

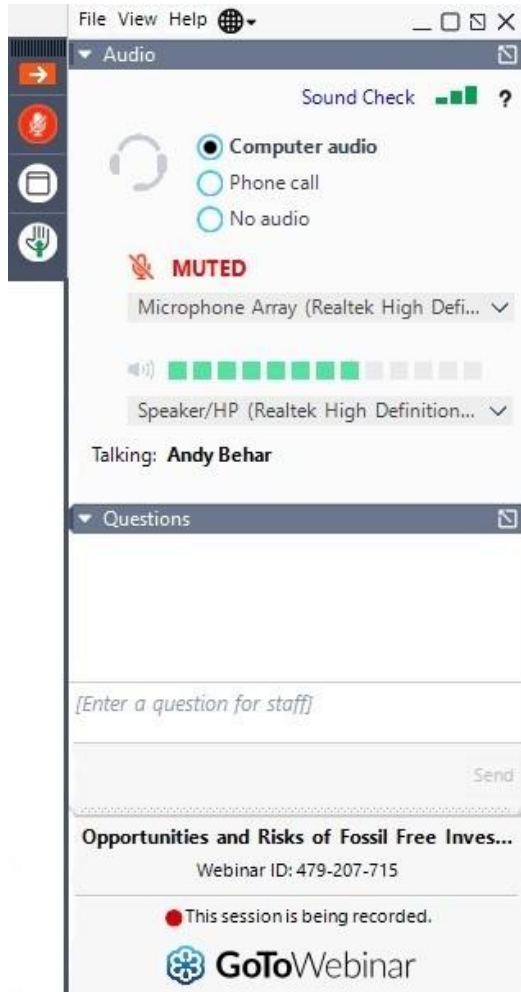


Update on the Turkmenistan 2019 Cotton Harvest

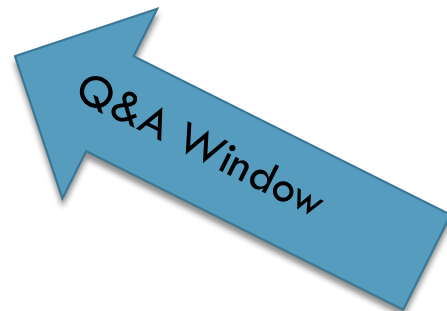
May 20, 2020

Logistics

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- ❑ Webinar is being recorded
 - ❑ Use the Q&A window to send us your questions, speakers will answer questions at the end
 - ❑ You will receive an email with a link to the recording and slides



Presenters

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Ruslan Myatiev
Editor
Turkmen.news



Chloe Cranston
Business and Human Rights Manager
Anti-slavery International



Patricia Jurewicz
Founder and VP
Responsible Sourcing Network

Today's Agenda

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1. 2019 Cotton Harvest Observations in Turkmenistan

- Ruslan Myatiev

2. Update on Cotton Flows of Turkmen Cotton

- Chloe Cranston

3. Current activities with Cotton Campaign, Investor engagement, and YESS

- Patricia Jurewicz

4. Q&A



Turkmenistan Cotton

Findings of the 2019 harvest

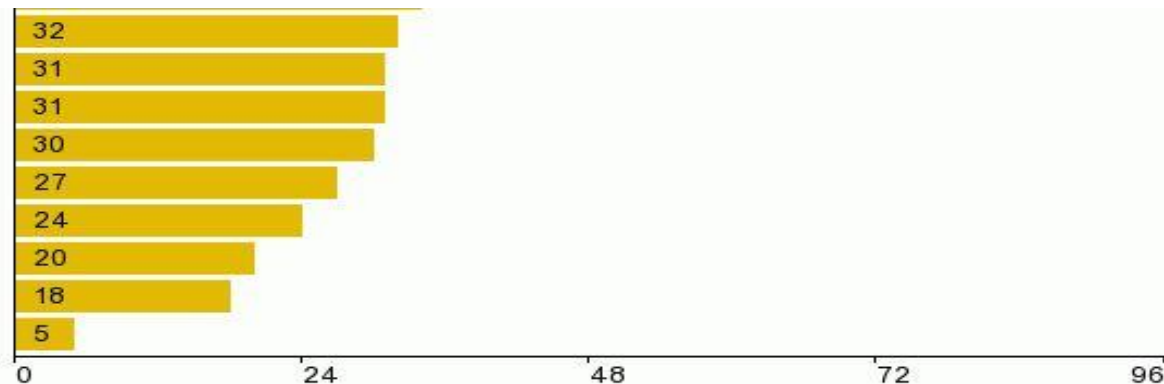
Ruslan Myatiev





Brief country facts

- 173. Somalia
- 174. Cambodia
- 175. Venezuela
- 176. Turkmenistan
- 177. Chad
- 178. C.A. Republic
- 179. Cuba
- 180. Eritrea
- 181. North Korea

