BUILDING SUSTAINABLE SUPPLY CHAINS
OUR STRATEGY FOR SUSTAINABLE AGRICULTURE
Robust, resilient, thriving agriculture is fundamental to our business. Only by creating supply chains that are economically, socially and environmentally sustainable can we continue to make the products our consumers know and love.

All the products we make rely on high quality agricultural raw materials and the people who grow them. Just a few key raw materials go into many of our well-known brands – from barley in Johnnie Walker® and wheat in Smirnoff® to molasses in Captain Morgan® and cream in Baileys®. Every year, we spend around £300 million on agricultural produce, amounting to approximately 1.5 million tonnes of materials from all over the world.

Our vision is to make our agricultural supply chains economically, socially and environmentally sustainable. That means:

• Securing a supply for our business, while contributing to economic and wider growth
• Respecting human rights, building capacity and creating shared value with farming communities
• Using resources efficiently, minimising environmental impact, and safeguarding future crops and ecosystems.

This document sets out our strategy to make that vision a reality and highlights some of the ways we are already putting our strategy into action around the world.

David Cutter
President, Global Supply and Procurement
Around 28,000 direct suppliers from more than 100 countries provide us with the materials, expertise and other resources which help us make great brands.

Ultimately we aim to expand our strategy for sustainable agriculture to cover all raw materials used in our products, but we are initially focusing on six priority raw materials – barley, maize, sugar, sorghum, agave and aniseed. These were prioritised based on:

- The volume of raw materials we buy
- Environmental and social risks in the markets we source them from
- Our ability to influence how sustainably they are produced
- Potential to scale up activities across other raw materials.
OUR GLOBAL SUPPLY OF RAW MATERIALS

The map shows the countries we source our raw materials from. The coloured parts of the map indicate the main countries where we source our six priority raw materials.1

1Note: this map is intended to be a representation only since our supply chains are constantly evolving; it is not exhaustive and does not capture some small volumes of raw materials sourced.

PRIORITY RAW MATERIALS

- Barley
- Maize
- Agave
- Sugar/Molasses
- Sorghum/Cassava
- Aniseed

1Note: this map is intended to be a representation only since our supply chains are constantly evolving; it is not exhaustive and does not capture some small volumes of raw materials sourced.
SUSTAINABLE AGRICULTURE: WHY IT MATTERS TO DIAGEO

Without a reliable source of high quality raw materials, we will struggle to make the iconic brands that are core to our business.

Responsible sourcing is fundamental to ensure our standards on human rights and working conditions are upheld throughout our value chain. We are committed to respecting human rights in every workplace, farm and community where we operate. Our Human Rights Policy outlines our approach and is supported by other relevant policies and guidelines. We strive to demonstrate our commitment through our actions, and by developing fair and effective solutions to issues such as land rights disputes and unfair working conditions. Best practice solutions for many of these issues are still developing and evolving, and we endeavour to be flexible and continue learning.

With sustainable sourcing, we’re going beyond compliance to tackle risks and build opportunities for us and the people throughout our supply chain. Sustainable agriculture makes our business and our supply chain more resilient to risks such as climate change, water scarcity and price fluctuations. It enhances farmers’ productivity to boost their livelihoods, and helps cut costs and prevent food waste by improving efficiency across our supply chain.

Our commitment to sustainable sourcing helps create thriving communities within our supply chain – one of the three aims of our sustainability and responsibility strategy. At the same time, it supports our business performance and increases stakeholders’ confidence in our business practices.

What is sustainable agriculture?

“Sustainable agriculture is the efficient production of safe, high quality agricultural products, in a way that protects the natural environment, improves the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of all farmed species.”

Sustainable Agriculture Initiative Platform (see page 12)
OUR APPROACH TO SUSTAINABLE AGRICULTURE

Creating value in our local markets

In the last decade, we have grown our business and geographical footprint, investing particularly in Africa, Asia, and Latin America. Almost half of our business is now in emerging economies. In all our markets, we know that everything we do is connected: as a local employer, we provide jobs and pay taxes; as a manufacturer, we use shared natural resources and purchase from local suppliers; and as a consumer business, we sell iconic brands across our varied categories. Our success relies on our ability to create shared value – for our business, our shareholders, our people and our communities. We want to have a positive influence wherever we work, and we're committed to growing our business and agricultural supply chains in ways that benefit rural economies, particularly in emerging markets.

