

YESS: Yarn Ethically & Sustainably Sourced

Module 1 - An Introduction

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www.sourcingnetwork.org/yess

Today's Presenters

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Today's Agenda

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1. The YESS Standard: mission, intent, concepts (Patricia)
2. YESS Standard Explained (Liz)
 - ❑ Policy and management systems expectations
 - ❑ Supply chain mapping
 - ❑ Supplier and cotton due diligence
 - ❑ Risk identification, prevention, and mitigation
 - ❑ Material management system and mass balance
 - ❑ Monitor performance and report progress
3. YESS Due Diligence Approach Illustrated
4. Questions & Answers



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The YESS Standard: An Introduction

YESS Mission and Intent

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



Motivating Factors

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Political Context

- ❑ Modern Slavery and Due Diligence Legislation: California, UK, France, Netherlands, Australia
- ❑ New lawsuits regarding modern slavery (Costco, Nestle, and Mars).
- ❑ Sustainable Development Goals - 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 Follows OECD's 6-Step Approach

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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** of forced labor in cotton production in the enterprise's supply chain.
- ❑ **Cease, prevent, or mitigate forced labor** in cotton production in the enterprise's supply chain
- ❑ **Track** (YESS assessment)
- ❑ **Communicate**
- ❑ Provide for or cooperate in **remediation** when appropriate.

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



YESS: a Risk-based Due Diligence Approach

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- ❑ **Due diligence:** Acting with reasonable care and investigating an issue before making a decision.
- ❑ **Risk:** Actual or potential exposure to harm of individuals or groups (i.e. forced labor) as a result of an organization's activities.
- ❑ **Risk-based approach:** Applying different levels of due diligence proportionate to the risk faced by the company.
- ❑ **Red flag:** A concern, discrepancy, or other suspicious activities in a spinner's supply chain.

YESS Defines High-Risk Countries

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- **High-risk countries** have significant evidence of forced labor in their cotton production*:
 - Benin
 - Burkina Faso
 - China
 - India
 - Kazakhstan
 - Pakistan
 - Tajikistan
 - Turkmenistan
 - Uzbekistan

- **Low-risk countries** includes all cotton-producing countries other those listed as high-risk countries.

** Sources: Cotton Campaign, Environmental Justice Foundation, ILO Country Reports/Observations/Application of Standards, International Organization for Migration, International Research on Working Children, U.S. DOL List of Goods, Uzbek German Forum, Verité Country Atlas, World Action Vision, and various media companies.*

Due Diligence is a Dynamic Process

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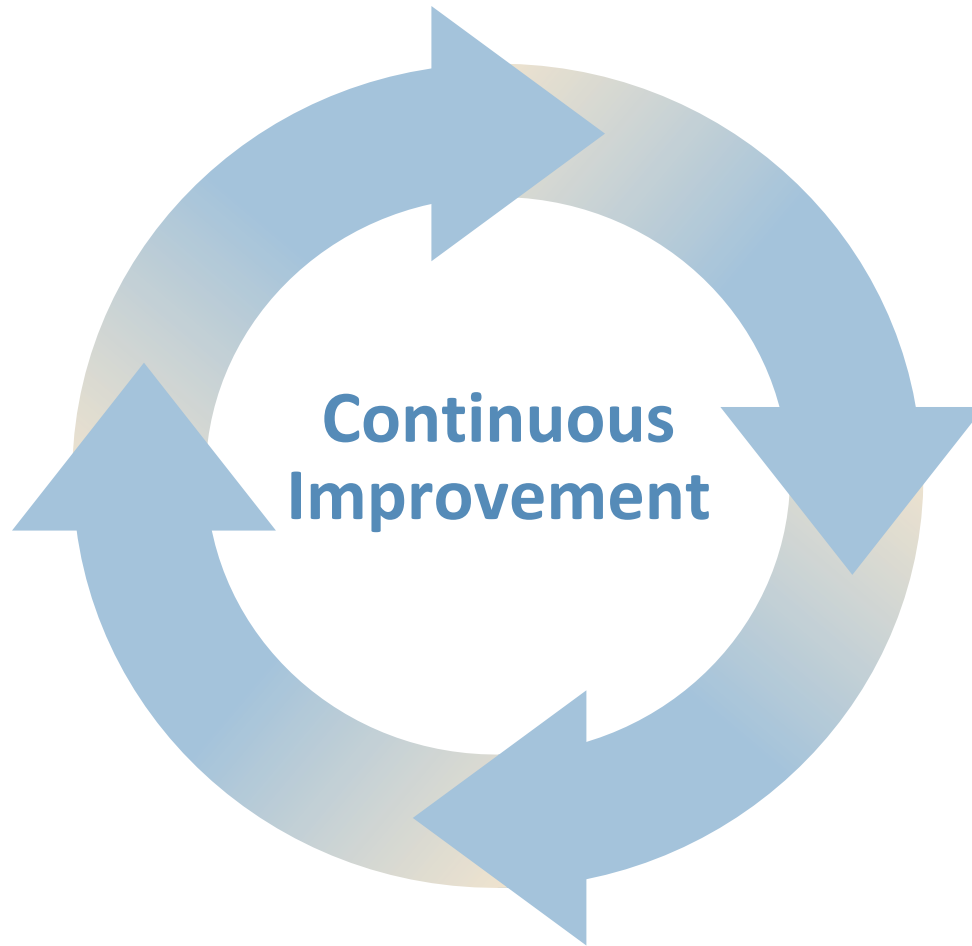
Proactive: A responsible sourcing program should be designed and implemented to identify risks—and mitigate them—in order to prevent harm or other negative outcomes.

