Digging into Due Diligence:
Applying Lessons Learned in Cotton Value Chains

Side Session of the 2022 OECD Forum on Due Diligence in the Garment and Footwear Sector

February 21, 2022

http://www.sourcingnetwork.org/yess
Today’s Agenda

1. Applying due diligence along the value chain
2. Introducing YESS: Yarn Ethically & Sustainably Sourced
3. Demonstrating due diligence through YESS
4. YESS Pilot in Pakistan
Speakers

Patricia Jurewicz
Founder and CEO
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Due Diligence Consultant

Khurram Akram
Senior Manager
Yunus Textile Mills, Limited

Ch. Muhammad Mumtaz
General Manager
Nishat Mills Limited
Applying due diligence along the value chain
Due Diligence & Management Systems

<table>
<thead>
<tr>
<th>OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector</th>
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<tr>
<td>Embed responsible business conduct in policy and management systems</td>
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Collaboration Across Three Value Chain Segments

Forced Labor Assessment and Mitigation
Seed Cotton Segregation and CoC
Gin Management Systems

Brands Uptake
Supplier-level Due Diligence

Upstream Farm / Gin

Spinner Textile Mill

Manuf. / Retail Downstream

Gatekeepers and Enablers
Mitigate Harm to Create Low-Risk Sources

- Low-Risk & High-Risk Countries
- Low-Risk Sources in High-Risk Countries
- Mitigating Harm within High-Risk Countries to Create Low-Risk Sources

- Low-Risk Countries
- High-Risk Countries
- Low-Risk Sources within High-Risk Countries
Digging Deep in High-Risk Value Chains

- Material Management
- Supplier Due Diligence
- Origin Validation

- Identify Red Flags

- Identify Risk

- Mitigate Harm

All Value Chains

High-Risk Value Chains
# Due Diligence and Product Traceability

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<th>Due Diligence</th>
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<tr>
<td>Focus is on management systems at an enterprise level</td>
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<tr>
<td>Material origin is validated</td>
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<td>Material is accounted for, and quantities are reconciled</td>
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<td>Guides facilities to identify, assess and address risks of harm</td>
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<td>Leverages existing systems, processes and supplier relationships</td>
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<th>Product Traceability</th>
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<tr>
<td>Follows specific inputs for specific products</td>
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<tr>
<td>Does not directly address risks of harm</td>
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<tr>
<td>Requires additional effort and adjustment to processes / systems</td>
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<td>May or may not have system-level controls</td>
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*Product level traceability requires a foundation of due diligence*
Trainings are invaluable
Basic management system expectations are easy to meet
Facilities leveraged YESS resources to meet new requirements
Education on different forms of forced labor is needed
More detailed assessment of forced labor is needed
Spinners can trace cotton through their processes with some level of confidence

Spinners are highly efficient and account for all product and wastage

Pilot visits should be thought of as training and feasibility

Credibility within the industry is critical
Introducing YESS: Yarn Ethically & Sustainably Sourced
YESS Mission

To create an industry-wide due diligence program for yarn spinners and textile mills to identify and address cotton produced with forced labor in their value chains.
YESS Standards and Assessment Workbooks

YESS Standard for Textile Mills Coming Soon!

https://www.sourcingnetwork.org/yess
### Proposed YESS Assessment Continuum

<table>
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<tr>
<th>YESS Conformance Continuum Assessed</th>
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<tbody>
<tr>
<td>Year 1</td>
<td>Step 1: Establish strong company management systems</td>
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<tr>
<td>Year 1</td>
<td>Step 2: Identify risks in the supply chain</td>
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<tr>
<td>Year 1 Improvement Plan</td>
<td>Step 2: Assess risks in the supply chain</td>
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<tr>
<td>Year 2</td>
<td>Step 3: Design and implement a strategy to respond to identified risks</td>
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<tr>
<td>Year 2</td>
<td>Step 4: Track</td>
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<tr>
<td>Year 2</td>
<td>Step 5: Report annually on supply chain due diligence</td>
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<tr>
<td>Year 3</td>
<td>Step 6: Provide for or cooperate in remediation</td>
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Tracing Cotton from Laydown to Product (Yarn)
YESS Methodology to Identify High-Risk Origins

RSN has created the initiative YESS: Yarn Ethically & Sustainably Sourced to drive modern slavery out of cotton production by eliminating the market for cotton produced with forced labor, and increasing the use of ethical and sustainable cotton.