Sourcing locally to strengthen economies

Our approach is simple – wherever practical, we source the raw materials we use from farmers in that region. This creates a more efficient, resilient supply of raw materials; it reduces costs and environmental impacts from transport; it helps create jobs, strengthen local communities and economies and form strong relationships with local governments and other stakeholders. As part of our wider sustainability and responsibility strategy, we have a commitment to source 80% of our agricultural raw materials locally in Africa by 2020. Our brewing businesses have had close connections with farmers in Africa for decades. As our largest region by volume for beer, Africa is an important focus for our activities. We already source more than 70% of produce locally in Africa and over 80% in our other regions.

Many of our African beer brands use local crops like sorghum and cassava. Sorghum is more tolerant to drought and requires less water to grow than many alternatives, offering a more resilient option in water-stressed regions. We buy sorghum in Ghana, Uganda, Nigeria, Kenya and Tanzania, where we are working with local farmers and government agencies to increase local supply. Projects include providing training and technical assistance to small-scale farmers, improving access to better varieties of crops and promoting access to finance and clearer business contracts.

Improving agricultural systems to enhance food security

Helping farmers become more productive is good for them, good for their families and good for us. By equipping them with the skills they need to grow high-yielding, resilient crops in a more sustainable way, we aim to enhance soil quality, support healthier ecosystems, reduce carbon emissions to address climate change, and improve farmers’ business and financial skills. We also want to guide farmers on using inputs such as fertilisers and pesticides, techniques such as crop selection and rotation, and supporting biodiversity through agriculture. Ultimately, this will help them grow more, better quality food crops – improving the whole agricultural system, tackling food security and enhancing livelihoods. We use similar approaches to manage the agricultural land that is owned or managed by Diageo.

Boosting supplies of sustainable raw materials through global standards

Increasing the supply of sustainably produced raw materials is vital. As well as working directly with local communities to create sustainable supply chains, we can leverage our global purchasing power to help make sustainable agriculture the norm.

One of the most effective ways to do this is by collaborating with like-minded companies through organisations such as the Sustainable Agriculture Initiative (SAI) platform. By following common guidelines and implementation tools, we can boost the global supply of raw materials produced according to high environmental and social standards, and create positive impacts for farms and communities.

OUR VALUE CHAIN

RAW MATERIALS

We source raw materials from a range of suppliers such as smallholder farmers, cooperatives, aggregators and global commodity companies.

PROCESSING

Some raw materials are processed before they can be used in our brewing and distilling. Barley, for example, is ‘malted’ or soaked in water for several days.

MANUFACTURING

Our manufacturing process has several stages depending on the product, including fermentation, distillation, maturation and bottling.

DISTRIBUTION

Our distribution partners transport our finished products to retailers and establishments that sell them to consumers.

CONSUMPTION

Consumers can enjoy our many beer and spirit brands around the world and are encouraged to recycle packaging after use.
We want Diageo to be one of the best performing, most trusted and respected consumer goods companies in the world. Our commitment to sustainable agriculture is rooted in our Sustainability and Responsibility Strategy (see box for more detail).

Our vision to make our agricultural supply chains economically, socially and environmentally sustainable is founded on three pillars:

- **Inclusive economic growth**: we want to support our suppliers’ livelihoods and secure a sustainable supply of raw materials, by promoting inclusive growth throughout our supply chains.

- **Thriving communities**: we support communities in our supply chain by enabling farmers to improve productivity, promoting financial stability, and respecting and upholding human rights.

- **Reducing environmental impact**: we aim to source raw materials that are produced in ways that protect soil health and biodiversity, and use carbon and water efficiently.

Fulfilling these three pillars will enable us to secure a sustainable supply of raw materials to support our business and continue to grow.

We need a clear framework to help us realise this vision. Based on our analysis of the biggest risks, opportunities and areas we can influence most, we have identified four practical and flexible focus areas that can be tailored as appropriate to each crop and each region – source responsibly, increase farmer capacity, promote inclusive growth, and partner and collaborate. The rest of this document describes these focus areas in detail.

We are now applying these to our six priority raw materials. Clear metrics and indicators will help us drive progress and measure our performance.

**2020 SUSTAINABILITY AND RESPONSIBILITY TARGETS**

Our sustainability and responsibility targets for 2020 focus on the areas that are most material to our business and that will contribute to long-term impact and success, delivering value for Diageo, our stakeholders and communities.

Five targets relate to our agricultural supply chains:

- Deliver our responsible sourcing commitments with suppliers to improve labour standards and human rights in our supply chains
- Source 80% of our agricultural raw materials locally in Africa by 2020
- Equip our suppliers with tools to protect water resources in the most water stressed locations
- Achieve a 30% reduction in greenhouse gas emissions along the total supply chain
- Establish partnerships with farmers to develop sustainable agricultural supplies of key raw materials.