Ongoing: A responsible sourcing program and its components should be integrated into its management systems and daily processes seamlessly and effectively.

Responsive: A responsible sourcing program should demonstrate that once gaps, discrepancies, or risk—both real and potential—are identified, the response will be prompt.

Continuous Improvement and Flexibility are Important

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Due Diligence Expectations under YESS

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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 an annual third-party assessment
6. Monitor performance and report progress



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YESS
Standard
Explained

Management Systems

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There are three criteria that aligns the YESS standard with **ISO management systems requirements.**



Management
responsibility

Control of
documents/
records

Monitoring of
performance

Policy

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

Supply Chain Mapping

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- ❑ Understand what producers/companies are supplying cotton
- ❑ Understand where suppliers source cotton
- ❑ Understand transportation routes
- ❑ Understand location of sources as they relate to high-risk areas

Material Management Systems

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Received materials are expected to be

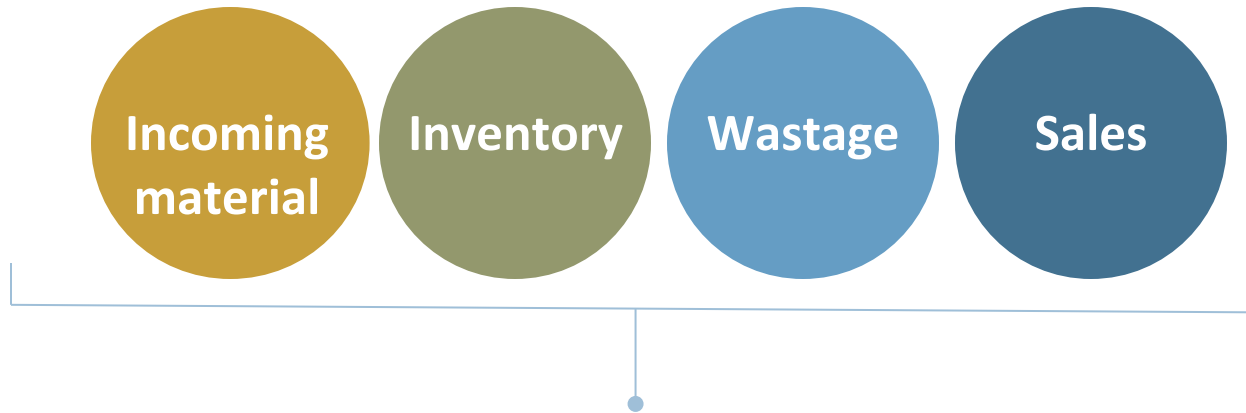


Once approved:

- ❑ Spinner maintains control over all of its inventory, including receipts, cotton stocks, work in process and shipments or sales.
- ❑ This control should be periodically reviewed for accuracy, in particular through a mass balance exercise.
- ❑ If identified, a spinner should assess any discrepancies and investigate the root cause.

