

SOMEBODY KNOWS

WHERE YOUR
COTTON
COMES FROM

Unravelling the cotton supply chain





The Environmental Justice Foundation is a UK-based non-governmental organisation. More information about EJF's work and pdf versions of this report can be found at www.ejfoundation.org. Comments on the report, requests for further copies or specific queries about EJF should be directed to info@ejfoundation.org.

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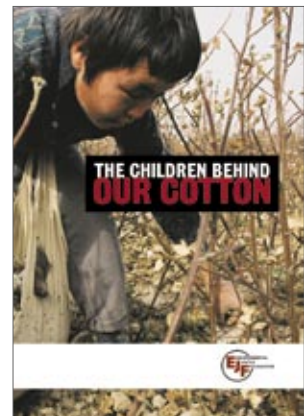
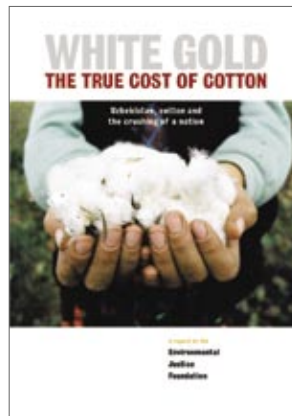
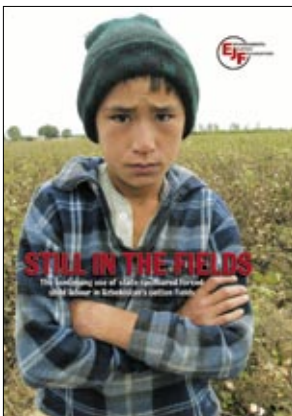
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GLOSSARY

(adapted from Better Cotton Initiative Supply Chain System, May 2008)

Quality: attributes of the cotton fibre including strength, staple length, colour, spottiness, stickiness, neps (tangles) etc.

Cotton lint: fibres of the cotton plant after removal from the cotton seed, during the ginning process.

Traders: exchange cotton between sellers (eg gins) and buyers (eg spinners)

Merchants: exchange cotton between buyers and sellers but also supply services to actors such as retailers eg will find, source and deliver cotton per a retailer's specifications.

Cotton gin: a machine that separates the cotton lint from the seed.

Fabric mills: receive yarns appropriate to their needs to make fabric (e.g. denim requires a different yarn than a knit fabric)

Woven spinners: receive bales of cotton from a variety of suppliers and regions and can mix the bales according to their proprietary 'recipe' in order to produce the yarn that meets their customers specifications with the greatest margin possible.

Knit spinners: create high quality yarn as per their customer's specifications, tending to limit the mixing of cotton and/or use only similar and higher quality cotton.

Product manufacturers: cut, sew and embellish the fabric to produce the finished product.



INTRODUCTION

World cotton production currently stands at approximately 23 million tonnes, grown in 90 countries, by an estimated 30 million farmers. Unlike organic and fair-trade cotton, which is differentiated at source and certified as such, the vast majority of the world's cotton is traded through commodity exchanges and undergoes several stages of exchange, processing and manufacture between the cotton field and final consumer. Given the inherent complexity, how can retailers and consumers alike know where their cotton comes from?

This briefing outlines the key issues relating to origin, demonstrating that at each stage in the supply chain, 'somebody knows' and aims to clarify the practical steps that can be taken by responsible retailers seeking to track and trace the origin of the conventional cotton that makes up the clothes and other cotton products they sell.

WHY TRACK AND TRACE YOUR COTTON?

The extensive, on-going use of State-sponsored forced child labour in Uzbekistan – currently the world's 3rd largest cotton exporter – has made better track and trace systems extremely important for many businesses and among them some of the world's largest retailers. Such has been the concern about cotton production in Uzbekistan that many of

the world's leading retail brands have taken steps to exclude Uzbek cotton from their supply chain. However, it is clear that Uzbek cotton is still entering the market place, even in the products of some companies that have made statements and acted to try and exclude it. Clearly, better, more efficient and effective supply chain track and trace mechanisms are needed and this briefing presents some of the simple, cost-effective and "real world" actions that can be applied to help companies meet their goals and commitments to corporate, social and environmental responsibility.

