformity allows (and often encourages) buyers to focus their business on where they can get the best value at any given time. Such practices make it difficult for growers and producers to plan ahead and puts a downward pressure on prices.

By reinforcing to our suppliers that we remain committed to long-term agreements and contracts, both through the bad times and the good, our suppliers can confidently make the investments needed to employ and support their people through the pandemic.

7. How are we changing our payment terms and why is it important?

Payment terms are important, because it affects how quickly suppliers receive the cash they need to pay their workers and their own suppliers and this supports their financial planning. As a general rule, we have

a maximum 35 days payment period on all our tea contracts. Meanwhile all our coffee contracts and a proportion of our tea contracts are on a 'net cash against document' basis. Put simply, this means we pay our suppliers as soon as we receive the appropriate documents. This is quite different to how some businesses in commodity industries operate, where payment terms could be extended up to 90 days or longer. This can delay payments to growers and smallholders, depending upon the financial liquidity and stability of the supplier or co-operative.

Our intention with this commitment is to give suppliers the option of changing the payment terms that are currently in place, should it be needed. Again, we hope this will mean our suppliers are better placed to remain resilient in the face of the challenges presented by the pandemic.

8. How and why are we supporting our suppliers to access credit?

Agriculture is considered to be a risky business because yields depend on external factors such as local weather patterns and regional climate. When the risk of lending is perceived to be high, traditional banks and financial institutions are reluctant to offer credit or loans to producers below a certain size (and economic stability). This is where social lending institutions come in. They are specialized in understanding and carefully managing risks associated with different agricultural sectors, allowing small producers and cooperatives to access loans and microloans that would otherwise be out of their reach.

At the cooperative level, such loans – also referred to as pre-finance – enable the cooperative to pay farmers promptly for their produce once delivered. Without this, cooperatives would either have to delay part of their payment to farmers to a later date (often by 2 or 3 months) or, in severe cases, be unable to operate.

Many of our suppliers already use the services of social lending institutions using our forward (long-term) contracts as collateral. Our commitment outlines how we'll play a role in helping those producers who wouldn't normally need such loans have access to them, if required.

9. What is the impact of Covid-19 on our sustainability plans and projects?

Not surprisingly, in many regions programmes that require people to be in close proximity to each other (for example, farmer training) have been put on hold temporarily. While many, such as tree planting or agronomic field support services, will be able to start with social distancing measures in place once lockdowns are lifted, others may need to be redesigned. We're working with our partners to understand next steps, but remain committed to all the work we had planned in.

Once we are confident that the immediate needs of our producers are met, our focus is going to shift towards increasing our producers' and communities' ability to adapt to a new normal in everyday life. This is likely to include digital access – for training and for payments – as well as an increased focus on sanitation and access to water. This will support and strengthen capacity for the long-term, beyond the period of the pandemic.

10. Who will we be collaborating with and why is it important?

We know that we can have a bigger impact if we work with others to share learning, resources and collective leverage. We continue to use leadership positions on industry associations, such as the ETP (Ethical Tea Partnership) and BCA (British Coffee Association), to develop strong plans and engage others in reducing the impact of the pandemic on our supply chain and its people. Thanks to our long-term commitment to sustainability and our supply chain, we have strong relationships with NGOs and local governments, and we'll leverage and utilise these where we can.

11. How will we be measuring and reporting on our commitments?

We're working directly with our suppliers to monitor the reach and impact of the Emergency Response Relief Fund, along with other KPIs. To hold ourselves to account and share our learning, we'll be reporting on progress each month on Taylors Impact website.

12. What are we doing to support communities and people in our local area?

Recognising the role that charities and community groups have been playing in supporting the most vulnerable during lockdown – at a time when their fundraising income had dropped dramatically – we've donated £110,000 to Two Ridings Community Foundation's 'Coronavirus Community Fund'. This Fund provides emergency grants to charities and groups working in our local area, so they can cope with an increase in demand for their services or adapt the way they work. Beyond the initial emergency relief phase, the Fund will also help charities survive and recover for the future so that when life returns back to normal, they'll be able to continue to offer their vital services.

We're also committed to honouring our partnerships with our 2020 Branch charities, ensuring that the funds we donate at year end are comparable to a normal year. With that in mind, the business has allocated £10,000 to each of our eight branch charities.

Meanwhile, since the start of the pandemic, our people have been getting our tea, coffee and specialities from our sister company, Bettys, into the hands of NHS and social care workers in our local area, to show our appreciation for their hard work and dedication.