Mass Balance Calculation

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["Calculated" – "Actual"] ÷ Total material processed

Discrepancies that arise from the mass balance calculation, such as a negative margin error, must be reviewed and investigated. The purpose of this exercise to ensure that the material is correctly recorded and accounted for.

Risk Identification, Prevention, and Mitigation

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- ❑ 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

Supplier Due Diligence

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

Low-Risk Supply Chain

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A supply chain is NOT considered low-risk if any of these situations are identified:

- ❑ Cotton lint is produced in a high-risk country;
- ❑ Cotton lint originates in a country with limited or no cotton production;
- ❑ There are discrepancies, inconsistencies or other issues identified during the review of cotton (including lint qualities and characteristics) and documentation that have not been addressed.

High-Risk Supply Chain

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A spinner must:

- ❑ Implement enhanced due diligence on any cotton lint that originated from a high-risk source.
- ❑ Fully understand the factual circumstances in its supply chain so as to be able to identify risks and assess whether or not these can be mitigated in order to continue to source from those areas.
- ❑ Develop a process around identifying, assessing, and managing risks.

High-Risk Countries (continued)

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Map the
factual
circumstances
of the supply
chains

Assess whether
those circumstances
present risks of
human rights abuses
or other violations

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



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The YESS Due Diligence Approach Illustrated

A Management System Must be Holistic and Integrated into an Organization

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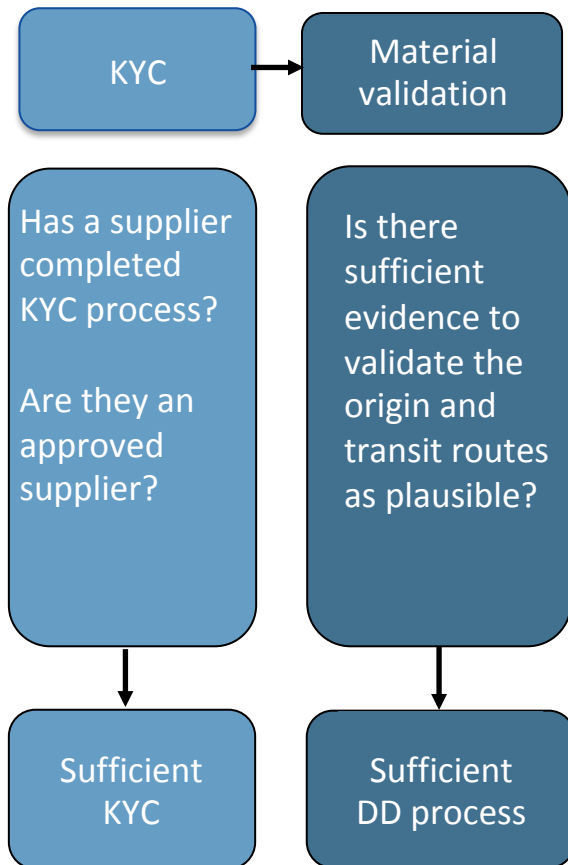
Developing/Evaluating a Management System

