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RESPONSIBLE sourcing network

Yarn Ethically & Sustainably Sourced

Year 1 Requirements: Due Diligence Management Systems

Online Module

January 10, 2022

http://www.sourcingnetwork.org/yess

Today's Agenda

1. YESS approach review
2. Year 1 conformance requirements
   - Policy and management system expectations
   - Supplier due diligence and cotton origin validation
   - Material management systems
   - Grievance mechanism
   - Supply chain risk identification
   - Tracking progress and monitoring systems
   - Annual Public Report
3. YESS assessment reports and findings
4. YESS resources

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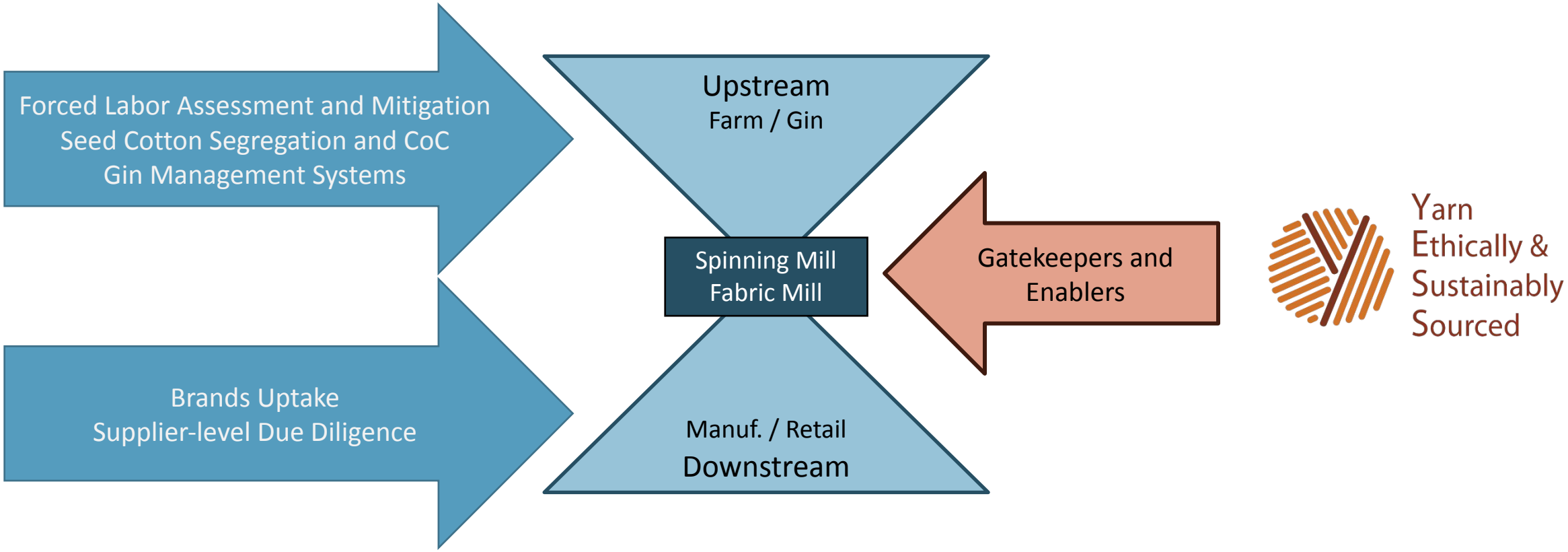
YESS Approach - A Review

Collaboration Across Three Value Chain Segments



Scope of YESS Standards

- Cotton lint
- Cotton byproduct / wastage
- Cotton or blended yarn

Includes any of the above listed cotton inputs purchased or received

Origins for Different Cotton Categories

Cotton Inputs In Scope

1st Lifecycle

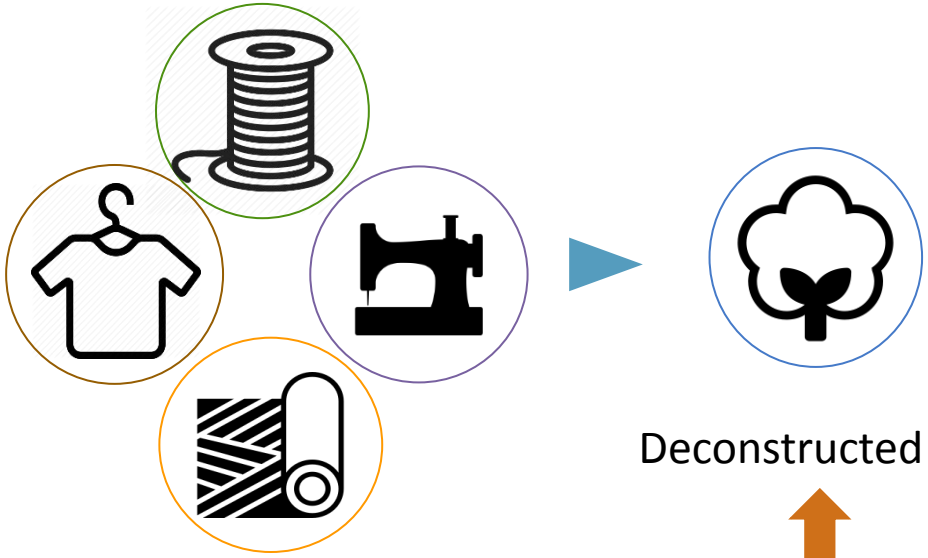
Unprocessed Cotton Lint

Spinning or Blowing Wastage, Byproduct, As-is Hard Waste

Cotton Lint and Wastage Origin
YESS Conformant Spinner
Country (low-risk supply chain)
Low-Risk Source (high-risk supply chain)