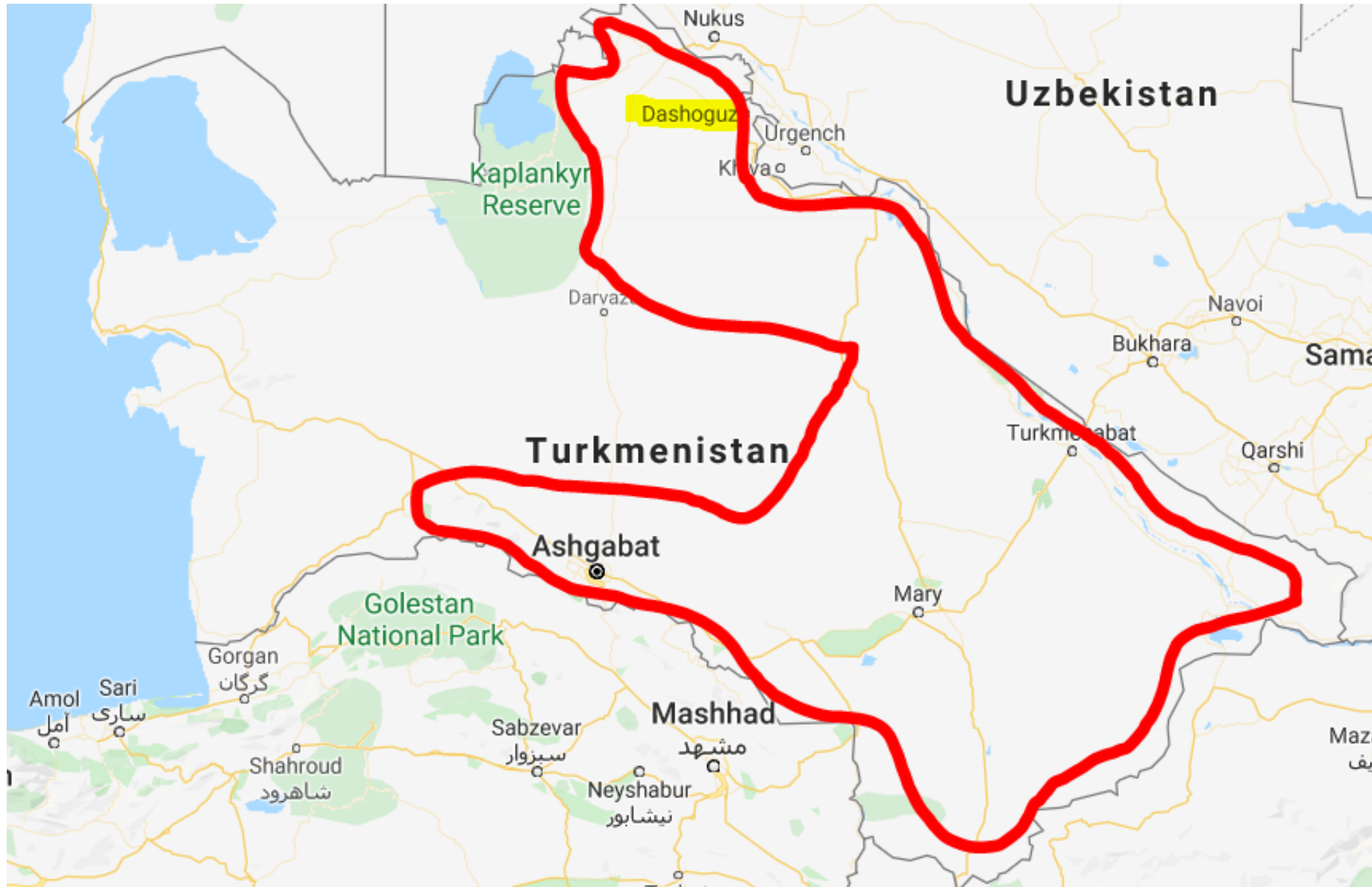


170	Saudi Arabia	66.37
171	Cuba	28.33
172	Laos	56.73
173	Iran	66.41
174	Syria	82.05
175	Vietnam	64.79
176	Djibouti	6.93
177	China	80.43
178	Eritrea	72.36
179	Turkmenistan	0
180	North Korea	51.93

Total score & status	Political rights	Civil liberties
2 ■ Not Free	0	2

Turkmenistan remains an extremely repressive country. The government severely restricts all fundamental rights and freedoms, including freedoms of association, expression, and religion. President Gurbanguly Berdymukhamedov, his relatives and their associates control all aspects of public life, and the authorities encroach on private life. The government carries out forced evictions without adequately compensating those affected. The government continues to conceal the fate and whereabouts of dozens of people forcibly disappeared following their imprisonment during waves of arrests in the late 1990s and early 2000s, although it has begun to return to families the bodies of several inmates forcibly disappeared years ago who have recently died in custody. Activists and independent correspondents critical of the government face increased intimidation, harassment, physical attacks and imprisonment. The country remains closed to any independent scrutiny.





