



# YESS: Yarn Ethically & Sustainably Sourced

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

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# Today's Presenters

2



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# Today's Agenda

3

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



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# Problem and Solution

# Problem

5



AsiaNews.it (Uzbekistan)



Moobol.com (China)



Bloomberg.com (Burkina Faso)

# Problem

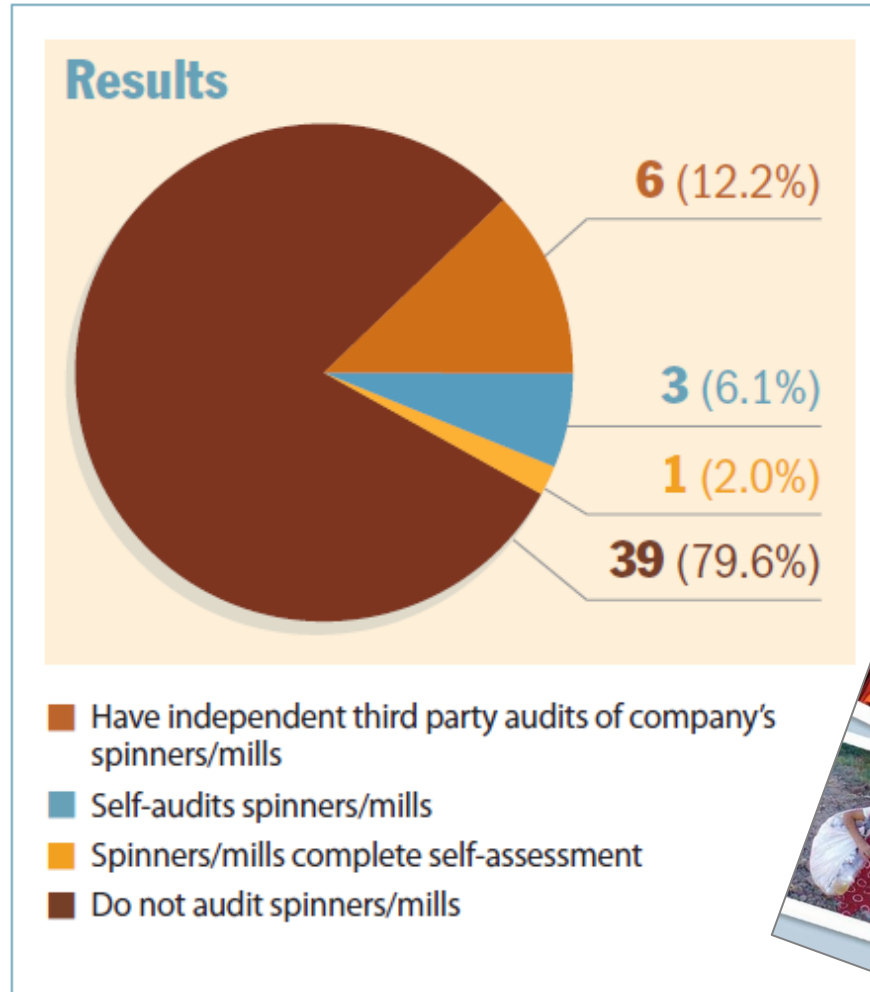
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- Multiple incidences around the world of forced labor and worst forms of child labor (WFCL) in cotton production.
- Forced labor in 9 countries:
  - Benin
  - Burkina Faso
  - China
  - India (cottonseed)
  - Kazakhstan
  - Pakistan
  - Tajikistan
  - Turkmenistan
  - Uzbekistan
- WFCL: 15-22 countries: all of the above plus additional countries (research in process)

*Sources: ILO Country Reports/Observations/Application of Standards, US DOL List of Goods, and US DOL 2016 Findings on the Worst Forms of Child Labor*

# RSN's research shows that 80% of surveyed brands do not audit spinners

7



# Solution

8

## 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.



<http://mneguidelines.oecd.org/responsible-supply-chains-textile-garment-sector.htm>



# Terminology

9

- **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

10

- Focus is on in-depth, on-the-ground efforts within high-risk regions (e.g. evaluation, incident monitoring/reporting, governance assessment, independent 3<sup>rd</sup> 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.