These targets are built into our strategy framework for sustainable agriculture.
OUR STRATEGY FRAMEWORK

OUR VISION
Our vision is built on three pillars and guides all our work in sustainable agriculture.

We aim to create economically, socially and environmentally sustainable farming throughout our agricultural supply chains.

OUR TARGETS
2020 sustainability and responsibility targets will help us measure progress towards our vision.

OUR FOCUS AREAS
We are driving progress towards our vision through four key focus areas.

OUR STRATEGY IN ACTION
We are working on these focus areas across our six priority crops.
Our strategy for sustainable agriculture builds on our commitment to responsible sourcing. We outline our requirements on business ethics and sustainability in the ‘Partnering with Suppliers’ standard, our code for suppliers. This document sets out our standards on business integrity, human rights and labour standards, health and safety, and the environment.

We require our direct (tier 1) agricultural suppliers to commit to implementing these standards and we expect them to promote the principles of the standard throughout their own supply chains. They should also have appropriate processes in place to demonstrate and verify their compliance. We do this in part through SEDEX (the Supplier Ethical Data Exchange), a not-for-profit organisation that enables suppliers to share assessments and audits of ethical and responsible practices with multiple customers.

The aim is to increase awareness and implementation of standards for responsible and sustainable practices in our agricultural supply chain, such as efficient use of inputs including fertilisers and pesticides, crop selection and rotation, promoting biodiversity and upholding human rights and labour standards. Our comprehensive but flexible responsible sourcing process enables us to identify, assess and manage the social and ethical risks in our supply chain through a variety of questionnaires, self-assessments and audits.

If we identify any non-compliances, we work with suppliers to implement appropriate mitigation plans and corrective actions.

Ypióca Agricola, our sugar cane growing operation in Brazil, provides the raw material for our Ypióca® cachaça. It is committed to contributing to the local community, going beyond compliance with Brazilian labour laws to make a positive social impact. For example, Ypióca provides private health insurance for all employees and their families, and gives employees the opportunity to further their professional qualifications. Ypióca works closely with outgrowers – individual or groups of farmers who are contracted to provide our raw materials – by inviting them to regular meetings and open days to collaborate on increasing productivity, family incomes, and wider community benefits.
INCREASE FARMER CAPACITY

By giving farmers the tools they need to increase yields sustainably, we can help them increase their capacity to become more productive in the long term. We do this through a variety of programmes, including:

- Training on effective agricultural practices, either in general or specific to a crop or region
- Enhancing access to inputs that support better yields, such as seeds, fertiliser and mechanisation
- Providing access to capital through micro-loans, enabling longer-term investment
- Giving farmers greater access to markets through farmer organisations, private sector aggregators or processors
- Encouraging sustainable practices that will protect natural resources, such as crop rotation, efficient water management and soil conservation
- Sharing best practice with other farmers and stakeholders (such as governments, other large buyers, input suppliers and finance partners).

By promoting environmentally sustainable farming practices, we can secure a resilient supply of raw materials to support our long-term growth ambitions. And increasing farmers’ knowledge and capacity for sustainable farming brings them greater yields and incomes. This also has benefits beyond our supply chains as farmers can apply their knowledge, skills and capital to the wider food system, including other crops their families and communities rely on.

BUILDING SUSTAINABLE SUPPLY CHAINS

OUR STRATEGY IN ACTION

Our Sustainable Barley Supply Chain Programme works in Ethiopia to increase the availability of barley for local commercial brewing and empower local farmers. We have created a capacity-building package for farmers that includes training on soil testing, crop insurance, fertiliser use, mechanisation and access to credit. By working directly with 6,000 smallholder farmers, we helped them increase their yields by more than 50% – and in some cases up to 100% – between 2013 and 2015.

Higher productivity means an increased flow of income into local communities, which has long-term benefits for the local economy. Securing a local supply of barley minimises exposure to foreign exchange fluctuations, so as well as supporting the local economy, it improves our reputation as an employer, as a business and as a brand. By 2020, we will spend around £200 million each year in Africa on local raw materials and packaging, directly reaching 100,000 farmers and indirectly benefiting over 200,000 people in our supply chains.

Whisky (e.g. Johnnie Walker®), stout (e.g. Guinness®)

BARLEY

Main sources: Europe, Africa

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PROMOTE INCLUSIVE GROWTH

We have a strong desire – and a responsibility – to create shared value for the people in our supply chains, driven by our principle of inclusive growth. Working with Diageo should bring positive impacts for farmers, but also for their families and communities. We want the communities we work with to thrive in many ways in addition to their farming. This means, for example, supporting development of skills and increasing access to basic resources, safe drinking water and sanitation, along with a broad emphasis on empowering women.

