

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

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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

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Patricia Jurewicz
Founder and CEO
Responsible Sourcing
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Senior Manager
Yunus Textile Mills, Limited

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General Manager
Nishat Mills Limited



Yarn
Ethically &
Sustainably
Sourced

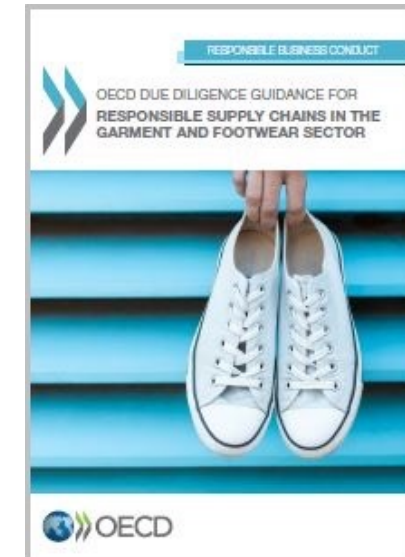
Applying due
diligence along
the value chain

Due Diligence & Management Systems

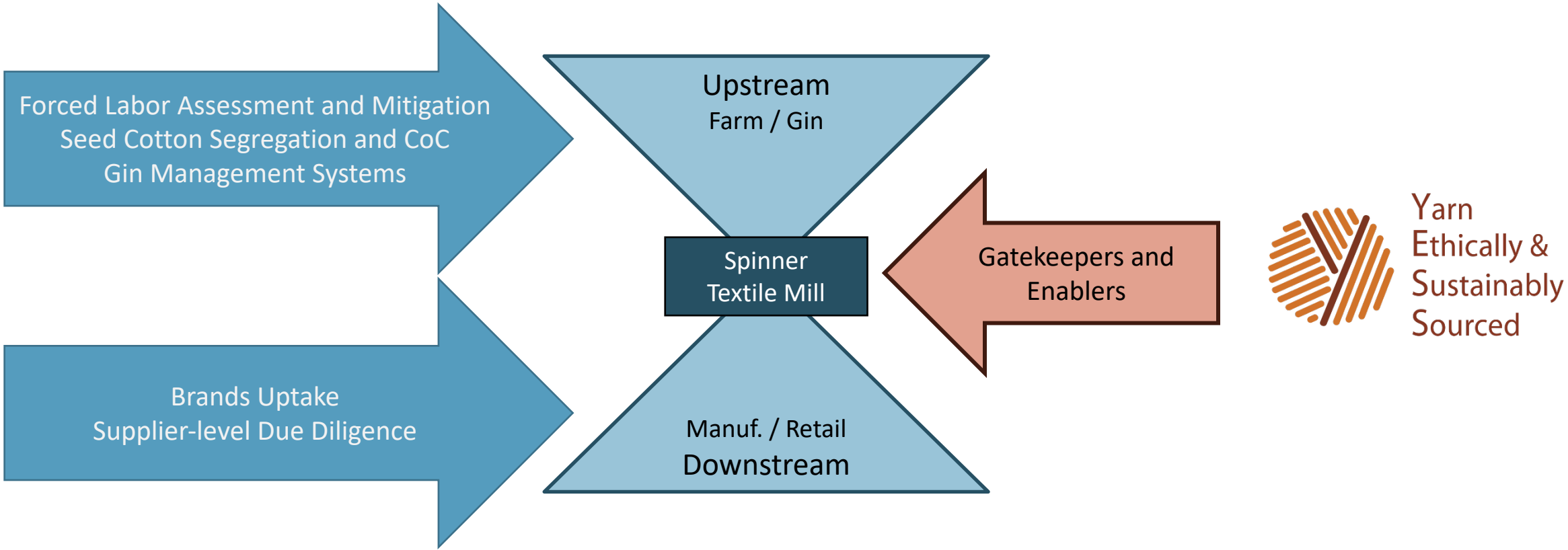
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OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