Exempt Cotton Inputs

2nd Lifecycle

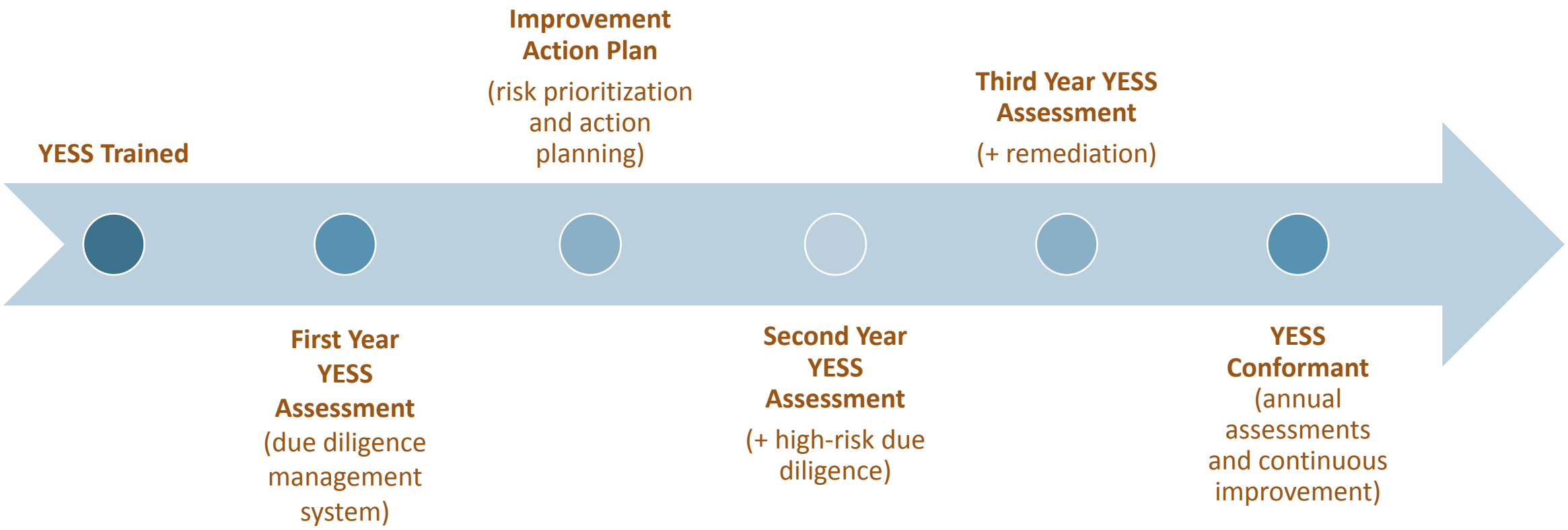


Fabric, Garments, Manufacturing Scrap, Hard Waste

Deconstructed Fiber

Exempt Cotton Origin
Point of Deconstruction

YESS Conformance Approach



Due Diligence Expectations under YESS

- Establish and implement a sourcing policy
- Conduct supplier due diligence
- Validate the plausibility of cotton origins
- Identify, account for, and reconcile all cotton inputs
- Identify supply chain risks
- Assess, prevent, and mitigate risks of forced labor in cotton production
- Undergo an annual third-party assessment
- Monitor performance
- Report progress

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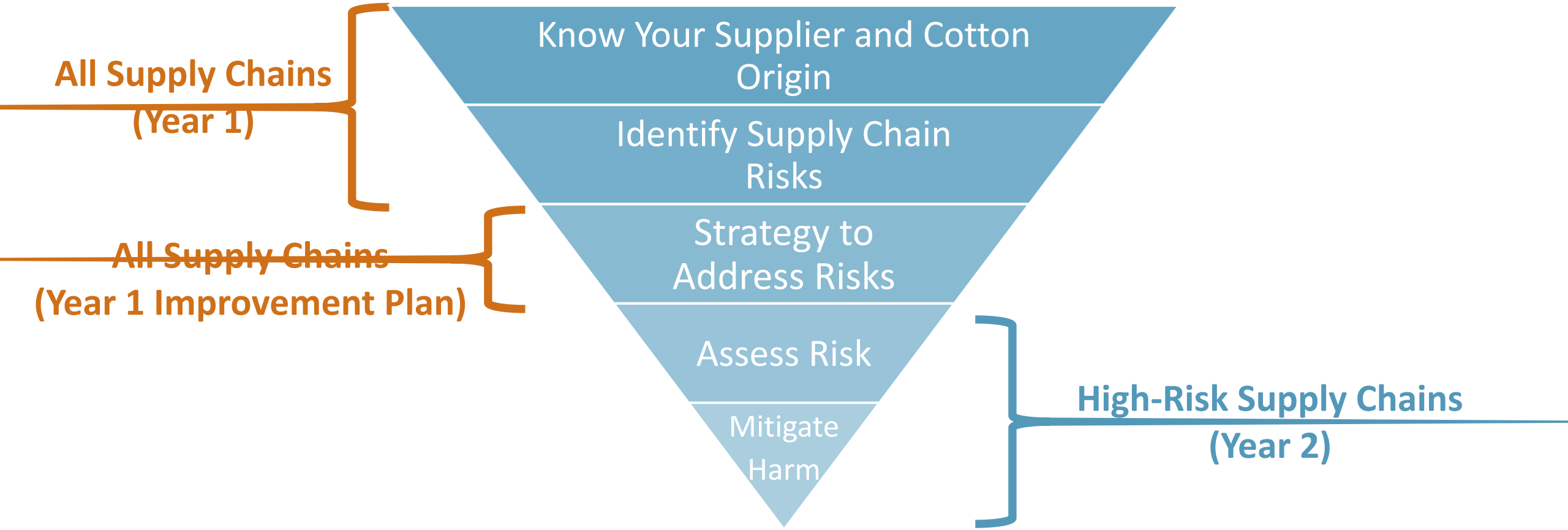
Year 1 Conformance Requirements