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# Introduction to YESS

# Why Create YESS Now?

12

## 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

13

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

14

## Yarn Ethically & Sustainably Sourced

### YESS

Farmers

Ginners

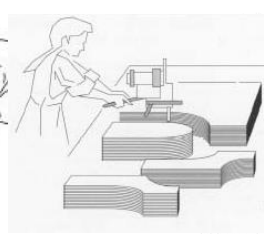
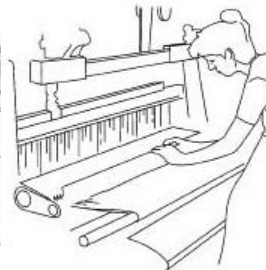
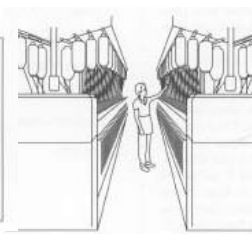
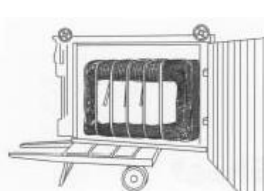
Traders

Yarn Spinners

Textile Mills

Clothing Mfgs

Brands



Due Diligence Program

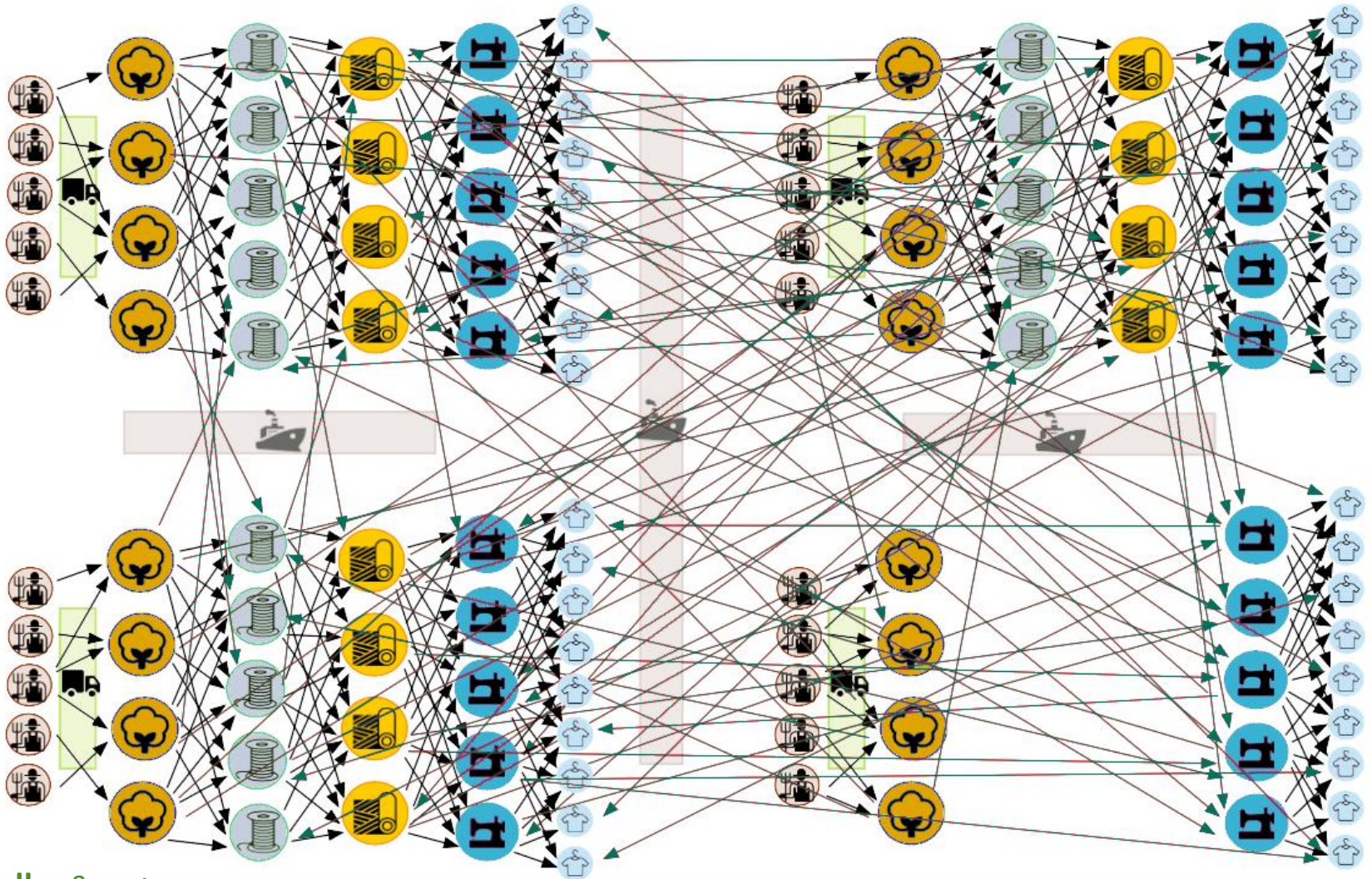


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Executed  
Example:  
Due Diligence  
for Conflict  
Minerals