This is not philanthropy. Using inclusive growth to enable vibrant economic communities in our supply chains helps us create market opportunities for local sourcing and build close relationships with the communities involved. This is an important step in securing the sustainable supply of raw materials we need to make our products and grow our business.

Sourcing locally helps us build relationships with local organisations that work directly with communities and support programmes to:

- Provide education, vocational and life skills training to help people gain employment
- Promote skills development for women enabling them to access economic resources and set up new enterprises
- Improve infrastructure to provide better access to safe water, sanitation and hygiene.

Since 2007, our Water of Life programme has provided clean, safe drinking water to over 10 million people in 18 countries in Africa. In Ghana, the programme has supported more than 500,000 people in communities that grow sorghum and cassava, where 88% of community members rely on it for water. Time spent sourcing water (mostly done by women) has decreased by 14% and incidence of water-borne diseases has fallen by nearly 30%. More than 3,000 jobs have been supported or directly created through Water of Life in Ghana and 94% of people agreed that the Water of Life project contributed to boosting academic performance by improving children’s health and concentration.
AGAVE

Tequila (e.g. Don Julio®)

Main source: Mexico

In Mexico, we own and grow around 20% of the agave used in our tequila brands – nearly 7 million plants – and in the next 7 years it will be around 70%. Through collaboration and innovation, we are improving the sustainability of this crop. Our research and development team implemented new techniques that cut herbicide use by two-thirds and replace chemical fertilisers and pesticides with safer biological alternatives. We support third party farmers to help them adopt more sustainable agricultural practices and we pay a premium for high-quality, sustainable agave. And we work with the Tequila Regulatory Council to share best practices in agave farming, in particular around pest and disease control.

PARTNER AND COLLABORATE

We source large volumes of raw materials from many countries around the world. But we are just one player in a vast global agricultural system. To enhance our ability to influence sustainability in our supply chain, we partner with industry, government, NGOs, civil society and other stakeholders.

For example, we are a member of the Sustainable Agriculture Initiative (SAI) Platform, a collaboration of more than 80 members from the food and drink industry that develops tools and guidance to support global and local sustainable sourcing and agricultural practices. SAI guidance is helping us develop our sustainable agriculture standards, which encourage suppliers to commit to additional environmental, social and economic criteria beyond our Partnering with Suppliers standard (see page 9).

Diageo is also part of the World Business Council for Sustainable Development’s Climate Smart Agriculture Group – a collaboration between companies to make agricultural supply chains more resilient to climate change. Working with governments in priority countries is essential if we want to scale up our work to create value in our local markets. By sourcing locally, we can find the best ways to deliver sustainability in our value chain, and by engaging with governments we can help to scale up across countries and regions.

We are strengthening our commitment to researching new crop varieties and techniques to make our priority raw materials more sustainable. Our International Supply Centre in Scotland has a Science and Technology team with a long history of collaborative research. For example, we work with the Scotch Whisky Research Institute and academic institutions such as Scotland’s Rural College and Abertay University to develop more efficient agricultural practices and disease resistant crops. Diageo is also supporting a centre of excellence for barley research at the James Hutton Institute in Dundee, Scotland.

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MEASURING OUR PERFORMANCE
We are committed to measuring and publicly reporting sustainable agriculture performance and risks in our supply chain, so that we can continue to refine and improve our approach and focus areas. We will increase our efforts to measure the impact of our sustainable agriculture programmes, especially in relation to communities in our value chain.
Diageo’s Environment Executive Working Group is accountable for the overall sustainable agriculture strategy. Our President of Global Supply and Procurement (also a member of the Executive Committee) chairs this group and, supported by general managers in each market, is accountable for day-to-day management of key sustainable agriculture programmes.
Our annual reporting contains a detailed update on our strategy for sustainable agriculture, including performance against targets and key drivers and case studies.

FUTURE PLANS
Many of our programmes relating to sustainable agriculture are not new. But with this document, we have connected our different activities into one consolidated, clear strategy that articulates our commitment to sustainable agriculture.
Diageo’s strategy will enable us to create shared value for our business and for people and communities throughout our agricultural supply chains.
We are developing a clear programme of activities and accompanying KPIs for each of our six priority crops, using our four focus areas to help us drive, measure and report on our progress.
Drawing on our previous work and collaboration with partners such as the SAI Platform, we are developing detailed sustainable agriculture standards that build more robust environmental and social criteria into our farmer programmes.
We will work with suppliers to roll out these standards throughout the supply chain. At the same time, we will expand our work on supply chain mapping in order to better understand where our raw materials come from, and how best to create shared value in our markets.