

STATEMENT ON EFFECTS OF COVID-19 ON NAPP

30th March 2020

Dear Fairtrade Partners and Stakeholders,

Businesses and services around the world have been heavily impacted by the COVID-19 pandemic and NAPP is trying to adapt to the changing scenario. The situation is still fluid and evolving by the day.

Our consultants have been working from their home office to provide support to the system in the best possible manner. All channels of communication are open and we continue to reach out to our producer organizations to propose ways for effective crisis management. Majority of our producers have taken the lead in conducting awareness programs and campaigns, providing medical supplies and rations to their farmers and workers. Premium initiatives to provide necessary support are ongoing. So far China and Iran are the regions which have been worst hit by the crisis. Majority of the countries across the region are under lock down. India and China have implemented the world's largest and most restrictive mass quarantines.

BUSINESS

Coffee: In Indonesia the shipping port remains open but there is a growing concern that it may close in the next few days. Exports to the USA are still going well. Indonesia is highly dependent on China for its export, the impact of which is already being felt. ICO data on price and consumption has not yet shown any significant decrease since January 2020 but is uncertain for the coming months. While the demand from buyers remains generally stable, there are some who have reported decrease in demand and price negotiations. 02 SPOs with direct export capacity have reported that their coffee demand is increasing, and FOB price is even better, especially due to the profit they earn from the export price exchange rate. Partial restrictions have been put by some traders to limit the receiving and unloading of coffee samples for the next 1-2 weeks. Few SPOs have encountered problems with production due to shortage of labor. Some SPOs are now working on contracts that had been signed prior to the Corona crisis and on getting the new contracts. Those who are working on new contracts report that there are no significant problems as of now. However, there is a likelihood that the number of offers may decrease due to the market situation in the consuming countries.

The FOB price has not been much affected yet but due to the increase in exchange rate of USD against Rupiah, this will happen soon. There has not been any significant increase in the cost of logistics and processing, but due to increase in the price of daily subsistence goods these may go up too. Logistics remain largely unaffected as of now. The coffee supply at the local level of Central Aceh and Bener Meriah is decreasing, but this is most probably due to the decrease in productivity at the farm level, which had been predicted earlier in the season. This decrease is predicted to be anywhere between 50 to 60 percent from the last season.

In Thailand due to the global economic crisis, some of the countries where buyers and importers are based remain locked down and most companies have either decided to close or reduce their working time. The production is not affected but their exports will likely take a hit in the coming weeks. The price as on date remains stable.

In Laos for the existing SPO - as per their new contracts some of the customers have decided to hold the orders due to challenges in financial, administration, and transportation. While their old orders have already been shipped, it will affect the new market with customers cancelling their field trips. The new coffee SPO from Laos has no problem with FT sales as their coffee orders have already been sent and paid for. They only face challenge with their domestic non- FT coffee orders which have already been sent but the SPO have not received any payment as the trader is unable to sell the coffee due to ban on foreign tourists and lock down.

Sales of Fairtrade coffee is reducing by 20% in Vietnam and the price for conventional coffee is going down steadily.

Overall, the impact on Fairtrade Coffee from South East Asia remains unclear and unpredictable, however since Covid-19 has already slowed down the global economy, it is likely that sooner or later it will also have impact on our Fairtrade coffee farmers. Majority of the coffee farmer live in remote areas where access to good medical facilities is limited. The farmers are still maintaining normal daily activities.

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In India the harvesting season is between November to March. The lockdown has disrupted supply chains across the board as it came just as procurement started. The produce is in various stages of processing and the buyers are not committing to any volumes due to market uncertainties. It remains to be seen if consumers will continue to buy Fairtrade products of the same volumes especially when their economies are reeling, and their own well-being is at stake. Earlier contracts which specified transshipment in April and May will be delayed as the ports in India are closed and some shipments are stuck. There have also been instances of cancelled contracts and delayed off-take. For some semblance of normalcy to return in it would take at least 4 -6 months from now if the buying behaviour in the global north remains unaffected and that is a big IF.

The social aspect of the tragedy also makes compelling reading. Most farmers are experiencing psychological turmoil with the way the tragedy is unfolding (especially in Kerala which as of today has the highest number of cases in India). The uncertainty of the future is creating anxiety among them. Some of the poorer farmers are relying on Government dole outs (especially rice) to sustain themselves in the coming days. The SPO's are playing an active role in spreading awareness about the do's and don'ts to combat the spread of the virus and in some cases are capturing the impact.

