YESS: Yarn Ethically & Sustainably Sourced

Applying the OECD's Due Diligence Guidance to the Cotton Sector

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Today’s Presenters

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Responsible Sourcing Network (RSN)

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Consultant to RSN
Today’s Agenda

1. Problem and Solution
2. Introduction to YESS
3. Executed Example: Due Diligence for Conflict Minerals
   • Policy expectations
   • Supply chain mapping and supplier due diligence
   • Material management system and mass balance
   • Risk identification, prevention, and mitigation
   • Monitor performance and report progress
4. Due Diligence for Cotton through YESS
5. Q&A
Yarn Ethically & Sustainably Sourced

Problem and Solution
Problem
Problem

- Multiple incidences around the world of forced labor and worst forms of child labor (WFCL) in cotton production.

- Forced labor in 9 countries:
  - Benin
  - Burkina Faso
  - China
  - India (cottonseed)
  - Kazakhstan
  - Pakistan
  - Tajikistan
  - Turkmenistan
  - Uzbekistan

- WFCL: 15-22 countries: all of the above plus additional countries (research in process)

RSN’s research shows that 80% of surveyed brands do not audit spinners.
OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

- Embed responsible business conduct in enterprise policy and management systems.
- **Identify potential and actual harm** in enterprise’s own operations and its supply chain.
- **Cease, prevent, or mitigate harm** in enterprise’s own operations and its supply chain.
- **Track**
- **Communicate**
- **Provide for or cooperate in remediation** when appropriate.

[Link](http://mneguidelines.oecd.org/responsible-supply-chains-textile-garment-sector.htm)
**Due diligence** — acting with reasonable care and investigating an issue before making a decision.

**Risk-based approach** — applying different levels of due diligence proportionate to the risk faced by the company.

**Upstream companies** — involved in the harvesting, extraction, or initial processing of raw materials, e.g. farmers, ginners, traders, and spinners.

**Downstream companies** — use processed material in manufacturing or final products, e.g. textile and garment manufacturers, agents, brands, and retailers.

**Initial processors** — receive raw material from various regions and mixes and processes into a product (e.g. yarn), e.g. spinning mills.
Benefits of a Risk-based Due Diligence Program

- Focus is on in-depth, on-the-ground efforts within high-risk regions (e.g. evaluation, incident monitoring/reporting, governance assessment, independent 3rd party audit reports, grievance systems).
- Decrease audit frequency or intensity for processors that meet threshold criteria.
- Empower and enable actors closest to production to implement effective and appropriate due diligence programs.
Introduction to YESS
Why Create YESS Now?

Political Context
- Modern Slavery and Due Diligence Legislation: California, UK, France, Netherlands, Australia
- New lawsuits regarding modern slavery (Costco, Nestle, and Mars).
- SDG 8 and Alliance 8.7

Industry Context
- Post-Rana Plaza clothing sector under heightened scrutiny
- Sustainable cotton initiatives and commitments growing
- Apparel and footwear industries are collaborating more (OECD, SAC, and SLCP) and increasing their focus on transparency and human rights
- Greater media coverage of modern slavery

Technology
- Innovative technologies for conflict minerals: transparency, mapping, traceability, and verification.
- Increased worker-engagement tools
- Blockchain for supply chains
YESS Initiative’s Mission

To create an industry-wide due diligence program for yarn spinning mills to eliminate from their supply chains cotton produced with forced labor and worst forms of child labor.
Due Diligence for Yarn Spinners

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YESS

- Farmers
- Ginners
- Traders
- Yarn Spinners
- Textile Mills
- Clothing Mfgs
- Brands

Due Diligence Program

Images: Madehow.com
Yarn Ethically & Sustainably Sourced

Executed Example: Due Diligence for Conflict Minerals
Cotton and Minerals Have Similar “Supply Webs”
Focus on Initial Processors

Raw Materials -> Initial Processors

Upstream

Initial Processors = Smelters = Spinners

Downstream

Motivate and Evaluate

CFSP = YESS

Finished Products
Due Diligence Expectations for Initial Processors

1. Policy
2. Supply chain mapping and supplier due diligence
3. Material management system and mass balance
4. Risk identification, prevention, and mitigation
5. Monitor performance and report progress

*Flexibility and continuous improvement are encouraged*
## Policy

<table>
<thead>
<tr>
<th><strong>Intent</strong></th>
<th>Policy is stated in procedures and communicated to suppliers.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Implementation</strong></td>
<td>Procedures are implemented consistently and employees are trained through organizational coordination.</td>
</tr>
<tr>
<td><strong>Impact</strong></td>
<td>Transaction validation assures us the system works.</td>
</tr>
</tbody>
</table>
Supply Chain Mapping

- Understand what producers/companies are supplying materials
- Understand where suppliers source materials
- Understand transportation routes
- Understand location of sources as they relate to high-risk areas
Supplier Due Diligence

- Know Your Counterparty (KYC) process
- Communicate responsible sourcing policy
- Require transaction documents
- Integrate supplier due diligence into purchasing function
Material Management Systems