# Cotton and Minerals Have Similar “Supply Webs”

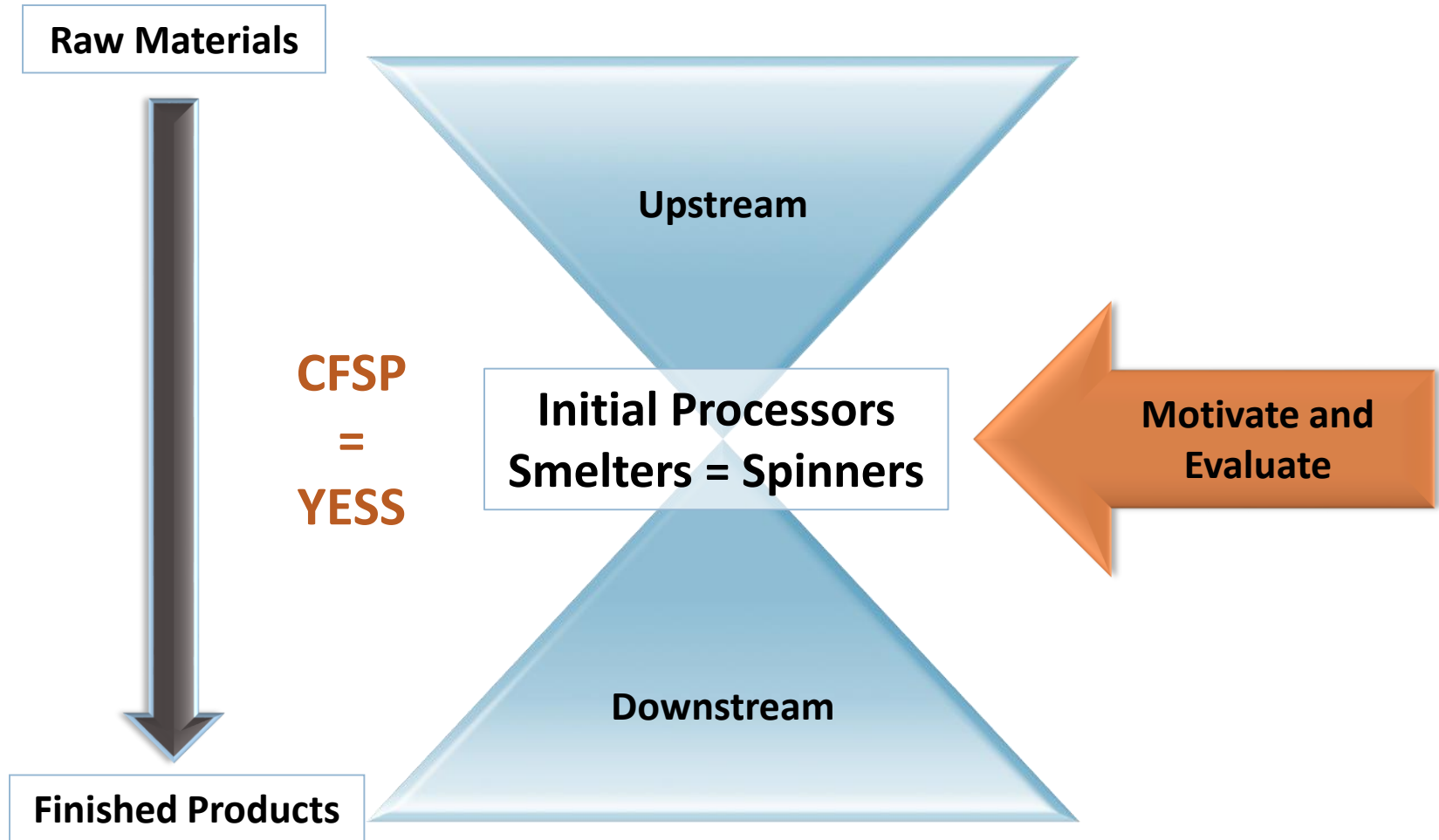
16





# Focus on Initial Processors

17



# Due Diligence Expectations for Initial Processors

18

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

19

<b><i>Intent</i></b>	Policy is stated in procedures and communicated to suppliers.
<b><i>Implementation</i></b>	Procedures are implemented consistently and employees are trained through organizational coordination.
<b><i>Impact</i></b>	Transaction validation assures us the system works.