Due Diligence as a Pyramid

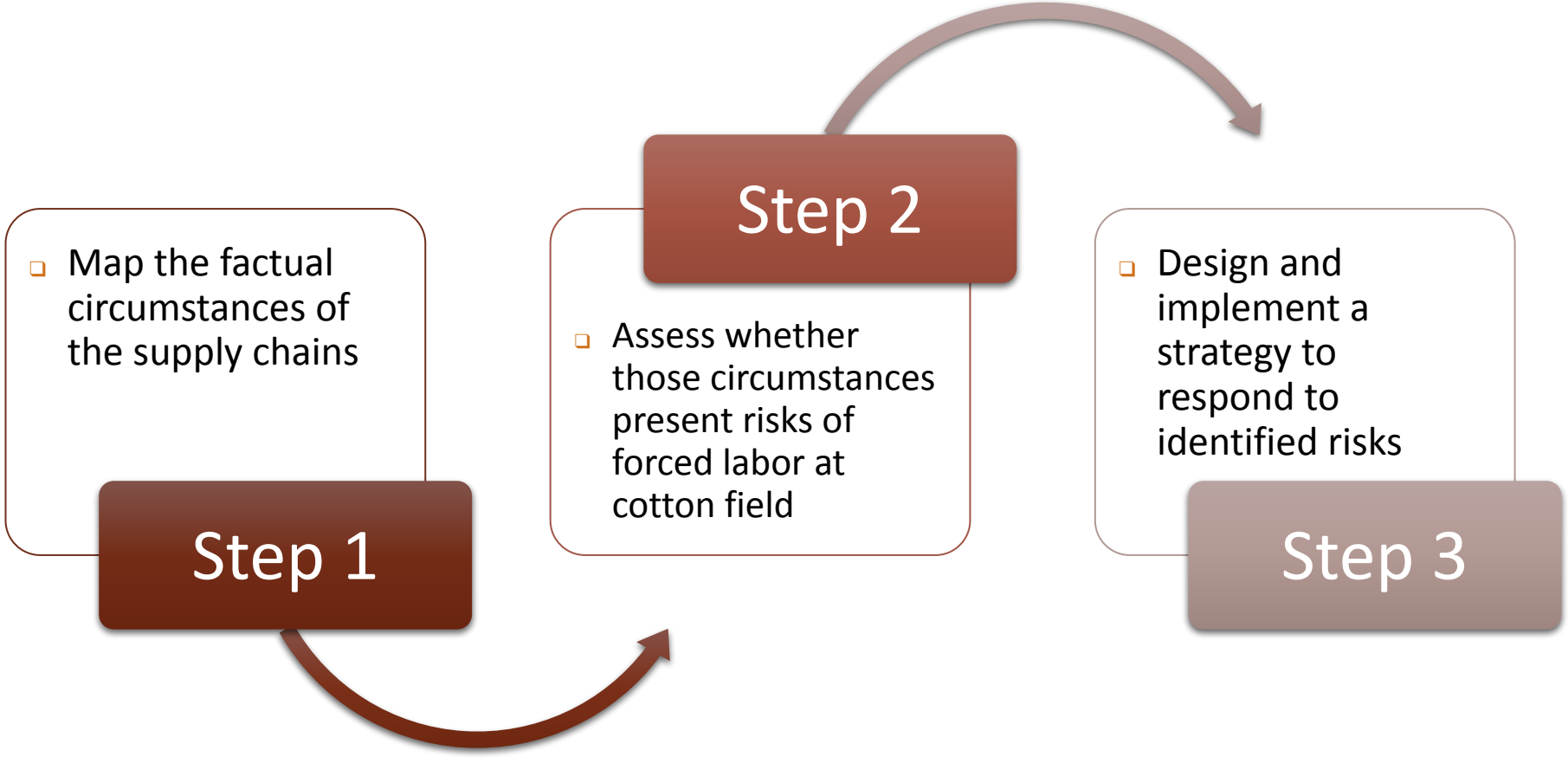


Flow and Applicability of the YESS Standard

Year 1

Section of YESS Standard for Fabric Mills	Applicability to Fabric Mills
1. Embed responsible business conduct in facility policy and due diligence management system (OECD Step 1)	All fabric mills
2. Identify actual and potential forced labor involved in the cotton production stage of the fabric mill's supply chain (OECD Step 2)	All fabric mills
3. Track (OECD Step 4)	All fabric mills
4. Communicate (OECD Step 5)	All fabric mills
5. Cease, prevent, or mitigate forced labor in the cotton production stage of the fabric mill's supply chain (OECD Step 3)	Fabric mills sourcing from high-risk supply chains
6. Provide for or cooperate in remediation when appropriate (OECD Step 6)	Fabric mills that have caused or contributed to forced labor

Year 1 Improvement Plan



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Policy and Management System Expectations

A Strong Policy is Essential

1. **Intent**
   - The basis of the policy is stated in procedures and communicated to suppliers

2. **Implementation**
   - The procedures that support the policy are implemented consistently and employees are trained on the procedures

3. **Impact**
   - The system works as intended and the desired outcomes are achieved

Management System

The YESS Standard management system expectations align with
ISO Management System Principles

Communication and Coordination

Procedures Should be Effective and Implemented Consistently

Procedures must be:

- Supporting or referencing the Responsible Cotton Sourcing Policy
- Effective at identifying or addressing risks
- Adjusted when gaps in effectiveness or implementation occur
- Written and followed by responsible employees

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Supplier Due Diligence and Cotton Origin Validation

