YESS: Yarn Ethically & Sustainably Sourced

Textile Mills Training Module 4
Identify and Respond to Risks

June 16 & 17, 2021
2021 Pilot DRAFT

www.sourcingnetwork.org/yess
Today’s Agenda

1. Review: Identify high-risk supply chains
2. Engage suppliers in high-risk supply chains
3. Map high-risk supply chains
4. Design and implement a risk management plan
5. Assess forced labor at cotton farm
6. Review High-Risk Due Diligence
7. Grievance mechanism
8. Cooperate in remediation
9. Q&A
Review: Identify High-Risk Supply Chains
Supply Chain Red Flags

Red flag associated with the material:
- Risk category of origin
- Plausibility of origin
- Transit risks

Red flags associated with the supplier:
- Legal and legitimate operations
- Located in or sourcing from high-risk areas

High-Risk Supply Chain
Cotton Origin Verification: “Gates, Weights and Dates”

Description, dates, quantity, shipper, ports

Description, quantity, dates, gin & exporter

Description, dates, quantity, supplier, ports or addresses, buyer
Cotton Origin Verification: “Gates, Weights and Dates”

- Description, dates, quantity, shipper, ports
- Description, quantity, dates, gin & exporter
- Description, dates, quantity, supplier, ports or addresses, buyer
Example Only: High-Risk Cotton Lint Trade Flows
(UN Comtrade, 2019)

High-Risk Yarn Producing Countries

- China
- India
- Pakistan
- Uzbekistan
- Bangladesh
- Turkey
- Vietnam
- Turkmenistan
- Singapore
- Islamic Republic of Iran
Identifying High-Risk Origins

<table>
<thead>
<tr>
<th>Supplier Name</th>
<th>Type of Supplier</th>
<th>Type of Cotton Input</th>
<th>Cotton Input Origin (country)</th>
<th>Volume or Percentage of Mill's Total Cotton Inputs</th>
<th>Certification / Ethical Sourcing Scheme No. 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide legal name</td>
<td>Select type from drop down list</td>
<td>Select type from drop down list</td>
<td>Provide country name</td>
<td>Provide volume, percentage</td>
<td></td>
</tr>
<tr>
<td>Quality Cotton Spinner</td>
<td>International Spinner</td>
<td>Recycled cotton yarn</td>
<td>Vietnam</td>
<td>&lt;1 percent</td>
<td>Recycled Claim Standard</td>
</tr>
<tr>
<td>Happy Fabric Mill</td>
<td>Domestic Textile Mill</td>
<td>Cotton yarn</td>
<td>Vietnam</td>
<td>20 percent</td>
<td>None</td>
</tr>
<tr>
<td>Premium Cotton Spinner</td>
<td>Domestic Spinner</td>
<td>Cotton yarn</td>
<td>India</td>
<td>&lt;5 percent</td>
<td>None</td>
</tr>
<tr>
<td>Global Merchant</td>
<td>International Merchant</td>
<td>Cotton yarn</td>
<td>Uzbekistan, Indonesia</td>
<td>30 percent</td>
<td>None</td>
</tr>
<tr>
<td>Worldwide Merchant</td>
<td>International Merchant</td>
<td>Cotton yarn</td>
<td>USA, Turkey</td>
<td>10 percent</td>
<td>None</td>
</tr>
</tbody>
</table>
Engage Suppliers in High-Risk Supply Chains
Assess Relationship to Risks

- **Textile mill:**
  - owns or operates a spinning mill located in a high-risk country for yarn production.
  - sources cotton yarn from a spinner that is not YESS-conformant.
  - consistently sources cotton yarn from a high-risk country for yarn production.
  - sources recycled cotton inputs from high-risk sources.
  - has a long-standing and cooperative relationship with supplier.