- **Planned economy**
1,050,000 tons of cotton (2019); 1,250,000 tons for 2020
- **Land ownership**
Soviet *collective farms* turned into *farmers' associations*; each association and individual farmer have state plans. Farmers lease lands from state
- **Supply**
State provides cotton seeds, water, fertilizers and **mechanization**; all services are paid by farmers
- **Harvest & trade**
Farmers responsible for harvesting cotton **by certain date** & sell it to state





- State quota/plan per farmer is too high \approx 3 tons/hectare (2,5 acres)
- Plan failed? Pay a fine (1440 manats or \$70-\$411 depending on which currency rate is used)
- Why plans fail: poor quality/insufficient amounts of seeds/fertilizers, lack of irrigation water (drought), lack of mechanization, pest infestation. For better cotton yield some farmers purchase additional imported chemicals = more expensive
- Paying for services farmers never received
- In 2019 dozens of farmers in at least two regions have had their land taken off them (their contracts to lease state land have been dissolved) and have been fined for failing to meet the plan

Origins of forced labor





- Meet deadlines, report completion as soon as possible
- Early cotton (before rain season) is more expensive
- Machine harvesters applied when 80% of cotton bulbs have opened \approx mid October
- Lack of machine harvesters; more expensive for farmers than human labor





- Civil servants pay money to be free from cotton (\$50-60)
- Depending on profession, people take daily shifts or pick cotton long-term
- People secure their own food and place to live while on long-term shifts
- Refusal to pick cotton can lead to reprimands and even termination of employment



Turkmen cotton risk in global supply chains

20 May 2020

Chloe Cranston



Risk of Turkmen cotton in global supply chains

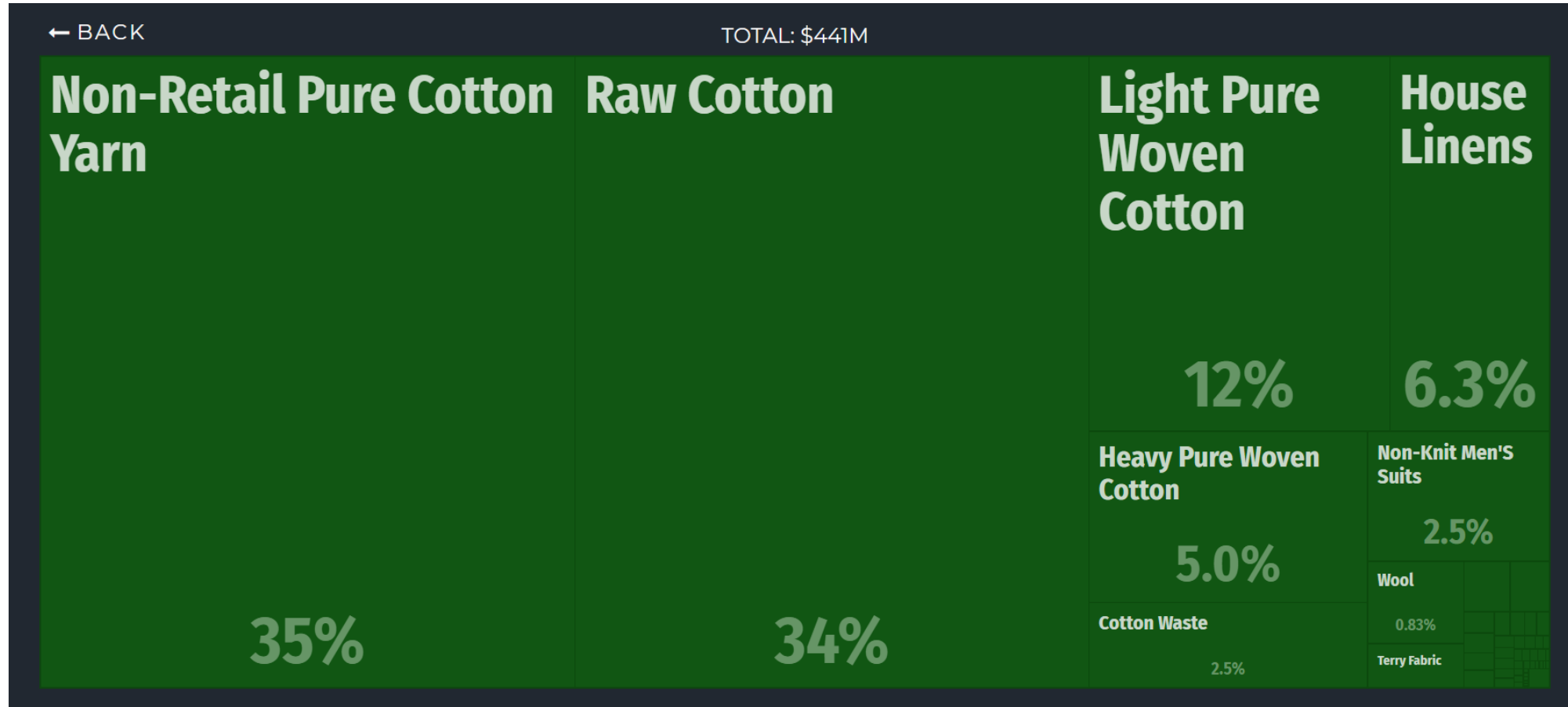
How much cotton?