Due Diligence: Material and Supplier

Two Risk Categories

Risks associated with the cotton

- Risk category of origin
- Plausibility of origin
- Transit risks

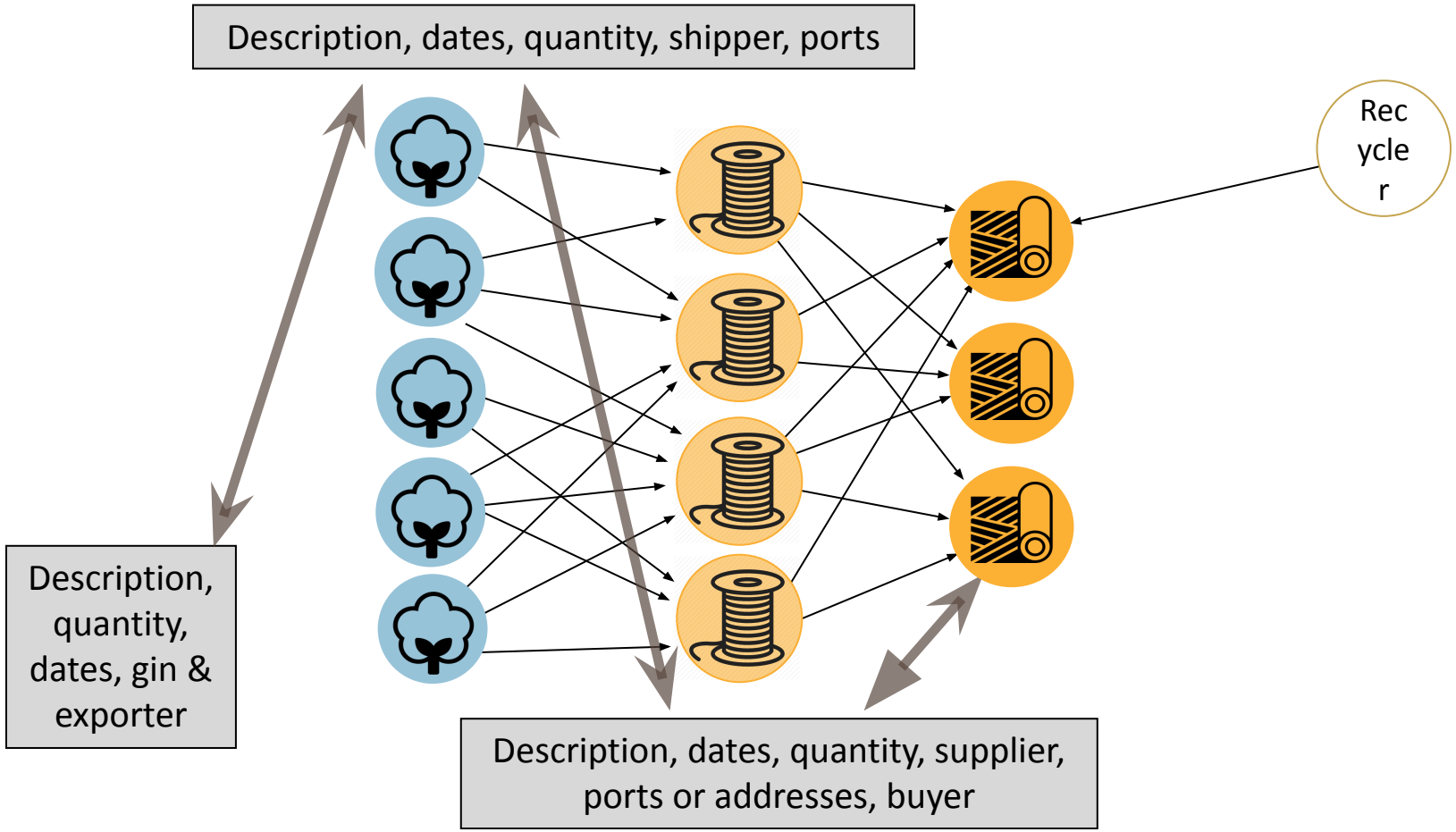
Risks associated with the supplier

- Legal and legitimate operations
- Type of operations
- Procurement practices

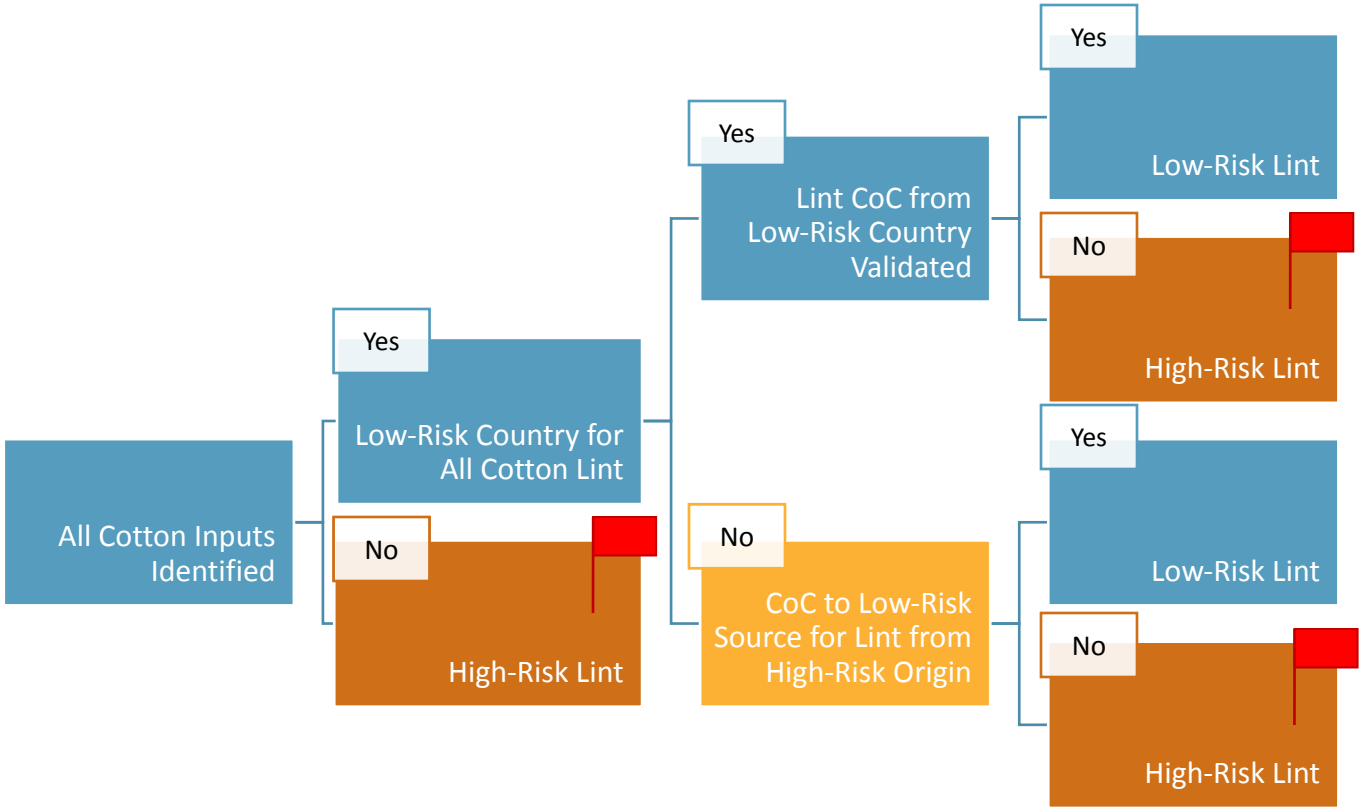
Basic Supplier Due Diligence and Expectations

- Determine the identity, location, and legality of each supplier
- Communicate responsible sourcing policy
- Require transaction documents
- Integrate supplier due diligence into purchasing function

Cotton Origin Verification: “Gates, Weights and Dates”