- **Textile mill’s supplier:**
  - purchases cotton lint originating in a high-risk country for cotton production.
  - conducts due diligence aimed at identifying risks of harm from forced labor in cotton production in high-risk countries.
  - has control systems to ensure all cotton products sold to textile mill contains low-risk cotton inputs only.
  - addresses or denies the existence of risks of harm from forced labor in cotton production in high-risk countries.

*YESS Resource: Assess Relationship to Identified Risks Checklist*
### Supplier Incentives

<table>
<thead>
<tr>
<th>Prequalifying suppliers of cotton inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prequalifying origins of unprocessed cotton lint</td>
</tr>
<tr>
<td>Prequalifying farm-level cotton schemes</td>
</tr>
</tbody>
</table>
Request High-Risk Supplier’s Partnership

To continue to source from you, we need your assistance to uphold our Cotton Sourcing Policy and to conform with the YESS standard by completing the following actions:

1. **Respond to our Know Your Supplier** request completely, including acknowledging and agreeing to uphold our Cotton Sourcing Policy.

2. Demonstrate that **you conduct due diligence** on your suppliers and cotton inputs to avoid sourcing cotton that was produced with forced labor.

3. Complete the enclosed **YESS Supply Chain Mapping Tool** for each transaction of high-risk cotton you supply to us.

4. Provide **assurance that of each farm** that produced cotton in a high-risk country has been subject to an on-the-ground assessments by competent and independent experts and has been deemed low-risk for involving forced labor (low-risk cotton from a high-risk country).

5. Provide **evidence that each gin in high-risk countries implements systems and processes to segregate** low-risk cotton from high-risk cotton throughout their storage, ginning and baling operations.

**YESS Resource: Sample Letter to Suppliers in High-Risk Supply Chains**
Provide the following documentation for each transaction of cotton from a high-risk country you supply to us from origin to our facility:

**Domestic and International Shipments**
- **Full Supply Chain Traceability**
  - Traceability reports
  - Reference / shipment numbers

**International Shipments**
- **Country of origin**
  - Official (e.g., government-issued) country of origin certificate
  - Official (e.g., government-issued) phytosanitary certificate
  - Purchase order or contract showing supplier name

**Domestic Transportation**
- Trucking documentation or transportation logs
- Warehouse receipts
- Contract showing transporter name
- Invoices from appointed transport agent
- License from appointed transport agent
- Inland forwarding note

**International Transportation**
- Airway bill (by air)
- Bill of lading (by sea)
- Customs import record
- Customs export record

*YESS Resource: Sample Letter to Suppliers in High-Risk Supply Chains*
Map High-Risk Supply Chains
# Identifying High-Risk Origins

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<td>Vietnam</td>
<td>20 percent</td>
<td></td>
</tr>
<tr>
<td>Happy Fabric Mill</td>
<td>Domestic Textile Mill</td>
<td>Cotton yarn</td>
<td>India</td>
<td>&lt;5 percent</td>
<td>None</td>
</tr>
<tr>
<td>Premium Cotton Spinner</td>
<td>Domestic Spinner</td>
<td>Cotton yarn</td>
<td>India</td>
<td>35 percent</td>
<td>Better Cotton System Standard</td>
</tr>
<tr>
<td>Global Merchant</td>
<td>International Merchant</td>
<td>Cotton yarn</td>
<td>Uzbekistan, Indonesia</td>
<td>30 percent</td>
<td>None</td>
</tr>
<tr>
<td>Worldwide Merchant</td>
<td>International Merchant</td>
<td>Cotton yarn</td>
<td>USA, Turkey</td>
<td>10 percent</td>
<td>None</td>
</tr>
</tbody>
</table>
Supplier Due Diligence: Indian Spinner

India – 20 gins (50% direct from two gins/50% thru agents)
US, Australia – four global merchants
All direct relationships are long-term (10+ years)

Onsite visits to two direct sourcing gins: sourcing model, due diligence and internal controls

Expand BCI near strategic gin(s)
Increase physical Better Cotton uptake
Build capacity at cooperative
Supplier Due Diligence: Vietnamese Spinner