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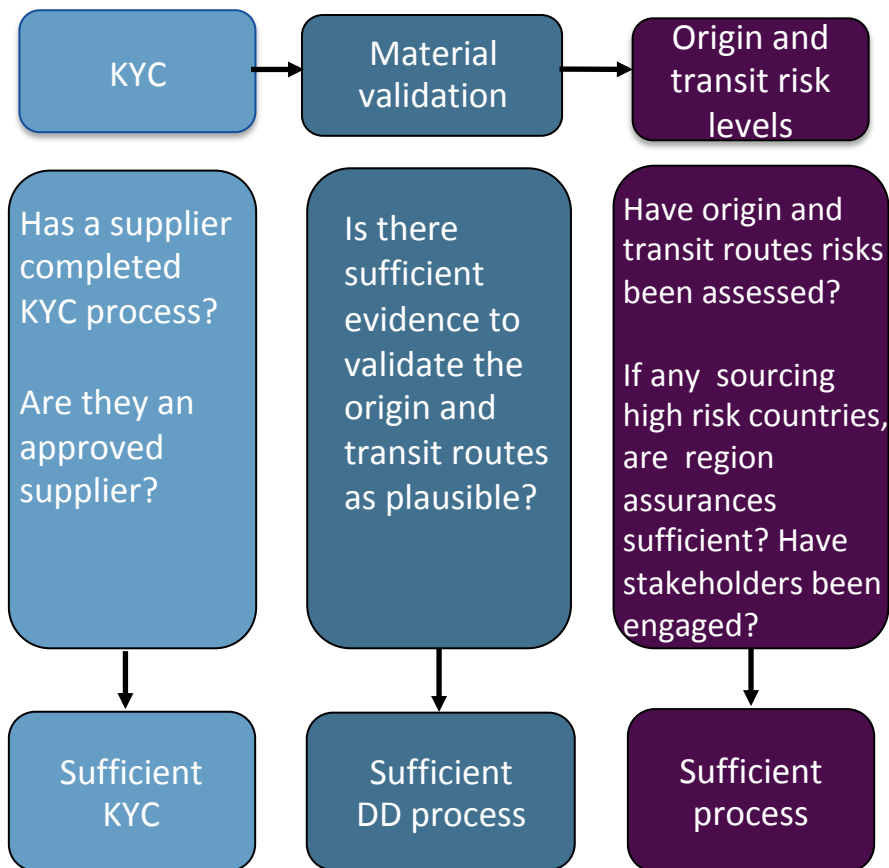
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