A small price to pay for environmental justice



£5 / \$6 per month could help kids get out of the cotton fields, end pirate fishing, protect farmers from deadly pesticide exposure, guarantee a place for climate refugees

This report has been researched, written and published by the Environmental Justice Foundation (EJF), a UK Registered charity working internationally to protect the natural environment and human rights.

Our campaigns include action to resolve abuses and create ethical practice and environmental sustainability in cotton production, shrimp farming & aquaculture. We work to stop the devastating impacts of pirate fishing operators, prevent the use of unnecessary and dangerous pesticides and to secure vital international support for climate refugees.

EJF have provided training to grassroots groups in Cambodia, Vietnam, Guatemala, Indonesia and Brazil to help them stop the exploitation of their natural environment. Through our work EJF has learnt that even a small amount of training can make a massive difference to the capacity and attitudes of local campaigners and thus the effectiveness of their campaigns for change.

If you have found this free report valuable we ask you to make a donation to support our work. For less than the price of a cup of coffee you can make a real difference helping us to continue our work investigating, documenting and peacefully exposing environmental injustices and developing real solutions to the problems.

It's simple to make your donation today:

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and we and our partners around the world will be very grateful.



Protecting People and Planet



COTTON: A COMPLEX SUPPLY CHAIN



FROM FARMER TO CONSUMER

According to the International Standards Organisation (ISO) traceability is... *"The ability to trace the history, application or location of an item or activity by means of recorded identification"*.

A sustainable supply chain is generally characterized by a high degree of transparency and traceability, and though there are complexities to the chain, this is not impossible to achieve. Cotton has historically proved difficult to trace, both because it is traded as an international commodity, and because the supply chain itself is long and complex, typically having 6/7 players from fibre to retail. The trans-boundary trade common to the cotton commodity market can lead to an opaque and fundamentally fractured supply chain with little or no traceability between the cotton farm gate and end-users.

What this means in practice is that without thorough examination, retailers are unlikely to know the provenance of the cotton sourced by their primary suppliers, who in turn may not have requested this information by the raw cotton commodity traders, or at least not to a level of specificity necessary to assure traceability to an individual farm or even region. The traders are therefore the lynchpin in creating some greater degree of traceability through the initial stages of the supply chain.

The global trade in cotton is dominated by 10 private companies: Dunavant, Cargill Louis Dreyfus, Reinhart, Weil and Stern (closing in June/July 2009), Copaco, Ecom, Volcot, Plexus, Devcot. Together they control over 60% of international trade and have a presence in all major cotton producing countries. Some of these companies have integrated operations (trading, ginning and marketing), which, with company compliance, should make it easier to track cotton. Others however, maintain specialist operations focussed on one particular aspect (e.g. trader or ginner).