Embed responsible business conduct in policy and management systems	Identify potential and actual harm in value chains	Cease, prevent, or mitigate harm in value chains	Track performance	Communicate activities and progress	Provide for or cooperate in remediation when appropriate
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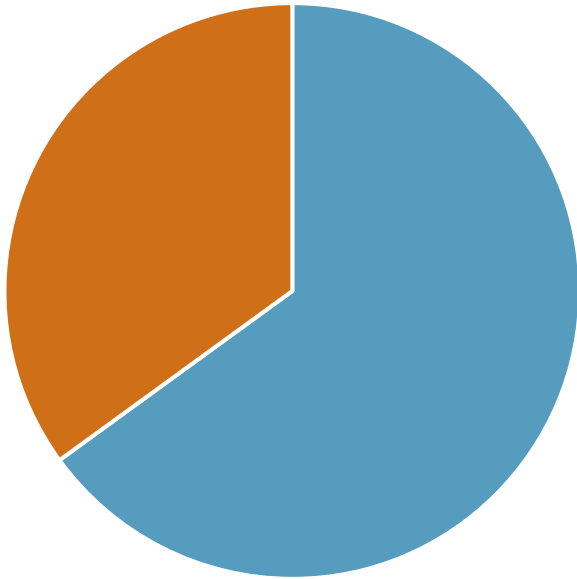
Collaboration Across Three Value Chain Segments



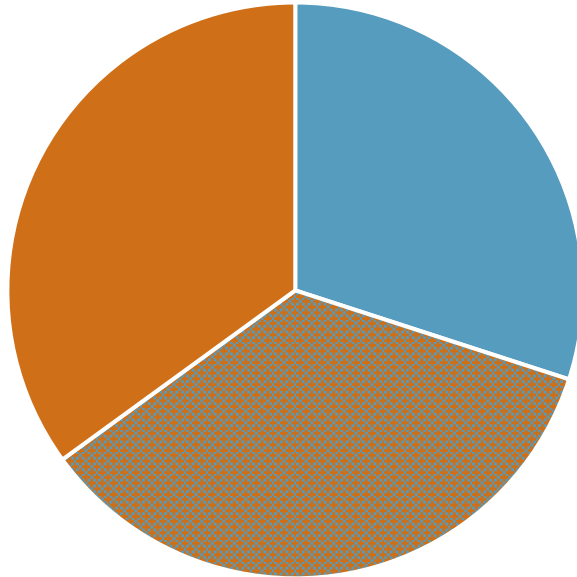
Mitigate Harm to Create Low-Risk Sources

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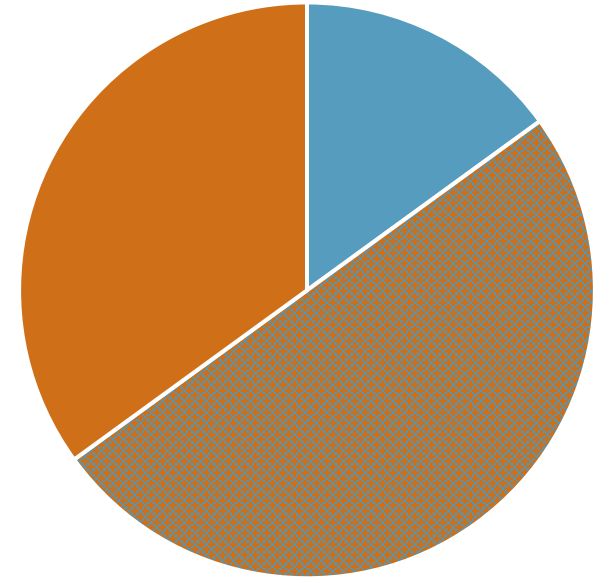
Low-Risk & High-Risk Countries