# Supply Chain Mapping

20

- ❑ 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

21

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

# Material Management Systems

22

- ❑ 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

23

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

$$\text{Mass balance (Losses)} = \frac{\text{“Calculated”} - \text{“Actual”}}{\text{Total material processed}}$$

# Risk Identification, Prevention, and Mitigation

24

- ❑ 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

25

## Low-risk Sources

**10% of transactions**

- Transportation documents
- Customs export record (or alternative)
- [Assays]

## High-risk Sources

**100% of transactions**

*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 3<sup>rd</sup> party audit report, grievance systems)

# Documentation Requirements: Country of Origin

26

## Data Points:

**Gate** - Country of origin

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**Weight** of material

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**Date** within reasonable period of material receipt

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**Credible** documentation source

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# Document Review – Bill of Lading

27



**MAERSK**

Shipper: ABC Trader  
Rwanda

Consignee: XYZ Smelter  
China

**Gates**

Port of Loading:  
Dar es Salaam

Port of Discharge:  
Hong Kong

Date:  
May 10, 2017

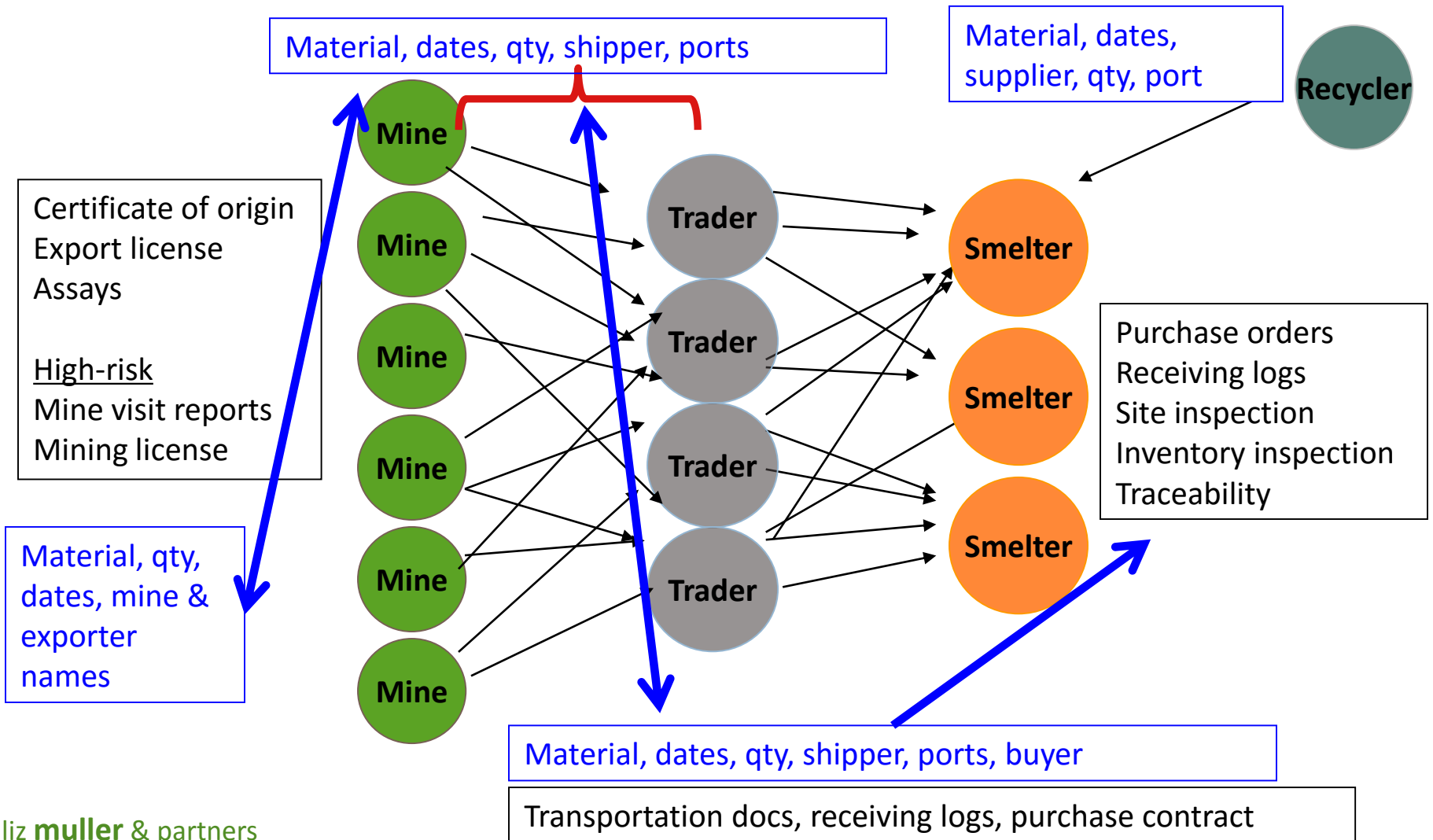