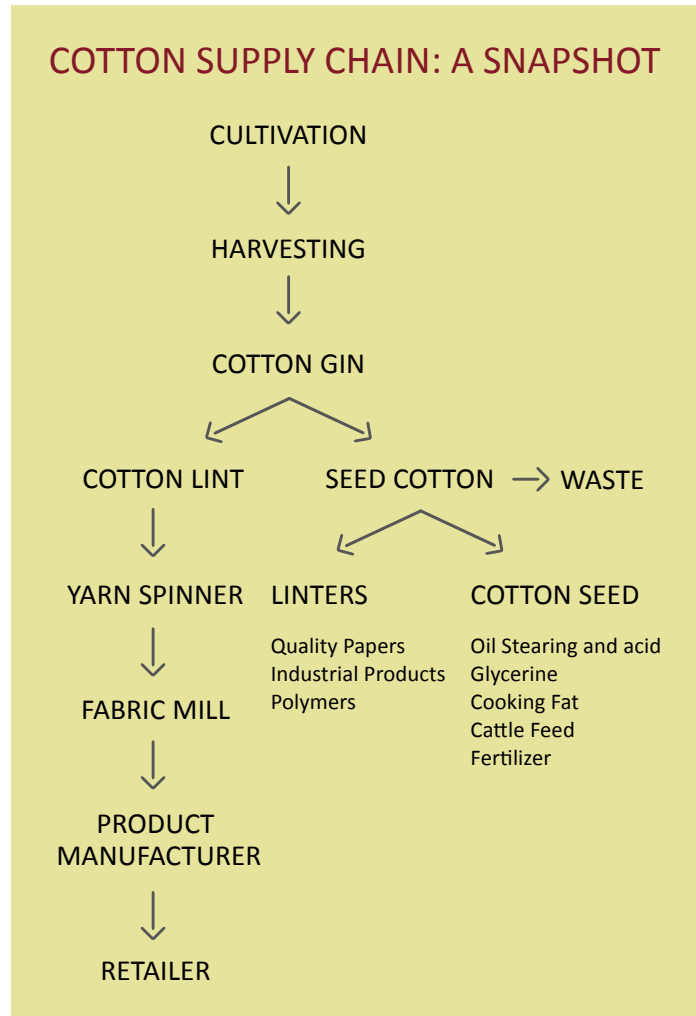
In 2001, Guardian journalists traced a pair of jeans from a market in the UK to a cut and sew factory in Tunisia; the Kansas denim used in the jeans arrived in Tunisia by land and sea from Italdenim in Milan, 600 miles away, where it was spun, milled and dyed. Italdenim buys cotton from a range of sources, but primarily from Benin, North Africa.

RAW COTTON > YARN SPINNER > FABRIC MILL > PRODUCT MANUFACTURER > RETAILER



COMPLEXITY AND LACK OF VISIBILITY IN THE COTTON SUPPLY CHAIN ARISES BECAUSE:

1. A gin may receive cotton from multiple growers. There are, for example, an estimated 4000 cotton gins in India aloneⁱⁱ receiving cotton from 10 million farmers.
2. Large volumes of raw cotton are merchandised through numerous in-country intermediaries before reaching local mills or major merchants.
3. After ginning, cotton is generally shipped to a warehouse/gin yard and sampled to establish its fibre characteristics and quality, and can remain in storage for extended periods.
4. Many agents, intermediaries, controllers and supervisors of shipments are involved: from the point the bale is produced at the gin, a bale of cotton can be handled as much as a dozen times before it arrives at the mill.
5. Traders (and merchants) buy cotton from across the world and sell it through international commodity markets.
6. Spinners use cotton from a range of origins, and of varying qualities to produce the yarn; fabric mills also source from a range of origins and qualities. Garment manufacturers may have subcontractors to dye, launder or embellish their product.
7. Retailers may source the same product from a variety of garment manufacturers. Retailers rarely have relationships further up the chain than the mill.



UNRAVELLING THE SUPPLY CHAIN

Whilst niche markets for fair-trade and organic cotton have shown that origin is already known due to certification, for conventional cotton, which comprises the vast majority of the cotton grown and traded, the situation is far more complex. Some consider that the way in which conventional cotton is traded as a commodity, together with the inherent complexities of the supply chain, mean that the origin of cotton in finished products cannot be easily traced, or may even prove impossible. However, it is possible and the commitments of companies such as Tesco to undertake proper due diligence into the cotton supply chain have proved this.

It is precisely because the majority of cotton is traded internationally that the point of origin information can be determined. All internationally traded cotton travels with a country of origin certificate, which forms part of the shipment documents that accompany cotton bales as they move between customers and through international customs.