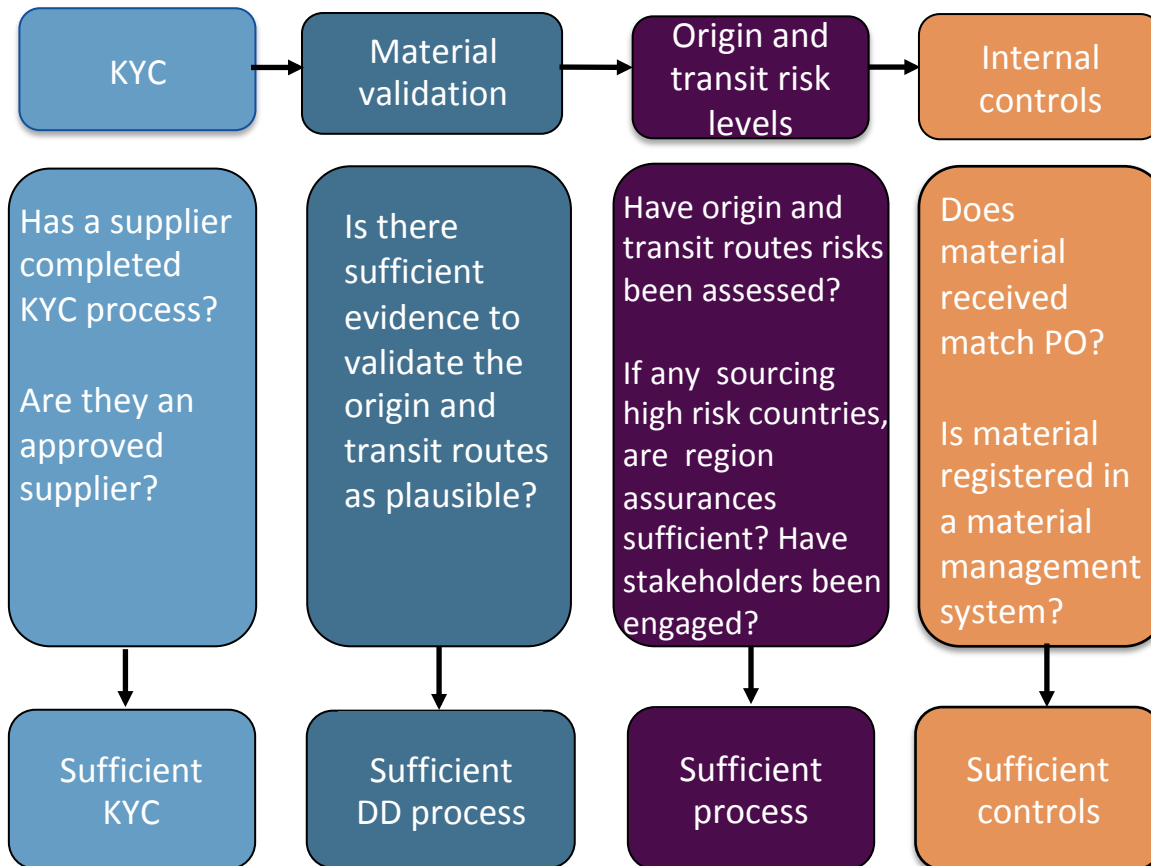
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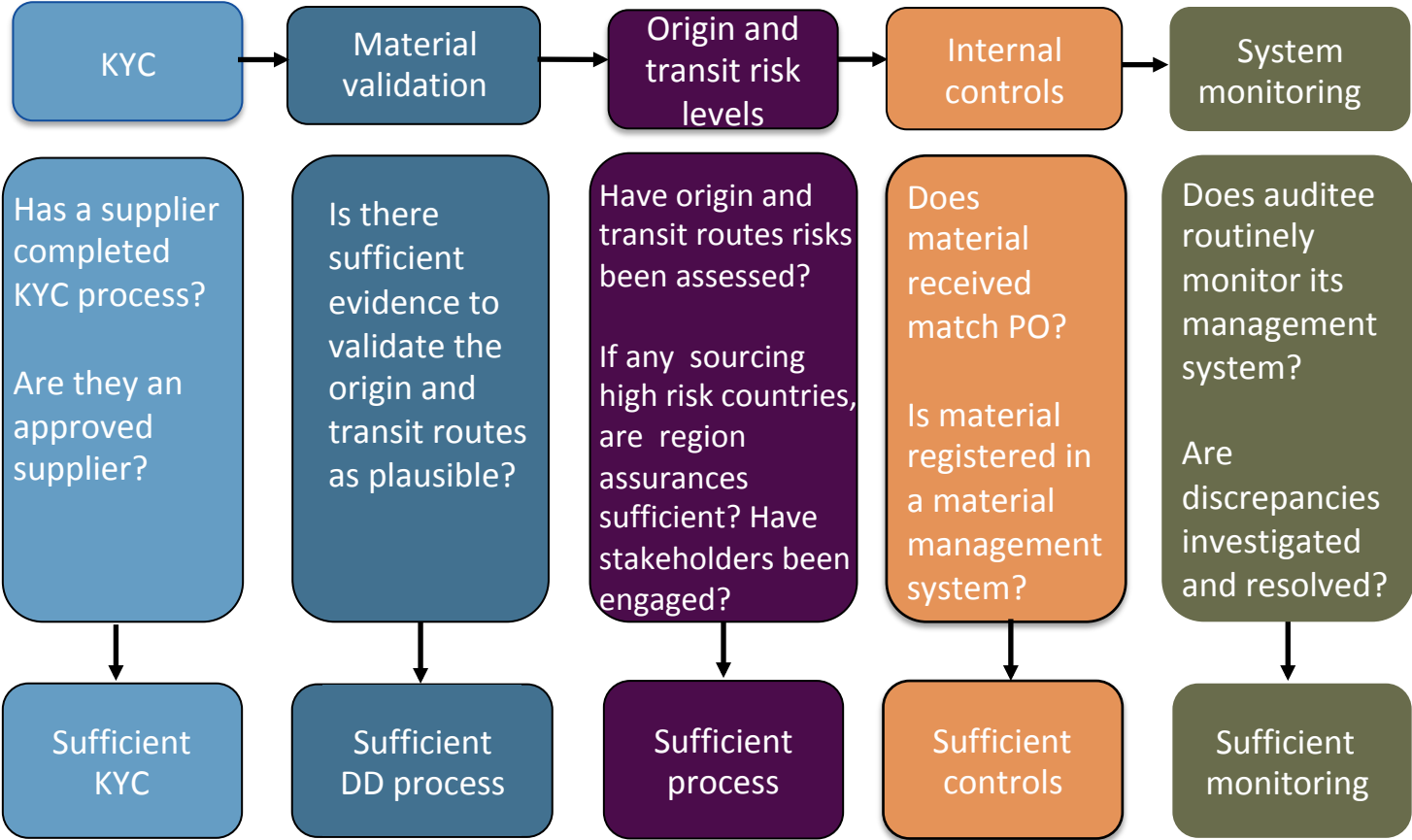