Risk Decision Tree: Cotton Lint



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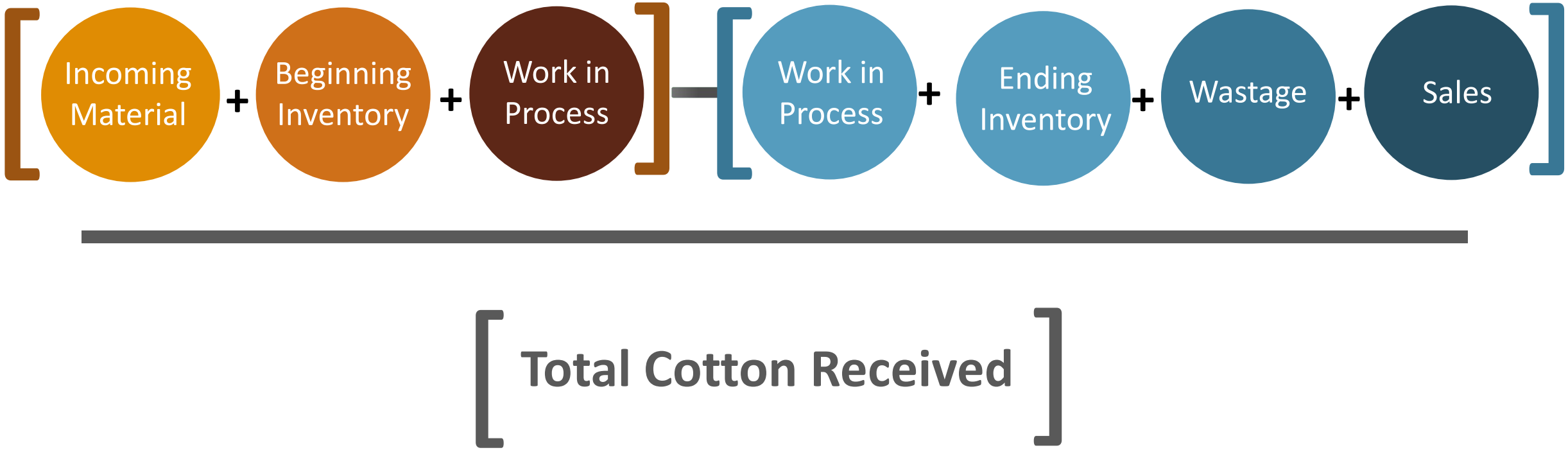
Material Management Systems

Cotton Inventory Control System

Received materials are expected to be

- Mill maintains control over all its inventory, including receipts, cotton stocks, work in process, shipments, or sales
- Production losses are within industry norms
- Mill must have the capacity to trace cotton products or wastage to laydown (lint) or lot (yarn)
- Any discrepancies are investigated, and root causes identified

Production Yield (or Loss)



Production loss should be within industry norms

YESS Resource: Cotton Inventory Control System Checklist

No.	Expectation	Completed (Yes / No)	Document / Evidence	Comments
4	We record the date the cotton inputs are physically received and entered into our internal material control system.			
5	We have a process in place to segregate any cotton inputs that do not align with the associated purchase order, have missing documentation, or are associated with any other concern until those issues or discrepancies are resolved.			
6	Our internal material control system accounts for all cotton inputs received, processed, and sold.			
7	We are able to calculate our production loss or margin of error as a percentage of total cotton inputs processed during the assessment period.			