Low-Risk Sources in High-Risk Countries



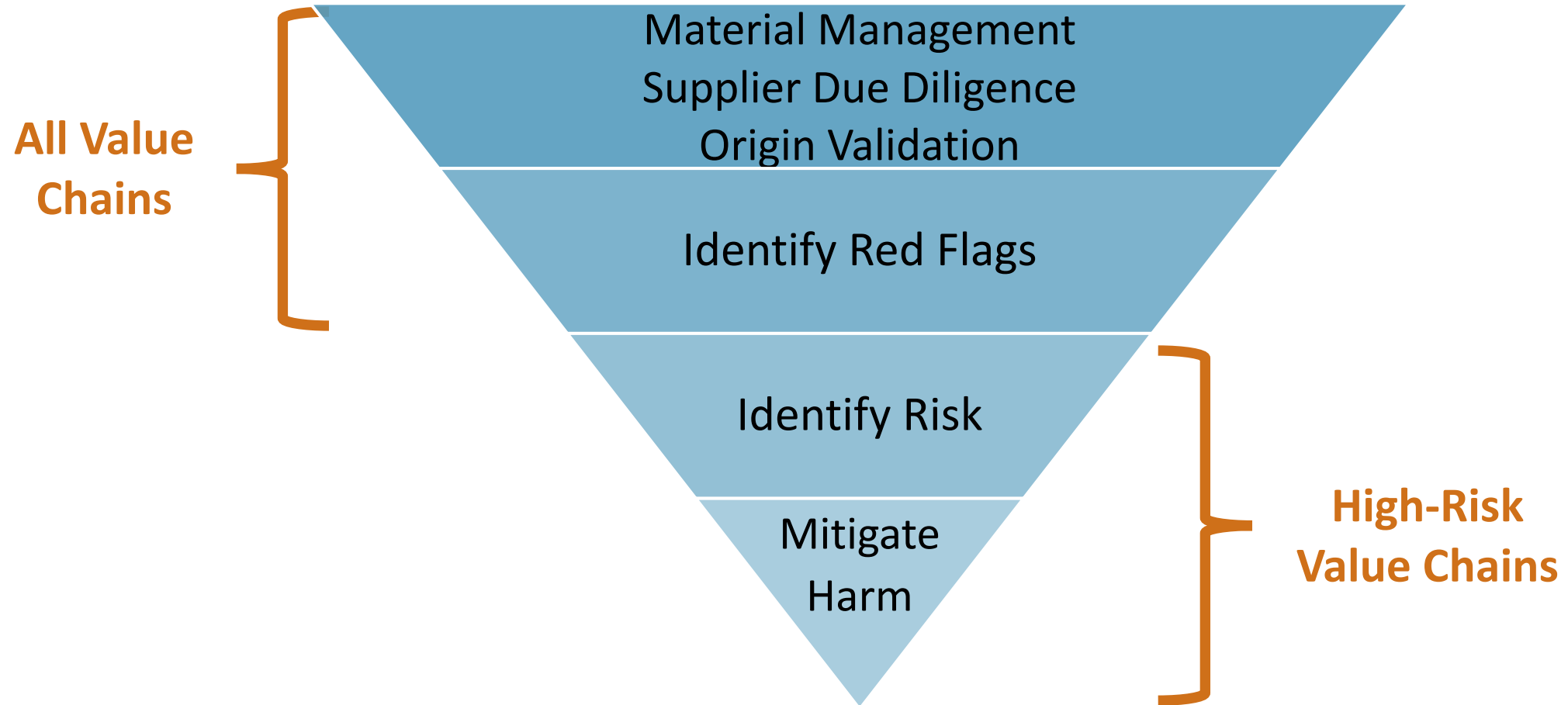
Mitigating Harm within High-Risk Countries to Create Low-Risk Sources



- Low-Risk Countries
- High-Risk Countries
- Low-Risk Sources within High-Risk Countries

Digging Deep in High-Risk Value Chains

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Due Diligence and Product Traceability

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Due Diligence

- Focus is on management systems at an enterprise level
- Material origin is validated
- Material is accounted for, and quantities are reconciled
- Guides facilities to identify, assess and address risks of harm
- Leverages existing systems, processes and supplier relationships

Product Traceability

- Follows specific inputs for specific products
- Does not directly address risks of harm
- Requires additional effort and adjustment to processes / systems
- May or may not have system-level controls

Product level traceability requires a foundation of due diligence

Pakistan Insights

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- ❑ 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



Pakistan Insights (cont.)

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- ❑ 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



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Introducing YESS:
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YESS Mission