Domestic cotton sales however do not have a country of origin certificate like international shipments but they do have an invoice clearly indicating the fibre price paid by the spinner. This is commercially sensitive information, so if the invoice

was to be scanned for public use for the purpose of supply chain transparency, it would potentially need to be blanked out.

THE FIRST LINK IN THE CHAIN

Cotton merchants form a necessary link between the cotton grower and the spinning mill. They provide a ready market for the grower, for his entire crop or part of it and they supply spinners with cotton according to the mills' exact specifications, delivery and payment terms. The merchant effectively creates a market where cotton can be bought and sold at all times; an important function given that cotton may be traded as much as 24 months forward. Due to the risk inherent in all commodity transactions, this requires a great deal of confidence on the part of all parties involved: producers, textile mills and merchants. Both farmers and spinners must be able to rely completely on the merchant's integrity and guarantee of performance, regardless of market conditions.

The cotton origin is known and is of great importance in trading and the first textile process – spinning. It is from spinning onwards that the relevance of origin starts to diminish. If the product at yarn, fabric, and finished product stage meets the customers' requirements, the origin of the cotton fibre is generally considered to be irrelevant (exceptions being when origin is synonymous with quality, such as Egyptian cotton).



The key to the question of... 'Where does your cotton come from?'... is understanding who in your supply chain needs to know, as an integral aspect of their business.

There are several reasons why knowing cotton origin is vital to cotton traders and spinners:

1. Assurance of quality and specified origin e.g. Egyptian or 'Supima' cotton.
2. Cotton fibre that guarantees consistent quality (fibre length: short, medium and long/extra long staple are important for the spinner to produce the desired yarn count)
3. Each origin has different levels of what is known as contamination – human hair, bird feathers, sweet wrappers, plastic etc which are particularly prevalent in countries where cotton is handpicked. Fibre origins known for low contamination command a higher price than the world average e.g. Australia, and equally origins known for high contamination can only be sold at a discounted price e.g. West Africa.

4. Spinners will purchase their fibre through a cotton trader or merchant in the case of both internationally and domestically sourced cotton. The contract between spinner and trader will specify country of origin as well as expected quality parameters. In order to get precise and accurate information it is worth noting that spinners may mix or change origins of the cotton they use. They are also often unaware of the end retailer of the product.

Dyehouses need to be aware of any changes that will affect colour reproduction, although they do not necessarily need to know the origin of the cotton.

Whilst you may not know the origin of the cotton in your product, someone does. The spinner and the trader do, and the fabric mill is in an ideal position as it is buying a commodity (fibre or yarn or grey cloth), and transforming it into a unique product. The issue is that they do not know where their cotton ends up – the key is putting all the links in the chain together, asking the right questions and making a corporate commitment to supply chain transparency.

It is possible to know the origin as a matter of fact when making purchasing decisions within manufacturing chains but it does require collaboration from all parts of the chain.





WHY SHOULD COMPANIES KNOW THE ORIGINS OF THEIR COTTON?

THE NEED FOR TRANSPARENCY IN YOUR SUPPLY CHAIN

BRAND REPUTATION

The push for supply chain transparency began in the 1990s, with many large companies adopting codes of practice relating to environmental and labour conditions in their primary supply base, a move inspired in part by high-profile exposés of unacceptable conditions. Since then, several organisations and standards have been developed to try and coordinate different brands and instil improved working conditions in primary suppliers. No company wants to be ‘named and shamed’ in a media exposé linking their procurement to labour exploitation or environmental abuses.

Cotton production has become a topic under increased scrutiny due to a variety of social and environmental issues, including the use of forced labour (adult and child) hazardous pesticides, GM cotton and the demands placed on water resources. Knowing the origin of cotton is of real commercial value when assessing potential risks the brand may be exposed to.

CONSUMERS CARE

Consumers are ever more aware of the realities of international supply chains and how their buying choices are linked to good or bad practice overseas. Consumers are demanding to know the origin of the products they are buying, and the impacts producing them had on people and planet.