- Around 300,000 tons per annum according to ICAC = 11th largest cotton producer and exporter globally (estimated)

How is the cotton being exported?

- International cotton traders present in the country – for example, Olam International is a leading purchaser of Turkmen cotton.
- Turkmen government seeking to vertically integrate textile manufacturing and has been investing in cotton processing – allegedly aims to end raw cotton exports, focusing instead on finished products. I.e. yarn, fabric and textiles also a risk.
- In 2016, gov claimed to sign contracts for the sale of US\$30 million worth of cotton products to international companies.

Turkmen textile-related exports: 2017



Source: The Observatory of Economic Complexity (an MIT project)
<https://oec.world/en/profile/country/tkm/> using UN COMTRADE data

A special relationship with Turkey: Turkish companies in Turkmenistan

- The historically close political relationship between the two countries has led to JVs between Turkish companies and Turkmen state-owned companies
- Turkey is the main investor into Turkmenistan's textile production facilities. Çalık Holding, Norsel, Cotam, Polimeks, Nebo, Linkway and Engin Group are among these companies.
- The Turkmen textile industry is 22 per cent foreign-owned, of which 20 per cent are Turkish companies. Makes up 90% of all foreign ownership

Case study: Gap Pazarlama, subsidiary of Çalık Holding

- **Çalık Holding** - Large Turkish holding company with activities in a number of industries, including textiles and garments.
- **Gap Pazarlama** – a subsidiary of Çalık Holding which owns several textile production facilities in Turkmenistan, including the Turkmenbashi Textile complex. Gap Pazarlama has a huge production capacity and an annual turnover of US\$167 million.
- The company claims to have more than 200 customers in 40 different countries, including leading ready-made garment companies and home textiles brands. Notes Turkey, Italy, Portugal, UK, Spain, Israel, Germany, Romania, China, Bangladesh and Poland as key markets for yarn.
- Çalık Denim a BCI member and well-known denim fabric supplier to large UK, US and EU brands is also in the Çalık Holding family. This company states it prohibits the use of forced labour and claims to not procure cotton from Turkmenistan.

- Leading and the biggest supplier of textiles in Turkmenistan,
- Top importer with the largest market share in Turkmenistan,
- First company to promote and sell the products manufactured at the integrated denim fabric, apparel and home textile factories in Turkmenistan to international markets,
- First company to set up quality management, environmental management, occupational health and safety management systems in Turkmenistan and obtain certifications,
- Top importer with the largest market share in cotton yarn,

2018 DEVELOPMENTS

HOME TEXTILE

1 million units

- ▶ Gap Pazarlama reached a sales figure of 1 million in home textile area in 2018.

READY-TO-WEAR SALE

1.4 million units

- ▶ Gap Pazarlama sold 1.4 million pieces of ready-to-wear clothing items in 2018.

DENIM AND RAW FABRIC SALE

11.6 million meters

- ▶ In 2018, Gap Pazarlama's denim fabric sales reached 7.3 million and raw fabric sales reached 4.3 million meters.