Tea: Tea prices in India have plunged about 40 per cent in the recent auctions as Iran and China have stopped importing the commodity following the Covid-19 outbreak.

A carryover stock of 50 million kgs of tea from last year has added to the woes of the industry. Govt. of India has announced lockdown of entire country till 14th April leading to temporary closure of operations in most tea estates and factories across India. In North East India the workers continued to work and earn their daily wage until 24th March, but now are at the mercy of the Govt. and the plantation's support for their daily survival. The existing Legal Provision on Wage Agreements through CBA, the Interim Wage Directive from Govt. allows the Tea companies to pay wages ONLY when the Workers are working. The Govt. of Assam has recently issued a directive to the Labor Department to provide necessary advisory to all public and pvt companies including plantations to extend their cooperation and not to terminate any contractual/casual workers or reduce their wages. The estates have been carrying out trainings on preventive measures for all its workers and staff.

In South India majority of the workers are permanent and tea estates are supporting them by paying wages for this month, however, if the situation continues, the smaller estates will face financial issues. The State Govt. is providing provisions to workers holding ration cards. The Tea Planters Association is working with the govt to include those who do not have this card. Business wise the orders are just 30% of last year. Shipments are going up to the port and facing inordinate delays owing to the closure of the destination ports. For small tea growers the harvest is not being bought by the tea factories due to which the workers employed by them are not being paid.

In Sri Lanka prior to the nation-wide curfew, Fairtrade tea producers were actively engaged in forming voluntary health teams and carrying out massive awareness programs to educate the workers to take preventive measures. They are talking to big manufacturers to procure good quality masks and ensure adequate supplies of medical equipment are kept in stock for emergencies. During this nationwide curfew period Tea plantations are allowed to work and companies are offering work to their workers ONE STRETCH (7 am to 1 pm). Meanwhile the Government has decided to provide dry rations worth of LKR 3,000/- to workers under a special program where beneficiaries are required to bear half the cost. Fairtrade gardens are likely to utilise the premium fund for this purpose.

Producers in Vietnam have lost approx. 20 new buyers from EU and US due to cancellation of project visits before signing the new contracts. In China the SPOs are struggling to get migrant workers for the spring season harvest. As per Chinese customs, the export volume of tea during January-February of 2020 decreased by 26.34% and the amount of exports in USD decreased by 9.47%.

Over 7000 farmers and 65000 plus tea workers of FT certified organisations are likely to be impacted. The producers have reached out to NAPP to seek clarification on whether the Fairtrade premium can be used to fund awareness campaigns, procure masks and sanitisers or provide rations.

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Cotton: In India, the harvesting season got over in Feb and the farmers have likely avoided being severely impacted as the production remained stable. However, due to the closing down of processing facilities and export ports, the cotton exporters are facing major challenges with sales. There is speculation that the open market could be largely affected as well. As cotton is a non-essential item, the recession may lead to decrease in purchase and excessive stock piling, eventually leading to disrupting the entire supply chain.

As per one cotton SPO in India- all the Fairtrade Cotton from farmers had already been procured and sold. So financially they have not faced many challenges yet with no cancellation of prior agreements by any brands. There is a hope that once the market reopens, the cotton supply chain will be supported by the promoting body, thereby not leading to any financial bottlenecks for Fairtrade premiums since they have already received majority of the portion with some dues.

In Bangladesh Garment factories have now had orders worth more than US\$2 billion cancelled by brands and retailers. The country is just one of a number in global supply chains that has been severely affected as brands cancel or postpone orders as they close stores around the world. Most factories remain open despite calls from the Bangladesh Garment Sramik Shanghai workers' welfare organization for an immediate shutdown to protect workers from the virus. Following a meeting of union leaders, factory owners and government leaders, it was agreed that factories could stay open with proper safety measures and equipment.

The harvest season in Central Asia has concluded as well and stocks of cotton fibre are to be shipped. The lockdown has completely disrupted the transport schedule. Some of the cooperatives are sitting on large stocks of FT cotton fibre. The producers are also worried how the market will pan out next year and how the slowdown in demand will affect them. The cotton cropping season has started in Central Asia and will continue in April as well.

Sugar: The enhanced quarantine measures in Negros Occidental, Philippines where our sugarcane SPOs are located will begin effective March 30th. The trader- Alter Trade has informed its workers and suppliers (FT SPOs) that the ATMC - milling company - will be closed from March 30 to April 14. There has been no announcement that export activities will be suspended. Since it is the end of farming season the SPOs will continue their field activities and try to finish delivering the cane before the deadline. With limited income, the SPOs are proactively preparing their communities on the preventive measures.