INVESTORS CARE

Investors are becoming ever more interested in a company’s corporate social responsibility (CSR) commitment and practice alongside sales figures in an attempt to understand a business’ long-term sustainability. The complexity of supply chain ‘issues’ is becoming less acceptable to concerned investors as a legitimate reason for inaction.

SUPPLY CHAIN MANAGEMENT

There are times when avoiding cotton of a certain origin is necessary. For example, since 2007, due to concerns of state-sponsored forced child labour in the Central Asian Republic of Uzbekistan, a number of internationally recognised brands and retailers including Tesco, Wal-Mart, C&A, Levi’s and Marks and Spencer have committed to avoid the use of Uzbek cotton until forced child labour is eradicated. This issue has created impetus for supply chain tracking and processes to ensure that Uzbek cotton does not enter the corporate supply chain.

Knowing the country of origin is key to demonstrating to customers that a company responsibly acknowledges the importance of supply chain transparency responsibly, and can present a marketing opportunity to customers by communicating supply chain excellence.

WHAT ARE YOU TRYING TO ACHIEVE

...and to what degree of reliability?



A INFORMATION ABOUT A SPECIFIC COTTON PRODUCT

This is the easiest step and requires nothing more than a request for information from your primary supplier, who can enquire along the chain until the spinner, who will know the answer, is reached. The supply chain will, however, need to have some understanding of the time line of the product as the fabric mill could well have changed origin of yarn and the spinner could well have changed origin of fibre or the origin mix.

B PREVENTING THE USE OF COTTON FROM A SPECIFIC ORIGIN

First you must communicate and seek support of your position from your suppliers. It may help to know if a significant volume of cotton, from the country you are trying to avoid, ends up in one particular place e.g. 50% of all cotton imported into Bangladesh is from Uzbekistan. A retailer is then in a better position to probe further into those 'priority' countries with a high level of importation from the chosen country and seek to establish exact supply chains back to spinner and cotton trader. In order to ensure 'non-use' you may need to accept some time lag as stocks are utilised or a specific yarn is made for your orders (not all spinners will agree to eliminate the source if it remains acceptable to their other customers). You may wish to consider random inspection, or a 'Track and Trace' system (see point D) can be employed to ensure continued adherence to your policy.

"If traceability is the technical discipline, transparency is its cultural cousin. It is not about whether it is possible to manage and exchange data between trading partners in a chain, but about how the actors feel about doing so. Some will feel threatened by disclosing information on sourcing, worried that it may undermine their commercial model. Others will see it as an opportunity to differentiate themselves in the market."

Tim Wilson, Historic Futures.

C SUPPLY CHAIN TRANSPARENCY AS A REQUIREMENT DURING THE BUYING

Communicate to all of your suppliers that from a given date they will be required to declare the fibre's country of origin at the time of buying. This can be via a contract system or as part of the fabric base approval. There may be some reluctance to reveal names of spinners due to possible commercial sensitivities. However, there is no reason why the spinner cannot declare the origin to the fabric mill and pass this on to the manufacturer and ultimately the buyer. Also note that whilst the information may be correct when the decision to buy is taken, it may change during production, particularly if a large order is produced over a long production period.

D KEEPING TRACK OF ORIGIN THROUGHOUT PRODUCTION

Achieving this requires commitment by all members of the chain. A physical paper trail is one method and electronic Track and Trace systems are another. One example is Historic Futures' 'String', which allows all companies within a supply chain to receive and transmit traceability information for their products and business processes, including customs certificates, specifications and information on what goes into product.

In electronic systems most tracking works on a push system which requires all members at the bottom of the chain to submit information on all cotton produced to ensure that the small amount that ends up in a garment of an interested brand/ retailer is visible. A more selective and progressive approach is a pull system in which the primary supplier requests information on their products from their supplier and so on down the chain. This can quickly produce information and ensure that only relevant information is entered onto the system, although there can be difficulties when requesting historic data depending on how good a supplier's management systems are.