THREAD SALE

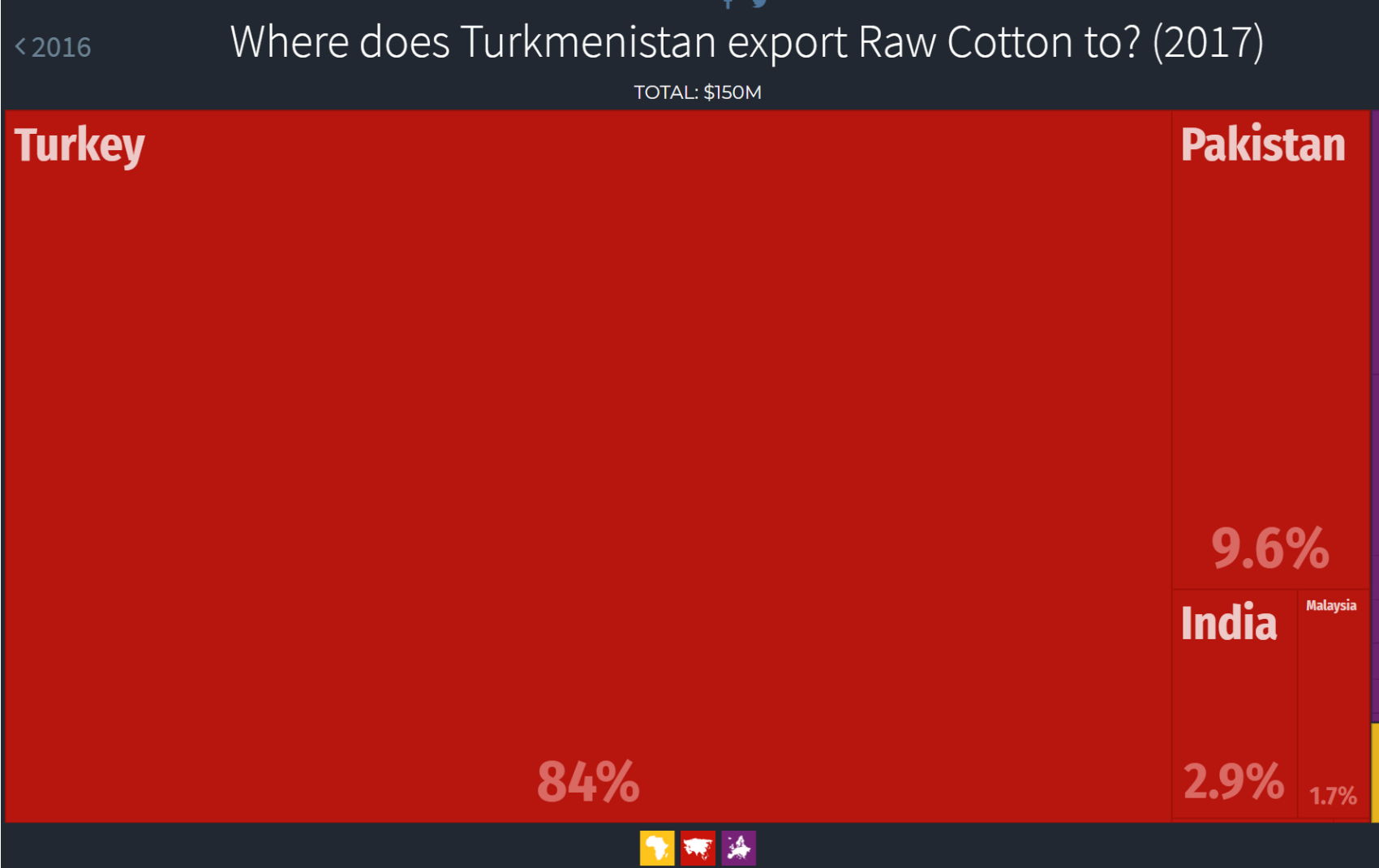
7.2 million kg

- ▶ Gap Pazarlama sold 7.2 million kg of thread in 2018.