India: The harvesting season concluded in January and normally the processing goes on till end of March. Shipments are dispatched in the months of April & May. This year because of the lockdown the shipments are either in the storage godowns of the exporters or in the port. This has created a huge problem for the exporters. There are also cases wherein the shipments of orders have been stopped and buyers have scheduled calls to review the situation after two months. If the stocks are not picked up by the buyers after two months, the traders will have to shift focus to the domestic market where it will have to be sold as non- Fairtrade sugar. There is also a problem of depressed demand in European and American markets as their economies reel under effects of this virus and economic pandemic.

Thailand: All sugarcane was harvested and sent for processing. Currently the SPOs are not facing much impact from the crisis but are facing challenges of reduced income due to impact of climate change on the production which is down by 30-40%. The export of cane sugar has not been affected as of now. The factory has initiated safety measures by limiting the number of people that enter the premises at any given point of time.

Rice: For SPOs in Haryana (India) with the harvesting season over and the paddy already being sourced by processors between Jan - Feb, the farmers have little to worry about the financial impact. The area remains secured. In Thailand, crops were harvested and sold to SPO during November - December. To avoid contamination from the virus, some SPOs have changed the payment system from cash to bank transfer. No effect on the demand and price from the crisis as of now. Some traders have reported that the rice orders for this year is increasing. The shipments have not been affected much. The SPOs have distributed protective gear to their farmers.

Fresh fruits & Vegetables: Perishable goods are facing the brunt of this catastrophe due to challenges in transportation and storage. In Thailand one of the Fresh Fruit SPO has been facing transportation challenge and trying to find an alternative market. In India the harvesting of grapes is going on and 70% of the produce has been harvested till date. With the nationwide lockdown harvesting and transportation of the produce has become a big challenge. There are cancellation of contracts and delayed shipment order from the buyers. The shipments that have been dispatched have reached the destination ports and are not being cleared due to the prevailing lockdown in destination countries. The exporters now fear that may be liable to pay the huge demurrage charges for the delayed

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clearances. The delayed shipment orders/cancellation of shipment are forcing the exporters to release the stock into the domestic market. Excess of grapes in the domestic market has driven down the prices. The farmers are thinking of converting this into raisins to be sold later when the situation improves.

Some processors have stopped their operations (due to the lockdown) and asked the producers to stop supply of baby-corn and gherkins. Baby corn and Gherkins are highly perishable and hence need to be processed immediately. With the markets also shut the producers have no other option but to feed it to the cattle thus earning no economic value for the cultivated produce. Cancellation of buyer's contracts have also been reported.

Coconuts & Spices: Sales are estimated to have dropped by 50 - 60% in Sri Lanka. The orders from Europe and US have just dried up. This will affect the procurement this season especially spices along with tea etc. The harvesting period of all these products is just coming up and this pandemic could not have happened at a worse time. Some of the farmers may be able to survive initially relying on the vegetables that they grow in their kitchen gardens to feed the family. However, a prolonged lockdown will make life difficult for them as they will have no money to buy other provisions unless their produce (Spices/coconuts) get sold. The condition of the all farmers is worrisome as they must rely on the markets for all their food requirements and with no scope of their produce selling, they face the prospect of an uncertain cash flow and drastically diminished annual income.

Flowers: The flower company in Sri Lanka restarted work on export orders only under special permission from the security unit. The company is providing transportation to its workers during this time. They are hoping to send the consignment to Japan, but Middle East and Europe orders are lying at the company warehouse. Presently the growing areas are facing a severe drought and they are short of regular workers for irrigation.

Sports ball: In Pakistan all HL factories and other producers have closed their operations till 6th April. They have been focusing on carrying out awareness campaigns and distribution of essential medical supplies to the farmers and workers.

There is an ongoing demand for utilisation of FT premium by producers for providing immediate food and medical necessities to its farmers and workers. This has been recently addressed making it easier for FT producers to use the FTP for immediate necessities.

At NAPP we are continuously engaging with the producer members and providing remote support as per their requirements. We will continue to assess the situation and adapt with agility to reduce the negative impact created by this Black Swan event and release updates every fortnight.

In India, the worst hit are the migratory work force from all sectors who have been displaced from their workplace and are trying to head home to their villages. With lack of public transport and limited supplies, this home bound journey will be long and challenging especially for the frail and vulnerable. The central and state governments are trying to cope with this exodus but the challenges with managing a population of 1.3 bln is unparalleled anywhere in the world.

Sincerely,



Sanjeet Singh Khurana
Chief Operations Officer