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Grievance Mechanism

Responding to Grievances

Provide a vehicle for reporting grievances

Establish a process to evaluate the grievance and report to senior management

Develop a plan to respond to valid issues

Ensure issue is resolved

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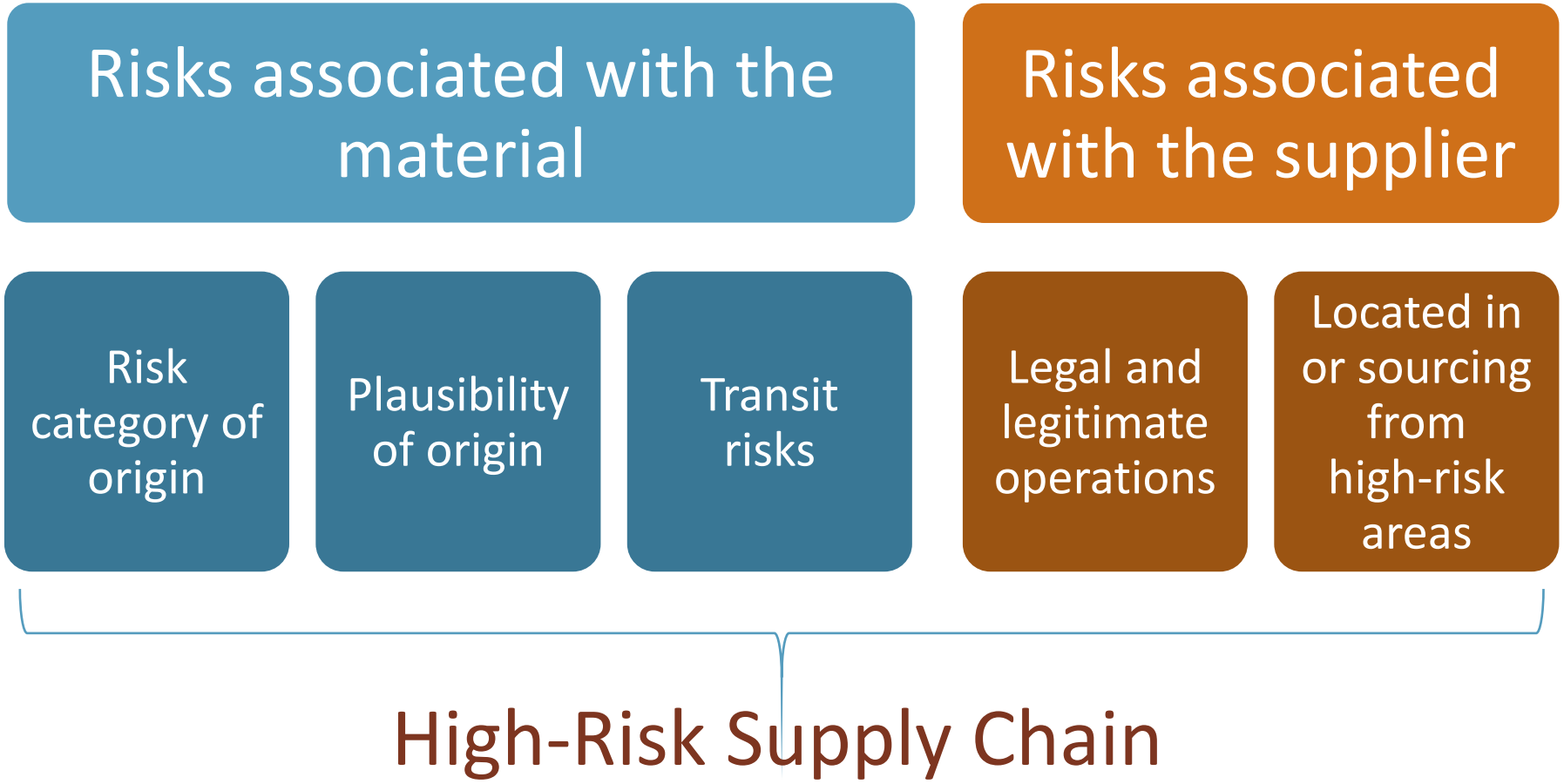
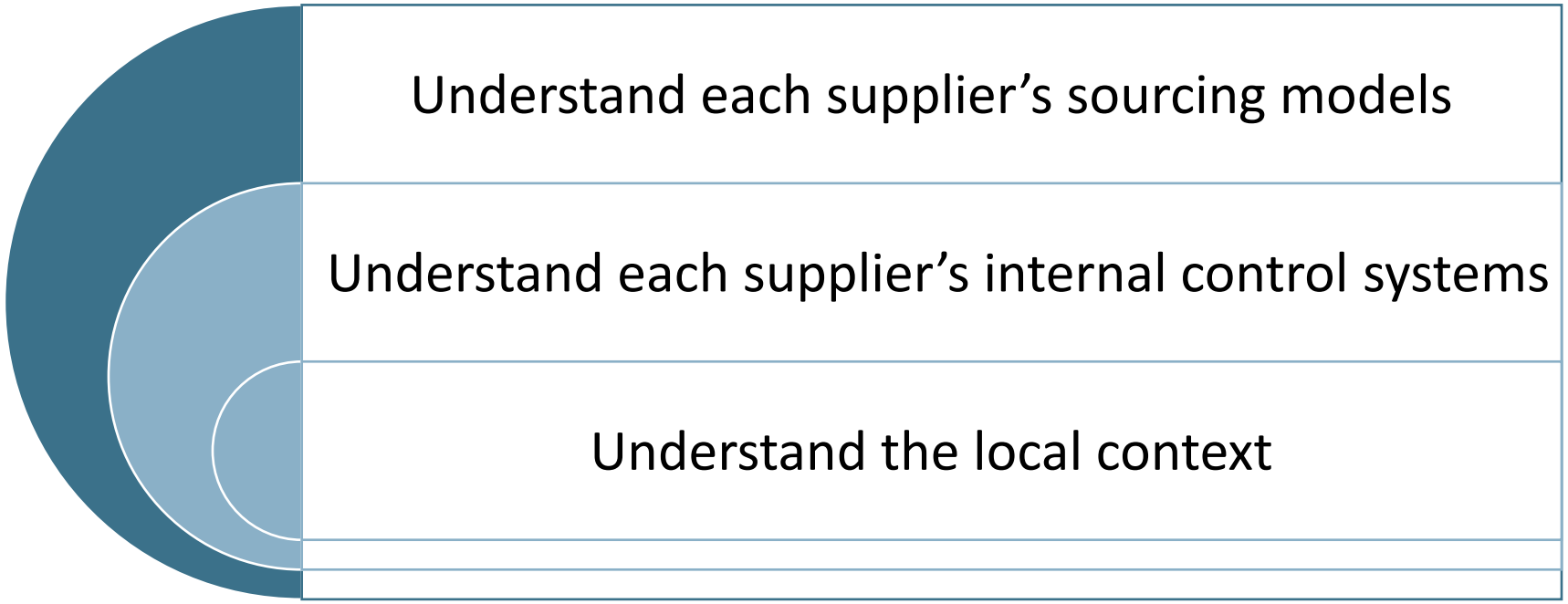
Supply Chain Risk Identification

Supply Chain Risks



Supplier Due Diligence in High-Risk Supply Chains



Process to Identify High-Risk Origins

The process to identify high-risk origins must cover:

- Types of resources used to identify high-risk origins (e.g., countries)
- Criteria and threshold used to make a determination of high risk
- Frequency within which the determination is reviewed and updated

Prioritize High-Risk Countries of Origins for Cotton Lint

Step 1: Identify all countries of origin for lint

Compliance Officer will identify and evaluate all countries of origin for cotton lint production in our supply chain, including spinning wastage and cotton content of yarn. A current list of countries will be maintained.

Step 2: Identify high-risk countries of origin for cotton production per global resources

Compliance Officer will evaluate each country of origin for cotton in our supply chain against the most current version of the Global Slavery Index, United States (U.S.) Bureau of International Labor Affairs' List of Goods Produced by Child Labor or Forced Labor (List of Goods), the U.S. Department of State's Trafficking in Persons Report (TIP Report), and the Better Cotton Global Forced Labor Risk Assessment Methodology.

Any country identified by any one of these resources as having forced labor or a risk of forced labor in cotton production (List of Goods, TIP Report, Global Slavery Index) or a high risk of forced labor in cotton production (Better Cotton Global Forced Labor Risk Assessment Methodology) shall be considered high-risk for cotton lint origin.

Step 3: Maintain a current list of high-risk countries of origin for cotton lint

Compliance Officer will maintain a current list of high-risk countries (e.g., High-Risk Origin Tracker) and make this list available to all relevant employees (e.g., procurement, receiving, compliance).

YESS Resource: Sample Procedure to Prioritize High-Risk Origins: Yarn or Spinning Wastage Production

Prioritize high-risk countries of origin for yarn or spinning wastage production

A country is considered a priority high-risk origin for yarn if located in or imports more than 99,000 metric tons of cotton lint from from high-risk countries for lint production* OR imports a significant amount of cotton from countries not known to produce cotton lint.

Compliance Officer will identify and evaluate the country in which a yarn spinning mill is located against the most current version of UN Comtrade Database.