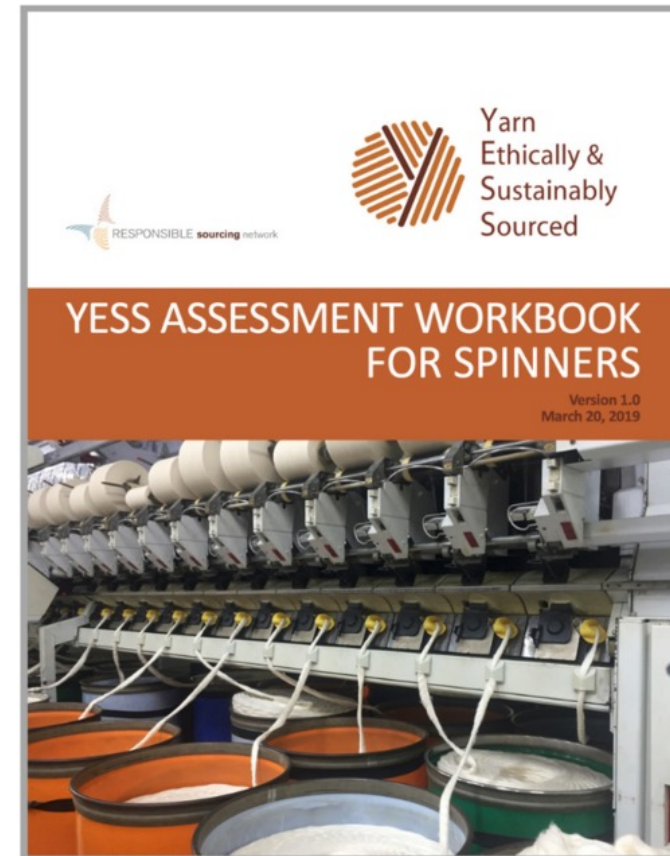
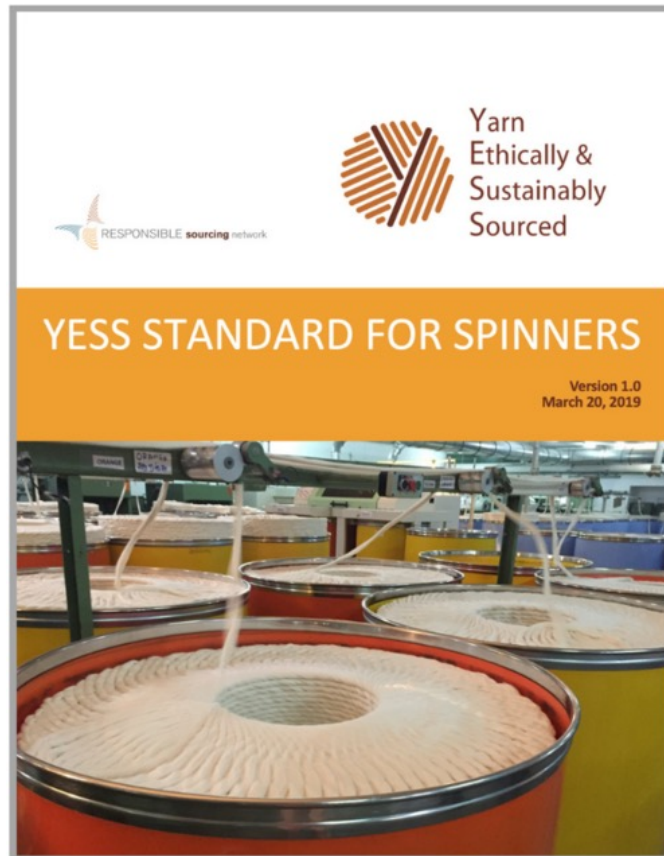
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To create an industry-wide due diligence program for yarn spinners and textile mills to identify and address cotton produced with forced labor in their value chains.



YESS Standards and Assessment Workbooks

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YESS Standard for Textile Mills Coming Soon!

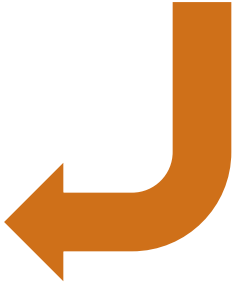
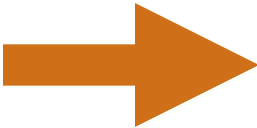
<https://www.sourcingtonetwork.org/yess>

Proposed YESS Assessment Continuum

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	YESS Conformance Continuum Assessed	
<input type="checkbox"/>	Year 1	Step 1: Establish strong company management systems
<input type="checkbox"/>	Year 1	Step 2: Identify risks in the supply chain
<input type="checkbox"/>	Year 1 Improvement Plan	Step 2: Assess risks in the supply chain
<input type="checkbox"/>	Year 2	Step 3: Design and implement a strategy to respond to identified risks
<input type="checkbox"/>	Year 2	Step 4: Track
<input type="checkbox"/>	Year 2	Step 5: Report annually on supply chain due diligence
<input type="checkbox"/>	Year 3	Step 6: Provide for or cooperate in remediation

Tracing Cotton from Laydown to Product (Yarn)



YESS Methodology to Identify High-Risk Origins

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See the [YESS Pilot Project](#) for information and updates on our pilot this year.