## Shipment Content Description

Material  
Coltan

Weight  
Gross wt: 24,700 kg  
Net wt: 24,045 kg

# Chain of Custody High-risk Material

28



# Monitor Performance and Report Progress

29

- ❑ Grievance mechanism
- ❑ Program and conformance assessment
- ❑ Annual reporting requirements
- ❑ Continuous improvement is critical



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through YESS

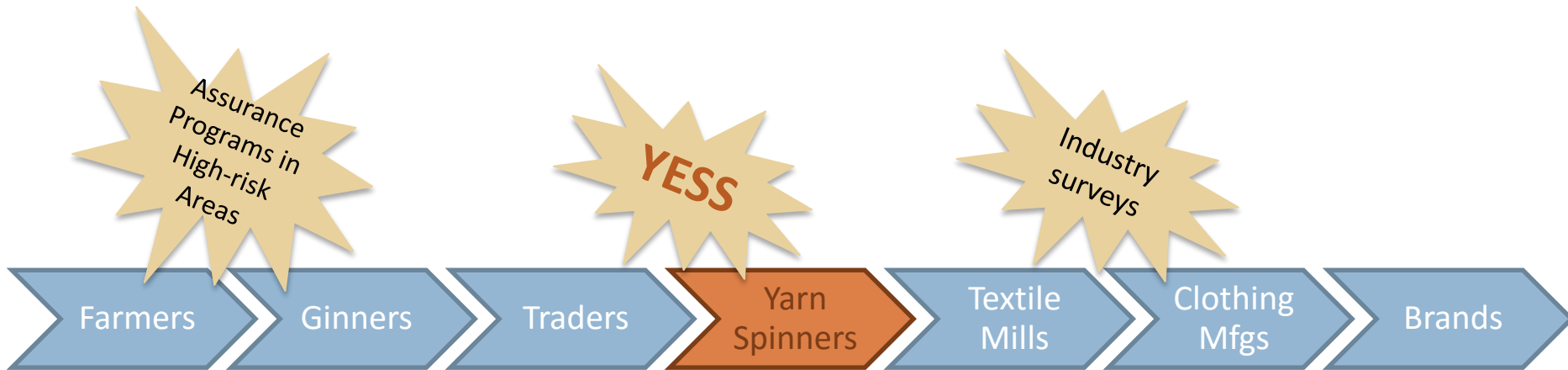
# YESS Program

31

- 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

32



## High-Risk Regional Controls

- Monitoring
- Traceability

## Due Diligence Audit Program

- Outreach & training
- Audits

## Company Assurance

- Supplier surveys
- Downstream audits



# YESS Activities To Date

33

## Groundwork

- [Cotton Pledge](#) (270+ brands and retailers)
- [Cotton Sourcing Snapshot](#) report
- [Feasibility Study](#)
- Fundraising – Disney SCIP grant
- 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](http://Sourcingnetwork.org/yess)

## 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

34

- ❑ Sign the [YESS Statement of Support](#)
- ❑ Join the YESS Working Group
- ❑ Forward the [Spinner Survey](#) to several spinners in your supply chains
- ❑ Give feedback during public consultation (Q1-Q2)
- ❑ Recommend spinning mills for pilot (Q3-Q4)
- ❑ Contribute financially to the development of YESS

# Contact Us



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*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**