Although there is (minimal) cost involved in the implementation of a track and trace system, there are other business benefits such as greater stock control, visibility of supply chain and business differentiation and it can be less disruptive, easier to maintain, more robust and ultimately cheaper than using random inspection.

10 POINT PLAN



1 WHO MAKES YOUR PRODUCT?

Identify your business' primary suppliers – 'cut and sew' or final product manufacturers. Engage your primary suppliers in your 'need to know practice' for country of origin. This is a critical first step in identifying the origin of the cotton in your product.

2 SET UP GROUP SUPPLIER MEETINGS.

This is a really useful way of presenting a consistent message to all suppliers. Meetings are also a good way to share experiences and learning. In some cases primary suppliers have been known to share information about market prices and sources of cotton which is great commercial learning as well as responsible sourcing. Suppliers will have anecdotal evidence of cotton country of origin.

3 ASK EACH PRIMARY SUPPLIER TO IDENTIFY THEIR SUPPLIER.

Highlighting key or major secondary suppliers can be a useful way to prioritize which companies to engage first. A supply chain map will begin to emerge identifying if any primary suppliers are using the same secondary supplier; again this can be useful to prioritize targeted actions.

4 HOLD GROUP MEETINGS WITH SECONDARY SUPPLIERS.

If possible meeting with secondary suppliers at the same time as the primary supplier, can be effective as the secondary supplier has a specific reason and incentive to get involved; their customer is asking for this information. Continue this process for as many tiers as it takes to get to the country of origin.

5 IDENTIFY WHO IS SUPPLYING THE FABRIC IN YOUR PRODUCT.

As cotton yarn is a commodity it is not vital that you know the spinner, but that is no reason why your fabric supplier – who certainly knows the spinner - cannot obtain the information you need.

6 MAKE IT YOUR BUSINESS TO KNOW.

Introduce a declaration of fibre origin during base fabric approval at the time of buying. This can be part of the documentation that accompanies fabric approval e.g. specifications and test reports provided.

7 USE THE WEB.

Web-based tracking systems can be used to easily compile information and promote absolute traceability for your supply chain, and can also be retrospective which does help if trying to ensure country of origin in finished products. 'String', from Historic Futures, is designed to tackle the increasing demand for knowledge of origin - making supply chain tracking possible for any process and any product. Since this service is available on-line to any business, traceability can be established both within and between businesses, making instant traceability through entire supply-chains a possibility.

8 TALK TO MERCHANTS.

Engage directly with key cotton merchants. The merchants are very removed from the garment industry but have an interest in understanding the final customer's requirements and business needs.

A good way to start understanding how cotton is traded and who the key players in this field are is to subscribe to a service such as Mintec or Cotton Outlook. These websites and publications will give an insight into trading prices of cotton and where cotton is produced and processed. Knowing where the majority of cotton moves from and to will help check any country of origin information provided by primary or secondary suppliers.

9 BE THERE.

Onsite inspection will reveal information firsthand, and give a valuable back story, conveying directly to your suppliers on the ground your company's needs and expectations. Companies such as SGS, have for some years provided on site inspections of cotton supply chains for Cotton USA and Supima Cotton USA, as well as undertaking quality controls in each of the major countries in the supply chain.

Inspections by companies such as SGS can go beyond technical issues relating to quality assurance of the cotton fibre, and establish other key facts useful to your business and ensure the integrity of the cotton supply is maintained.

10 SHOW YOUR CUSTOMERS WHAT YOU KNOW.

Label the cotton's country of origin on the final product alongside the 'made in' information. Through proper labelling, companies can show their commitment to transparency and social and environmental responsibility.

ⁱ ICAC, Cotton this month 2nd march 2009

ⁱⁱ <http://www.allbusiness.com/asia/1165432-1.html>

ⁱⁱⁱ Tesco Clothing & Home



PICK YOUR COTTON CAREFULLY



Protecting People and planet