*Refer to *Step 1: Identify high-risk countries of origin for lint production.*

UN Comtrade Database: 2020 Vietnam Imports of Cotton (not Carded or Combed)

Period	Trade Flow	Reporter	Partner	Commodity Code	Trade Value (US$)	Netweight (kg)	Qty Unit	Qty
2020	Import	Viet Nam	World	520100	$2,176,156,257	*1,388,526,804*	Weight in kilograms	*1,388,526,804*
2020	Import	Viet Nam	USA	520100	$1,319,835,279	834,928,700	Weight in kilograms	834,928,700
2020	Import	Viet Nam	Brazil	520100	$539,942,163	338,490,300	Weight in kilograms	338,490,300
2020	Import	Viet Nam	India	520100	$138,284,915	100,013,970	Weight in kilograms	100,013,970
2020	Import	Viet Nam	Australia	520100	$48,846,630	27,507,540	Weight in kilograms	27,507,540
2020	Import	Viet Nam	Argentina	520100	$30,029,757	21,260,683	Weight in kilograms	21,260,683
2020	Import	Viet Nam	Côte d'Ivoire	520100	$28,867,256	19,247,868	Weight in kilograms	19,247,868
2020	Import	Viet Nam	Mexico	520100	$13,559,841	9,108,024	Weight in kilograms	9,108,024
2020	Import	Viet Nam	Greece	520100	$14,333,010	8,901,352	Weight in kilograms	8,901,352
2020	Import	Viet Nam	Togo	520100	$8,617,805	5,664,647	Weight in kilograms	5,664,647
2020	Import	Viet Nam	Spain	520100	$6,392,080	4,137,473	Weight in kilograms	4,137,473
2020	Import	Viet Nam	South Africa	520100	$5,521,071	3,727,452	Weight in kilograms	3,727,452
2020	Import	Viet Nam	United Rep. of Tanzania	520100	$5,799,473	3,664,268	Weight in kilograms	3,664,268
2020	Import	Viet Nam	Pakistan	520100	$2,501,973	1,980,180	Weight in kilograms	1,980,180
2020	Import	Viet Nam	Cameroon	520100	$2,586,270	1,569,652	Weight in kilograms	1,569,652
2020	Import	Viet Nam	Indonesia	520100	$847,870	1,062,958	Weight in kilograms	1,062,958
2020	Import	Viet Nam	Senegal	520100	$1,315,137	895,211	Weight in kilograms	895,211
2020	Import	Viet Nam	Turkey	520100	$1,051,352	883,982	Weight in kilograms	883,982
2020	Import	Viet Nam	Mozambique	520100	$1,188,732	882,540	Weight in kilograms	882,540
2020	Import	Viet Nam	Uganda	520100	$1,373,837	814,047	Weight in kilograms	814,047
2020	Import	Viet Nam	China	520100	$1,042,044	*796,900*	Weight in kilograms	*796,900*
2020	Import	Viet Nam	Paraguay	520100	$743,494	508,205	Weight in kilograms	508,205
2020	Import	Viet Nam	Nigeria	520100	$657,355	431,069	Weight in kilograms	431,069
2020	Import	Viet Nam	Kazakhstan	520100	$578,875	415,644	Weight in kilograms	415,644
2020	Import	Viet Nam	Uzbekistan	520100	$488,738	388,454	Weight in kilograms	388,454

Additional Red Flags

Missing bale tags

Cotton inputs are claimed to have originated from a multi-country region that contains at least one high-risk country, such as Commonwealth of Independent States (CIS)

Abnormal transit routes or travel time

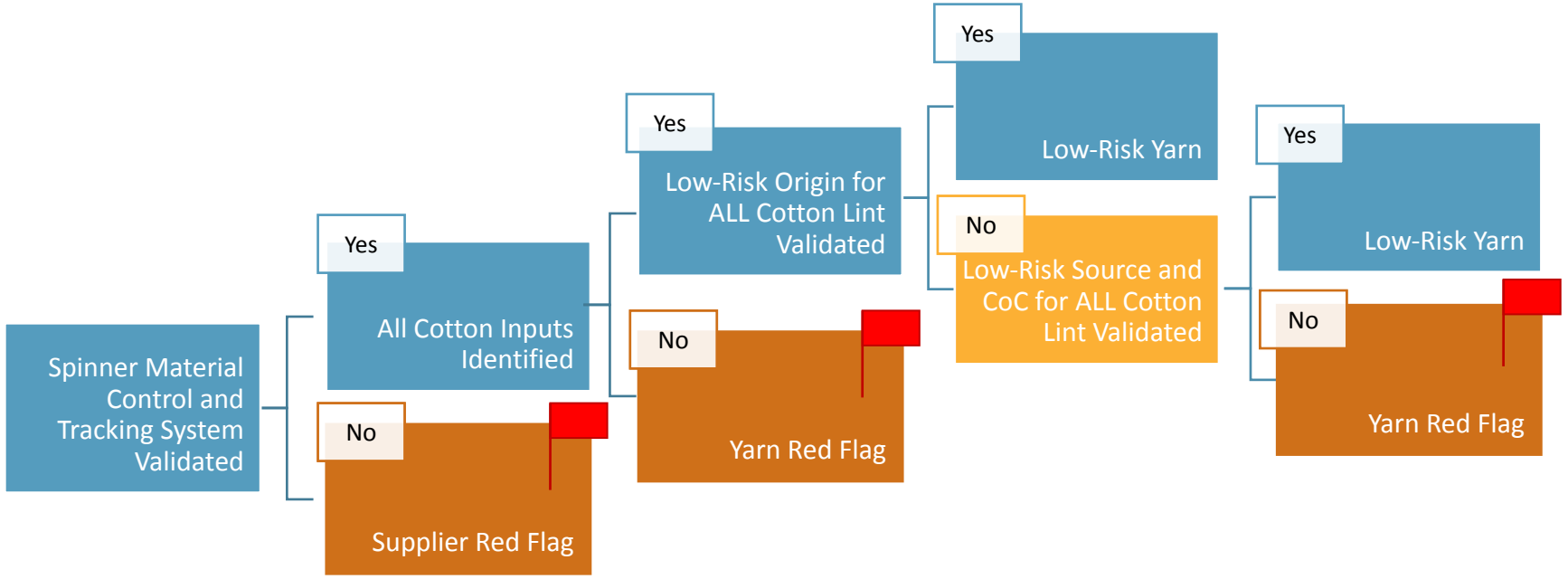
Cotton characteristics (or bale covers) are not common for claimed origin