A special relationship with Turkey: Turkmen exports to Turkey



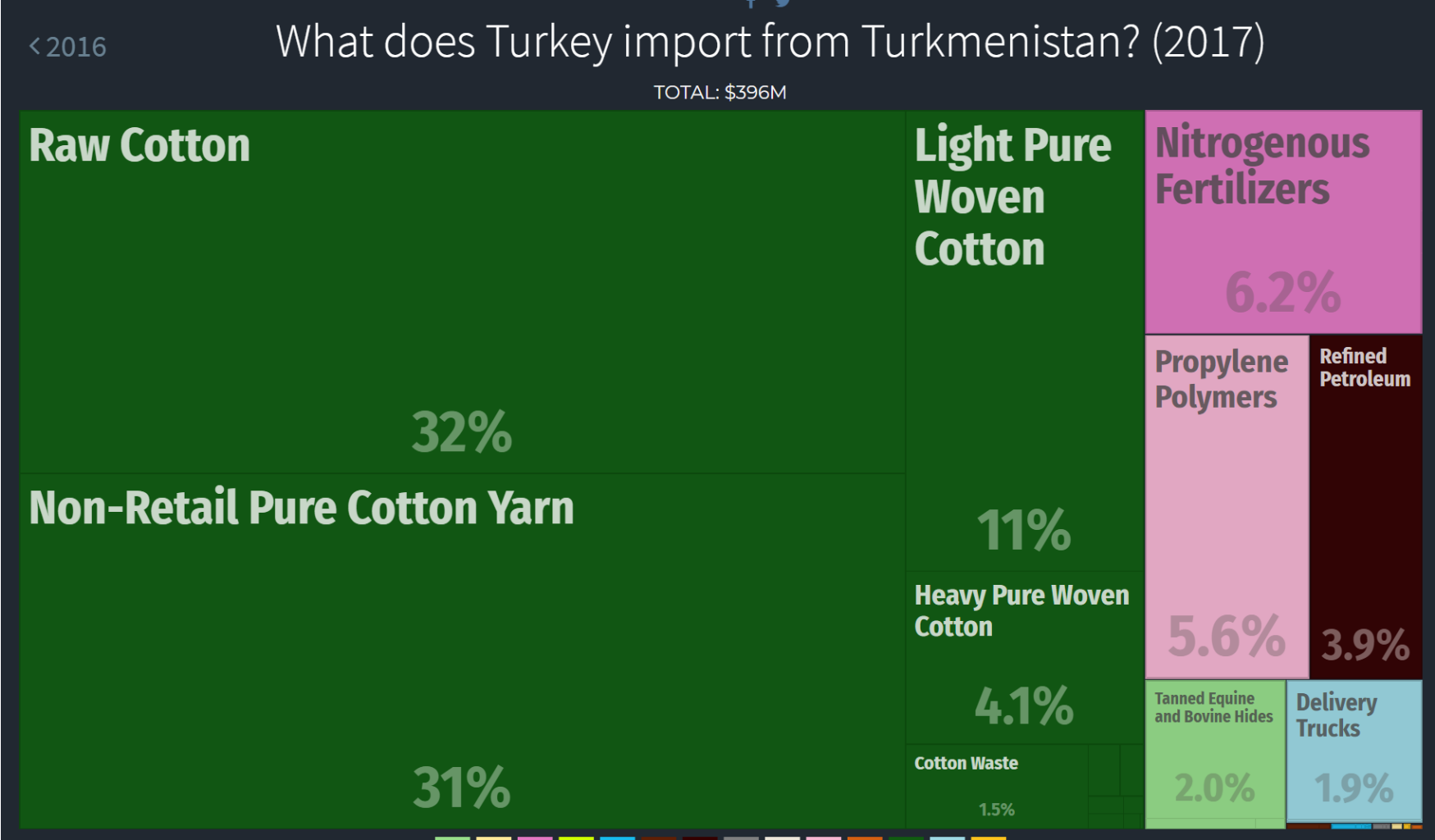
A special relationship with Turkey: Turkmen exports to Turkey



A special relationship with Turkey: Turkmen exports to Turkey



A special relationship with Turkey: Turkmen exports to Turkey



A special relationship with Turkey

- In 2015, imports of Turkmen cotton and cotton products into Turkey ranked second, only behind the US, amounting to US\$400 million.
- There has been a decline since in fabric and raw cotton imports – potentially linked to the Withhold Release Order (?).
- However, numbers remain relevant, and there has been no decrease in yarn imports. In 2019, Turkmenistan was the second largest source of yarn for Turkey, second only to Uzbekistan.
- Meanwhile, the Turkmen government has reported an annual increase of yarn, textile, sewing and knitwear production.

From Turkey to the rest of the world

- Turkey is a key textile supplier globally – ranked 6th globally
- Turkey is the third-largest textiles supplier to the EU and around 20% of all the EU's imports from Turkey are textiles
- US and the Middle East also key markets for Turkish textiles



Current activities with the Cotton Campaign, Investor engagement, and YESS: Yarn Ethically & Sustainably Sourced