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:

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YESS MATERIALS

[Pilot Project](#)

[Implementation Working Group](#)

[YESS Standard and Workbook](#)

[Methodology of High-Risk](#)

[YESS Action Plan](#)

[FAQs](#)



Yarn
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Demonstrating
due diligence
through YESS

Addressing Value Chain Risks

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Two Risk Categories: Material and Supplier

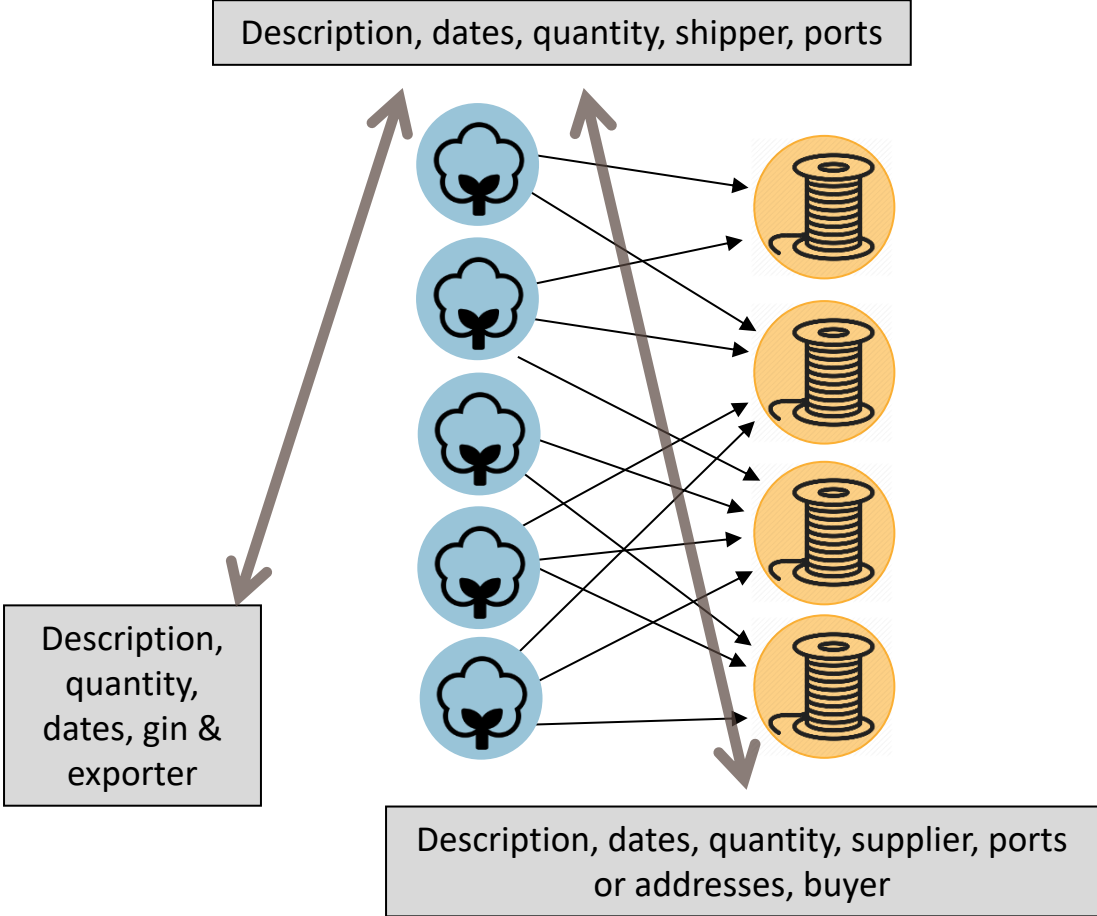
Risks associated with the material:

- 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”