- Validate declared origin
- Receive, weigh, and allocate unique lot numbers for incoming materials
- Process to calculate and reconcile inventory
- Process to ensure all material is recorded in the inventory system
Mass Balance

- **Inputs** - opening inventory, receipts
- **Outputs** - closing inventory, sales
- **Closing inventory “Calculated”** - based on 100% recovery
- **Closing inventory “Actual”** - based on actual results

Mass balance (Losses) =
“Calculated” – “Actual” / Total material processed
Risk Identification, Prevention, and Mitigation

- Risk identification
  - Evaluating suppliers
  - Origin of materials
  - Transportation routes
  - Discrepancies

- Risk prevention and mitigation
  - Avoid and/or engage high-risk suppliers
  - Support farm-level programs in the high-risk regions
## Risk-based, Transaction-level Requirements

<table>
<thead>
<tr>
<th>Low-risk Sources</th>
<th>High-risk Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>10% of transactions</strong></td>
<td><strong>100% of transactions</strong></td>
</tr>
</tbody>
</table>

**Low-risk requirements plus:**

- Farm/specialty license/declaration
- Farm audit/visit report
- Customs import docs
- Certificate of origin (or alternative)
- Policy communication to customers
- Public disclosure statement
- OECD requirements (evaluation, incident/monitoring reporting, governance assessment, independent 3rd party audit report, grievance systems)

- Transportation documents
- Customs export record (or alternative)
- [Assays]
## Documentation Requirements: Country of Origin

<table>
<thead>
<tr>
<th>Data Points:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gate</strong></td>
<td>Country of origin</td>
</tr>
<tr>
<td><strong>Weight</strong></td>
<td>of material</td>
</tr>
<tr>
<td><strong>Date</strong></td>
<td>within reasonable period of material receipt</td>
</tr>
<tr>
<td></td>
<td>Credible documentation source</td>
</tr>
</tbody>
</table>
**Document Review – Bill of Lading**

<table>
<thead>
<tr>
<th>Shipper: ABC Trader</th>
<th>Consignee: XYZ Smelter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rwanda</td>
<td>China</td>
</tr>
</tbody>
</table>

Gates

- **Port of Loading:** Dar es Salaam
- **Port of Discharge:** Hong Kong

**Date:** May 10, 2017

**Shipment Content Description**

<table>
<thead>
<tr>
<th>Material</th>
<th>Weight</th>
</tr>
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<tbody>
<tr>
<td>Coltan</td>
<td></td>
</tr>
</tbody>
</table>

- **Gross wt:** 24,700 kg
- **Net wt:** 24,045 kg
Chain of Custody High-risk Material

- Certificate of origin
- Export license
- Assays
- High-risk
- Mine visit reports
- Mining license
- Material, dates, qty, shipper, ports
- Material, dates, supplier, qty, port
- Purchase orders
- Receiving logs
- Site inspection
- Inventory inspection
- Traceability
- Material, dates, qty, shipper, ports, buyer
- Transportation docs, receiving logs, purchase contract
Monitor Performance and Report Progress

- Grievance mechanism
- Program and conformance assessment
- Annual reporting requirements
- Continuous improvement is critical
Due Diligence for Cotton through YESS
YESS Program

- Guided by OECD Due Diligence Guidance for the Garment and Footwear Sector.
  - Identify high-risk regions
  - Research industry standards and practices
  - Develop audit standard, trainings, checklists, and other tools

- Trains yarn spinners on expectations and process.

- Coordinates with existing sustainable cotton and apparel initiatives.

- Recognizes farm-level programs: BCI, CMIA, CottonConnect, Fairtrade, and other credible programs promoting ethical labor conditions and human rights.
Integrate with Complementary and Aligned Programs

- High-Risk Regional Controls
  - Monitoring
  - Traceability

- Due Diligence Audit Program
  - Outreach & training
  - Audits

- Company Assurance
  - Supplier surveys
  - Downstream audits
YESS Activities To Date

**Groundwork**

- Cotton Pledge (270+ brands and retailers)
- *Cotton Sourcing Snapshot report*
- Feasibility Study
- Engagement with sustainable cotton initiatives
  - RSN joined SAC in 2015
  - S&L Convergence Project
  - OECD DD Guidance input
  - Joining BCI in 2018
- Launched in 2016 - Sourcingnetwork.org/yess
- Fundraising – 2017 Disney SCIP grant

**Current Activities**

- YESS Multi-stakeholder Working Group monthly calls
- 2017 Field visits: India, Turkey, and Bangladesh
- Spinner Survey to complement field research
- Drafting YESS Standard and support documents
- Pilot YESS Standard Q3-4
How to Get Involved

- Sign the YESS Statement of Support
- Join the YESS Working Group
- Forward the Spinner Survey to several spinners in your supply chains **(due 31 Jan)**
  - [https://www.sourcingnetwork.org/yess-survey](https://www.sourcingnetwork.org/yess-survey)
- Give feedback during our public consultation (Q1-Q2)
- Recommend spinning mills for our pilot (Q3-Q4)
Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.

Margaret Mead