Patricia Jurewicz

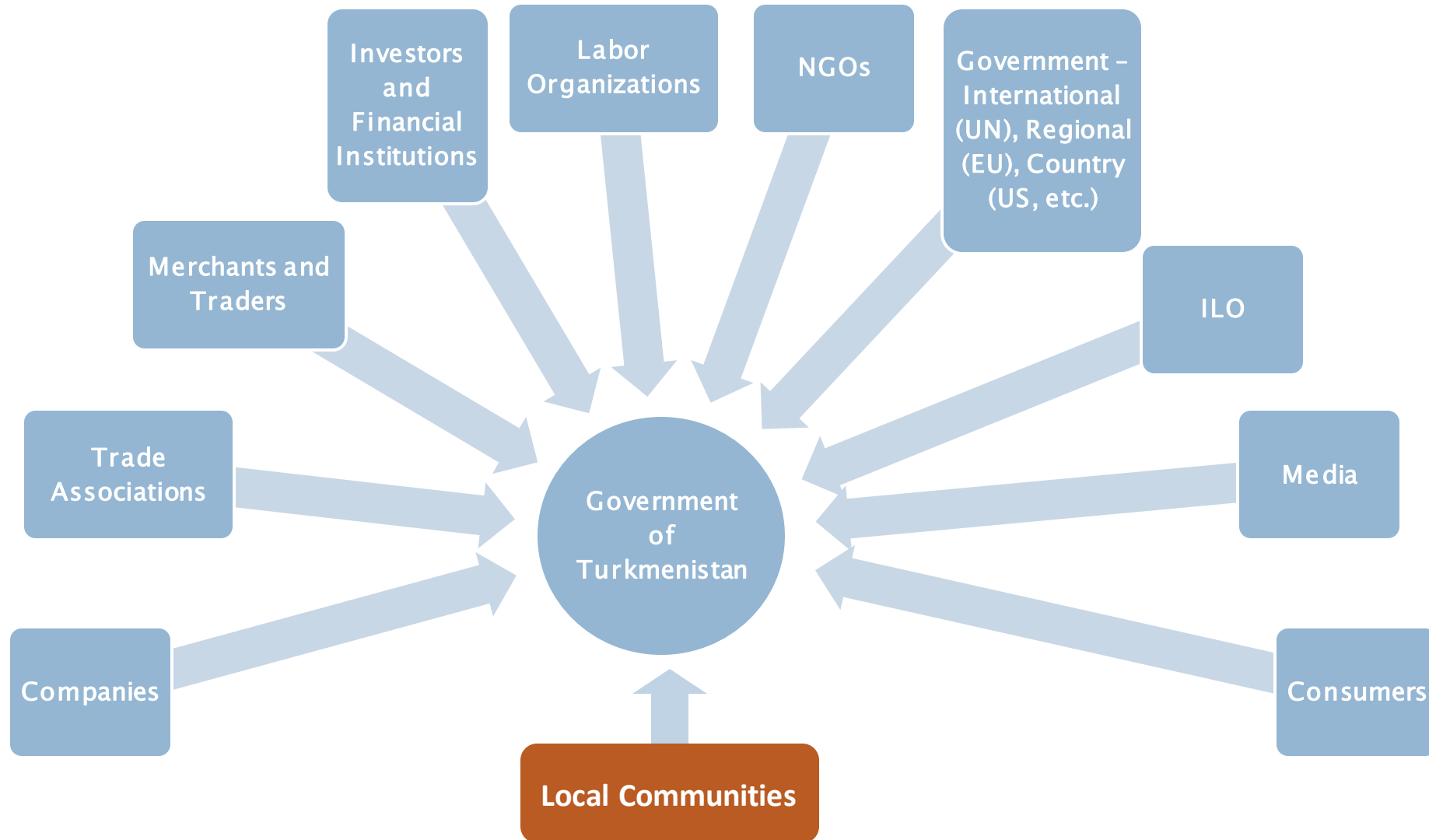
Cotton Campaign

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- ❑ Consistent discussions with the US, UK, and EU governments
- ❑ Exploring engagement with international multi-stakeholder and financial institutions
- ❑ Promotion of the [Turkmen Cotton Pledge](#)
 - ❑ Currently 89 pledge signatories
- ❑ Further outreach, engagement, and--when needed--encouragement with brands and investors

Influence Model for Change

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Media Focus

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Gurbanguly Berdimuhamedov: Last Week Tonight with John ...

YouTube · LastWeekTonight

<https://www.youtube.com/watch?v=-9QYu8LtH2E>

Investor Engagement

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- ❑ In-person Briefings
- ❑ Investor Statement
 - ❑ 85 signatories
- ❑ Brand Engagement → Material Risk
 - ❑ CBP Withhold Release Order
 - ❑ Modern Slavery and Human Rights Due Diligence Legislation and Regulations
- ❑ Talking Points
 - ❑ Sign the Turkmen Cotton Pledge
 - ❑ Participate in multi-stakeholder efforts (YESS)
 - ❑ HRDD: Identify and address risk

YESS Mission

Yarn Ethically & Sustainably Sourced

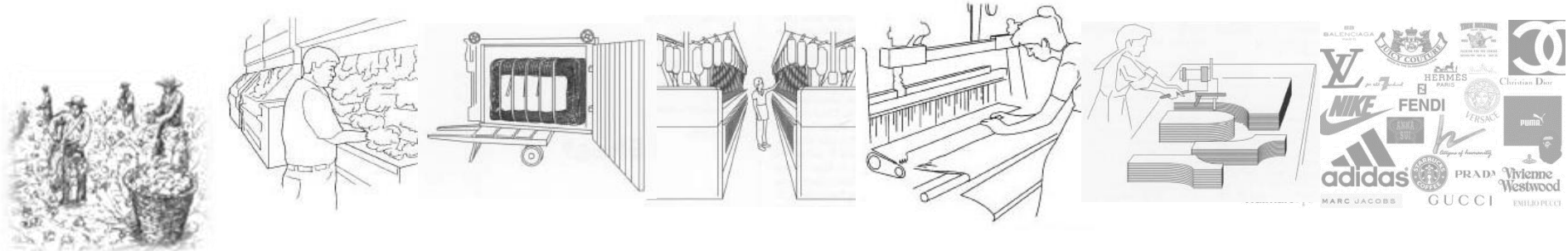
To create an industry-wide due diligence program for yarn spinning mills to eliminate cotton produced with forced labor from their supply chains.