YESS utilizes the OECD risk-based due diligence approach to identify and eliminate modern slavery from cotton production and apparel supply chains. YESS is coordinating its activities with numerous sustainable cotton initiatives and other complementary programs to ensure harmonization of a due diligence system for the entire industry.

The Value of Creating YESS is to:

See the YESS Pilot Project for information and updates on our pilot this year.

YSF Materials
Pilot Project
Implementation Working Group
YESS Standard and Workbook
Methodology of High-Risk
YESS Action Plan
FAQs
Demonstrating due diligence through YESS
Addressing Value Chain Risks

Two Risk Categories: Material and Supplier

Risks associated with the **material:**

- Risk category of origin
- Plausibility of origin
- Transit risks

Risks associated with the **supplier:**

- Legal and legitimate operations
- Type of operations
- Procurement practices
Cotton Origin Verification: “Gates, Weights, and Dates”

Low-risk country: Origin is country

High-risk country: Origin is low-risk gin
Due Diligence in a High-Risk Value Chain

Low-risk sources

- Are ethical initiatives able to expand?
- Is it in a region with documented forced labor?
- Who assessed it?
- How was it assessed?
- Is the gin’s management system adequate?
## Risk Mitigation Plan

<table>
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<tr>
<th>Description of risk</th>
<th>Country or origin</th>
<th>Supplier(s)</th>
<th>Mitigation plan</th>
<th>Timeframe</th>
<th>Activities completed to date</th>
<th>Remaining activities</th>
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</table>
| Bonded labor        | Punjab, Pakistan  | Premium Cotton Agent | • Communicate sourcing policy to all 20 gins  
• Visit top 10 gins to evaluate management systems, suppliers, level of cooperation  
• Develop assessment plan with cotton initiatives (e.g., BCI, WWF, etc.) | May 2022      | • May 2022  
• July 2022  
• Sept 2022 |                      |
| **Continue** | Continue to do business with high-risk suppliers cooperating with a mutually agreed upon mitigation plan |
| **Suspend** | Temporarily suspend trade while pursuing ongoing mitigation efforts |
| **Disengage** | Disengage with a supplier in cases where mitigation appears unfeasible, is unacceptable, or fails after it is attempted |
YESS Pilot in Pakistan
Pakistan is the fifth-largest producer of cotton in the world

- An estimated **1.6 million farmers** grow cotton, primarily by small farmers cultivating less than five hectares of land
- 2019/20 cotton production was forecasted at 8.0 million bales
- Textile mill consumption is forecast slightly higher at 10.7 million bales
- The textile sector is **the largest industrial sector in Pakistan**: 40% of the industrial labor force; employs 10 million people

## Today’s Panelists

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<tr>
<th><strong>NISHAT</strong></th>
<th><strong>YUNUS</strong></th>
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<tr>
<td>Nishat Mills Limited is the flagship company of Nishat Group. It was established in 1951. It is one of the most modern, largest vertically integrated textile companies in Pakistan. It performs spinning, weaving, dyeing, and manufacturing of apparel and home textiles.</td>
<td>Yunus Textile Mills Limited prides itself on possessing top-of-the-line vertically integrated processes of spinning, weaving, dyeing, printing and finishing. With a production capacity of 10 million meters per month, Yunus is the largest exporter of home textile products in Pakistan.</td>
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<tr>
<td><strong>Mr. Muhammad Mumtaz</strong>&lt;br&gt;General Manager for Spinning and Cotton Procurement</td>
<td><strong>Khurram Akram</strong>&lt;br&gt;Senior Manager</td>
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Thank You for Your Interest

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