Developing/Evaluating a Management System

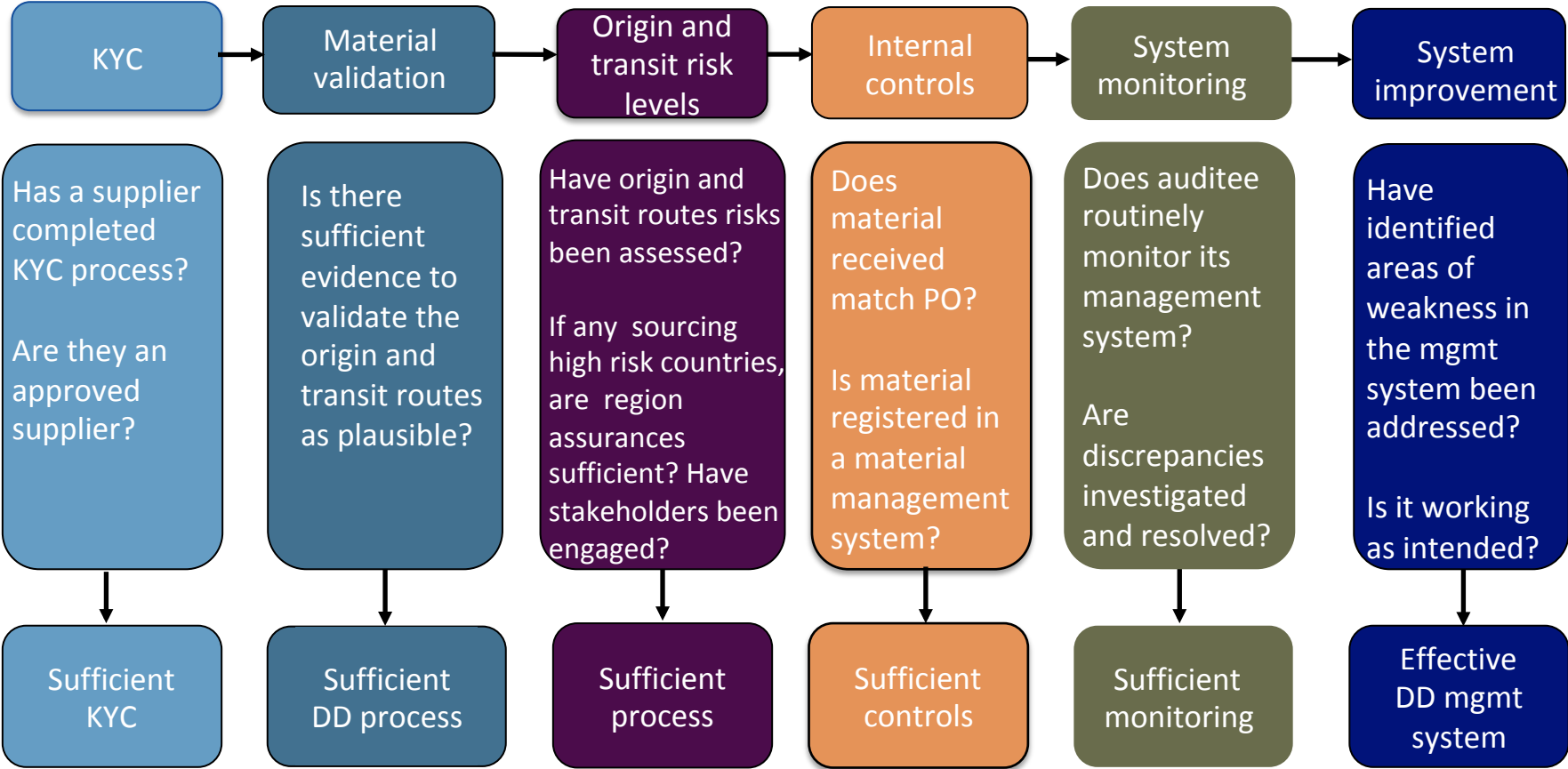
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Developing/Evaluating a Management System



Developing/Evaluating a Management System



Questions?

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