Focus on Initial Processors = Spinning Mills

Yarn Ethically & Sustainably Sourced

YESS



SCOPE OF YESS

Cotton with a high-risk of being produced with forced labor

Low-Risk Cotton from Initiatives...using standards from BCI, CMIA...

Cotton with a low-risk of being produced with forced labor

Cotton accepted at YESS-compliant spinning mills

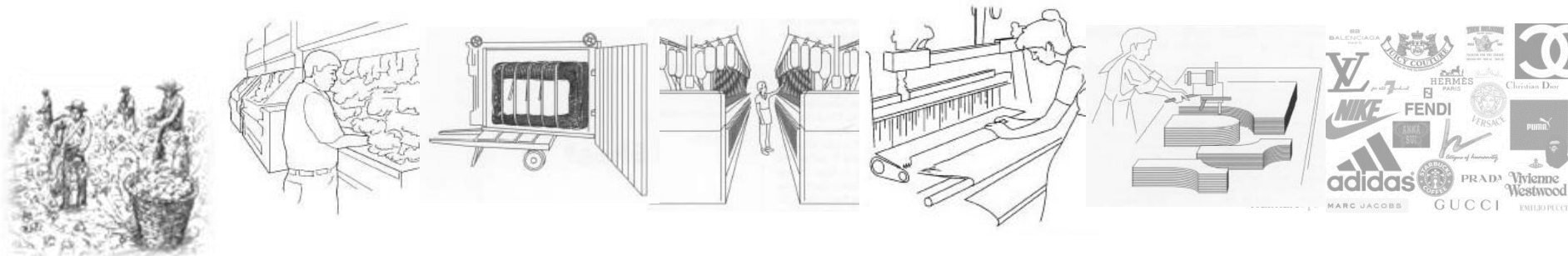


Potential to Expand to Textile Mills

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Yarn Ethically & Sustainably Sourced

YESS



Due Diligence Expectations

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



How Spinners Implement

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Map the
factual
circumstances
of the supply
chain

Assess whether
those circumstances
present risks of
forced labor

**Design and
implement**
a strategy to
respond to
identified risks

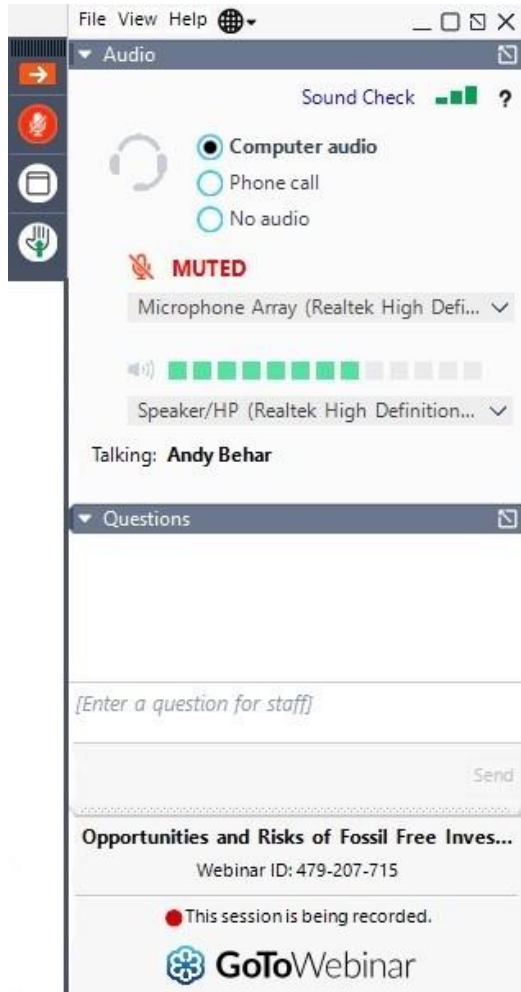
Opportunities to Support YESS

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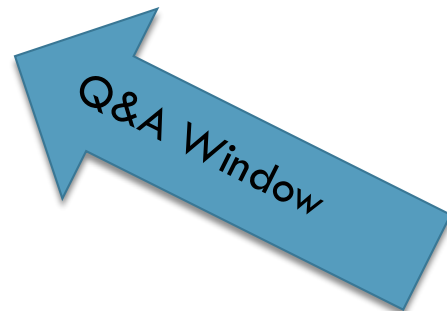
- ❑ Support the development of the YESS Standard, Workbook, and Tools for Textile Mills
- ❑ Nominate and support spinning mills and to textile mills to pilot YESS verification
- ❑ Contribute financially to RSN and YESS to train verifiers, spinning mills, and brand staff
- ❑ Support coordination or integration of YESS with SLCP, SAC, and BCI

Audience Q&A

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Questions?

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Please type your questions into the question box on the control panel of your screen.

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Thank you for joining us today!

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