80% from US, Brazil (4 global merchants)
20% from India (2 Indian traders)
No direct relationships with gins

India inputs from 4 gins in one region
BCI not in gin’s region

Research forced labor information
Trader to engage with strategic gin(s)
Supplier Due Diligence: Turkish Spinner

85% from Turkey (direct from 10 gins)
10% from Brazil
5% from Turkmenistan

Onsite visit to spinner: due diligence and internal controls

Request spinner to find alternatives to Turkmenistan
Prohibit Turkmenistan inputs in your yarn
Encourage participating in YESS

YESS Spinner Assessment Workbook
High-Risk Supply Chain Mapping Tool

Step 1: Map the factual circumstances of the supply chains

Step 2: Assess whether those circumstances present risks of forced labor

Step 3: Design and implement a strategy to respond to identified risks
Understand the Local Context: Scenario One

Mechanized Harvest

Open Market

Village

Gin 1

Domestic Spinner

Farmer

Farmer

Farmer

Farmer [BCI]

Farmer [BCI]
Understand the Local Context: Scenario Two
<table>
<thead>
<tr>
<th>Shipment ID Number</th>
<th>Business Name</th>
<th>Address</th>
<th>Type of Actor</th>
<th>Description of Function</th>
<th>Volume of Transactions</th>
<th>KYS Data Complete</th>
<th>Incidents Involving this Actor</th>
<th>Relationship to Spinner</th>
<th>Level of Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>PK-2020-04</td>
<td>Quick Transit, Co.</td>
<td>Chittagong</td>
<td>Transporter</td>
<td>Chittagong to Spinner</td>
<td>N/A</td>
<td>Contract in place</td>
<td>0</td>
<td>Direct</td>
<td>High</td>
</tr>
<tr>
<td>Matson Shipping</td>
<td>Hong Kong</td>
<td>Transporter</td>
<td>Gujarat to Chittagong</td>
<td>N/A</td>
<td>No</td>
<td>0</td>
<td>Indirect</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Ace Cotton Exporter, Ltd.</td>
<td>Singapore</td>
<td>Merchant</td>
<td>Exporter</td>
<td>30000 MT</td>
<td>No</td>
<td>0</td>
<td>Direct</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Trusted Transport, Co.</td>
<td>Karachi</td>
<td>Transporter</td>
<td>Gin to Kutch, Gujarat</td>
<td>N/A</td>
<td>No</td>
<td>0</td>
<td>Indirect</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Good Gin Company</td>
<td>5A Gin Road, Ahmedabad, Gujarat</td>
<td>Gin</td>
<td>Gin and bale cotton</td>
<td>30000 MT</td>
<td>No</td>
<td>0</td>
<td>Indirect</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Fair Cotton Cooperative</td>
<td>20F Ahmedabad Industrial Park, Gujarat</td>
<td>Cooperative</td>
<td>Farmer support</td>
<td>20000 MT</td>
<td>No</td>
<td>0</td>
<td>Indirect</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Individual farmers</td>
<td>Various</td>
<td>Farmer</td>
<td>Produce cotton</td>
<td>10000 MT</td>
<td>No</td>
<td>0</td>
<td>Indirect</td>
<td>Low</td>
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Design and Implement a Risk Management Plan
Recommend a Mitigation Strategy: Premium Cotton Spinner

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<th>Location</th>
<th>Type of Actor</th>
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Developing Risk Management Plan and Strategy

- Prioritize addressing the most severe and significant risks first
- Engage with the most impactful actors in the supply chain
- Consult with suppliers and affected stakeholders
- Consider ways to support and build capacities of suppliers
- Collaborate with or support capacity building
## Establish a Mitigation Plan and Timeline