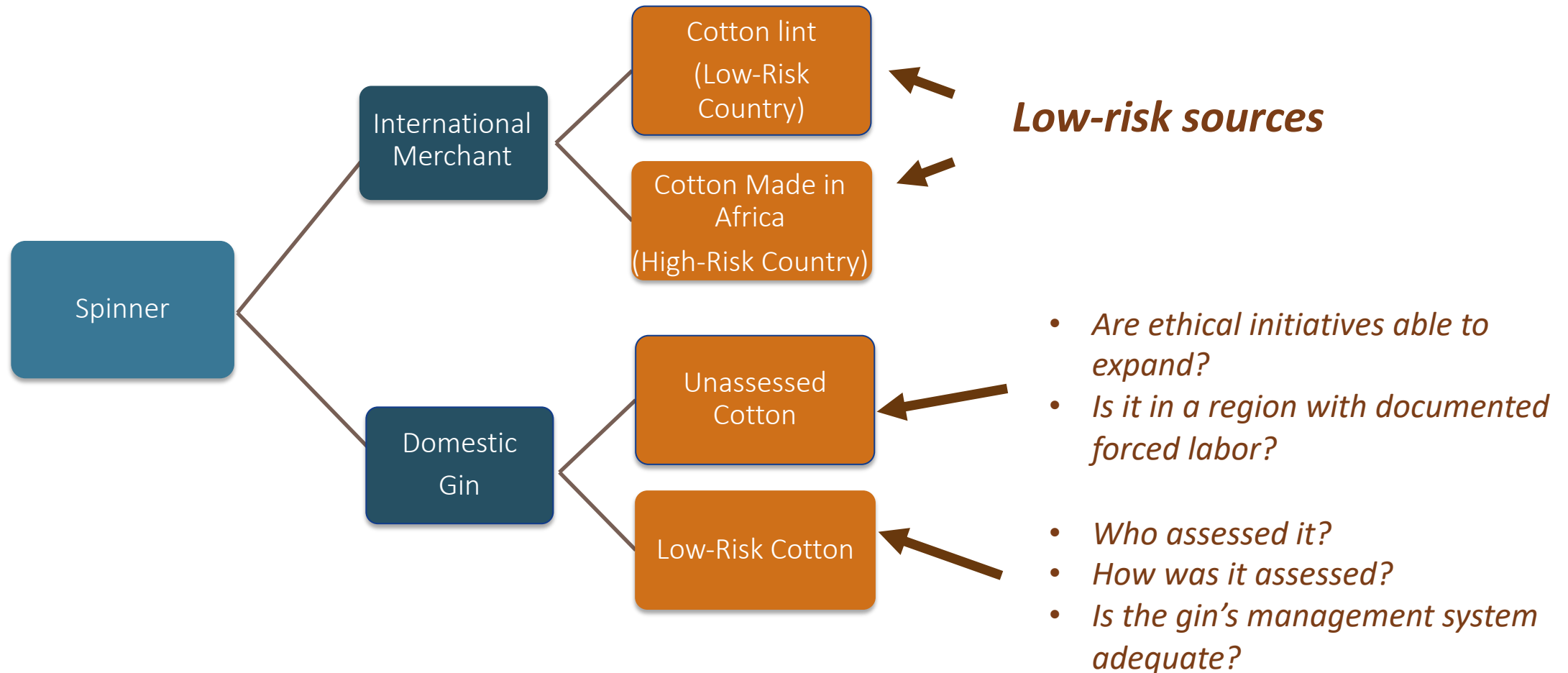


**Low-risk country:
Origin is country**

**High-risk country:
Origin is low-risk gin**

Due Diligence in a High-Risk Value Chain

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Risk Mitigation Plan

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Description of risk	Country or origin	Supplier(s)	Mitigation plan	Timeframe	Activities completed to date	Remaining activities
Bonded labor	Punjab, Pakistan	Premium Cotton Agent	<ul style="list-style-type: none">• 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.)	<ul style="list-style-type: none">• May 2022• July 2022• Sept 2022		

Mitigate Supplier Risks

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<i>Continue</i>	Continue to do business with high-risk suppliers cooperating with a mutually agreed upon mitigation plan
<i>Suspend</i>	Temporarily suspend trade while pursuing ongoing mitigation efforts
<i>Disengage</i>	Disengage with a supplier in cases where mitigation appears unfeasible, is unacceptable, or fails after it is attempted



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YESS Pilot in Pakistan



Pakistan Context

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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

Source: USDA GAIN (Global Agriculture Information Network) Report, 2019.

Today's Panelists

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NISHAT	YUNUS
<p><i>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.</i></p>	<p><i>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.</i></p>
<p>Mr. Muhammad Mumtaz General Manager for Spinning and Cotton Procurement</p>	<p>Khurram Akram Senior Manager</p>

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