<table>
<thead>
<tr>
<th>Description of risk</th>
<th>Country or origin</th>
<th>Supplier</th>
<th>Mitigation plan</th>
<th>Timeframe</th>
<th>Activities completed to date</th>
<th>Remaining activities</th>
</tr>
</thead>
</table>
| High-risk cotton lint | India             | Premium Cotton Spinner | • Map supply chain  
• Work with supplier to conduct due diligence of gin  
• Assess cooperative’s forced labor policies and processes  
• Encourage BCI to expand to / in region  
• Increase procurement of Better Cotton  
• Evaluate risks of force labor in proximity of gin | March 2021 to February 2022 | • Initial meeting with supplier  
• Supply chain mapping | • Assess Cooperative’s forced labor policies and processes  
• Encourage BCI to expand to / in region  
• Increase procurement of Better Cotton  
• Evaluate risks of force labor in proximity of gin |

**YESS Resource: Risk Mitigation Plan Form**
Process to Respond to Identified Risks

Conduct assessments to identify actual and potential risks of forced labor in cotton production

Report findings and recommendations to senior management

Prioritize risks based on an established and justified process and criteria

Devise and adopt a risk management plan as part of effective risk management strategy

Establish timeline for action and follow up

YESS Resource: Risk Assessment and Response Checklist
# Mitigate Supplier Risks

<table>
<thead>
<tr>
<th><strong>Continue</strong></th>
<th>Continue to do business with high-risk suppliers cooperating with a mutually agreed upon mitigation plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suspend</strong></td>
<td>Temporarily suspend trade while pursuing ongoing mitigation efforts</td>
</tr>
<tr>
<td><strong>Disengage</strong></td>
<td>Disengage with a supplier in cases where mitigation appears unfeasible, is unacceptable, or fails after it is attempted</td>
</tr>
</tbody>
</table>
Assess Forced Labor on a Cotton Farm
Forced Labor Assessment

Understand the political, economic, forced labor context of the origin:

Assessed qualitative information on forced labor conditions in the supply chain.

Conduct of commission on-the-ground assessment.

Review upstream assurance mechanisms.
Forced Labor Assessment

Understand the political, economic, forced labor context of the origin:
- Assessed qualitative information on forced labor conditions in the supply chain.
- Conduct of commission on-the-ground assessment.
- Review upstream assurance mechanisms.

Examples include:
- UN or NGO reports
- Upstream actor visit report(s)
- Media reports
- Incident monitoring reports
- Other credible stakeholder reports

_YESS Resource: Forced Labor Assessment Checklist_
Review: High-Risk Due Diligence
Example: Spinner Located in a High-Risk Country

**Does supplier conduct sufficient due diligence of their suppliers or supply chains?**

- **International Merchant**
  - Cotton lint (Low-risk origin)
  - Better Cotton (High-risk origin)

**Does gin have sufficient inventory control systems?**

- **Domestic Gin**
  - High-risk cotton lint
  - Local cooperative cotton lint

- **Spinner**
  - Who assessed it?
  - How was it assessed?
  - What were the CoC assurances?
  - Was plausibility of origin validated?
  - Was physical Better Cotton validated?
  - Was it hand or machine harvested?
  - Is it in a region with documented forced labor?
  - Who assessed it?
  - How was it assessed?
  - What were the CoC assurances?

- **Does gin have sufficient inventory control systems?**
  - Is low-risk stored and baled separately from high-risk cotton?
Responding to Grievances

- Provide a vehicle for reporting grievances
- Establish a process to evaluate the grievance and report to senior management
- Develop a plan to respond to valid issues
- Ensure issue is resolved

*YESS Resource: Grievance Mechanism Checklist*
Cooperate in Remediation
Review Required Steps and Resources
# Required Steps and YESS Resources

<table>
<thead>
<tr>
<th>Required Steps</th>
<th>YESS Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engage suppliers in high-risk supply chains</td>
<td>• Sample Letter to Suppliers in High-Risk Supply Chains</td>
</tr>
<tr>
<td></td>
<td>• Assessment of Relationship to Identified Risks Checklist</td>
</tr>
<tr>
<td>Map high-risk supply chains</td>
<td>• High-risk Supply Chain Mapping Tool</td>
</tr>
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Questions?

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