Supplier is not operating legally

Supplier of wastage or byproduct is not YESS-conformant

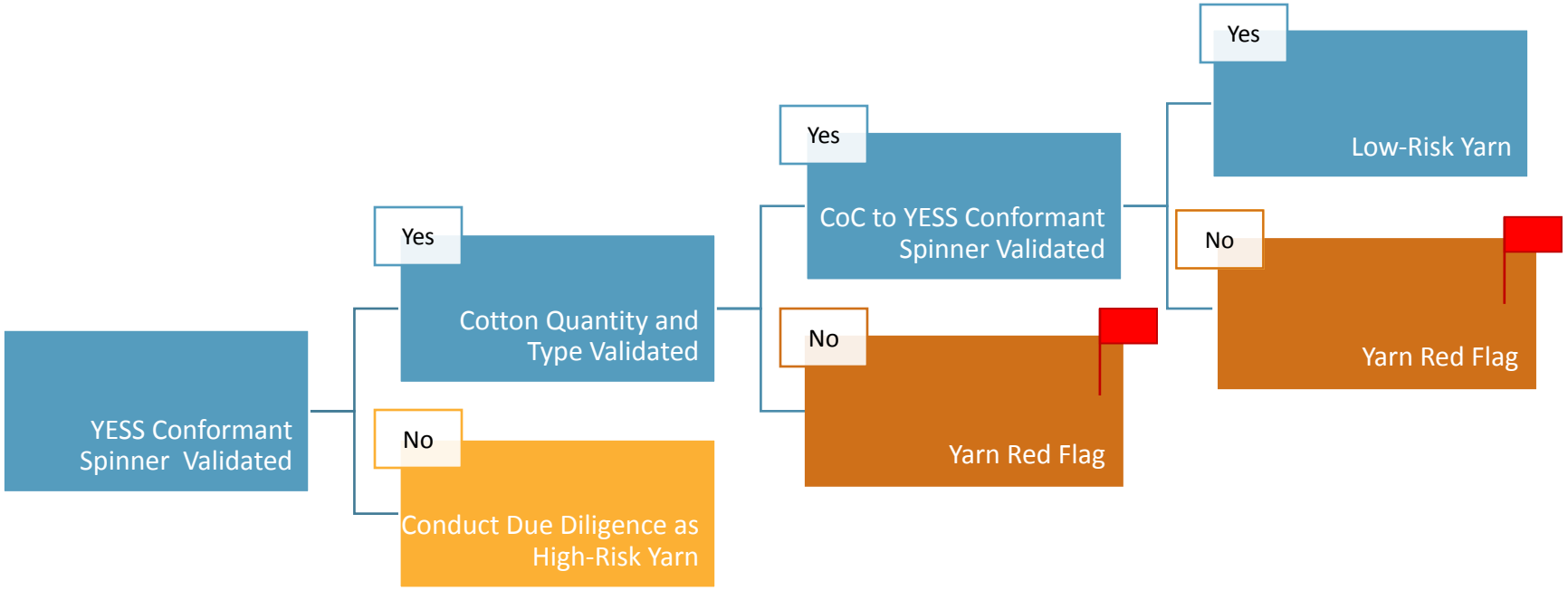
Yarn Supply Chain Risk Decision Tree

Cotton Yarn from High-Risk (not YESS conformant) Spinners



Yarn Supply Chain Risk Decision Tree

Cotton Yarn from Low-Risk (YESS Conformant) Spinners



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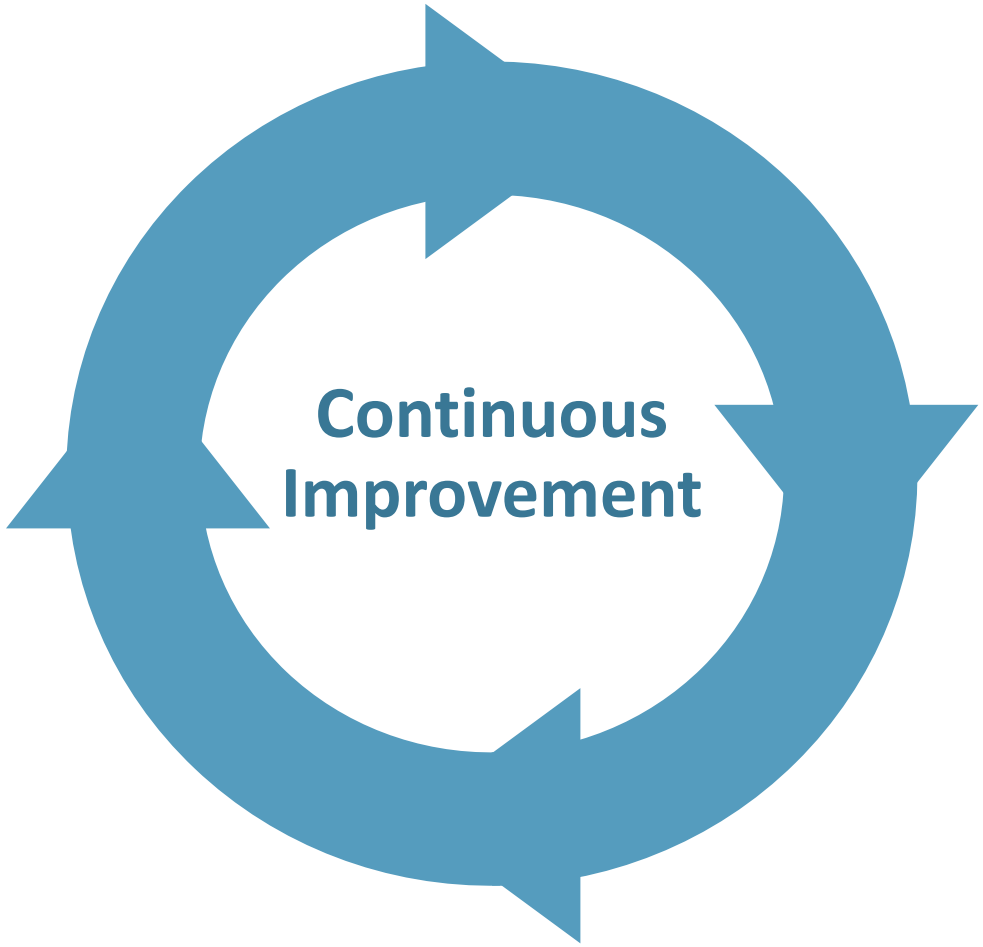
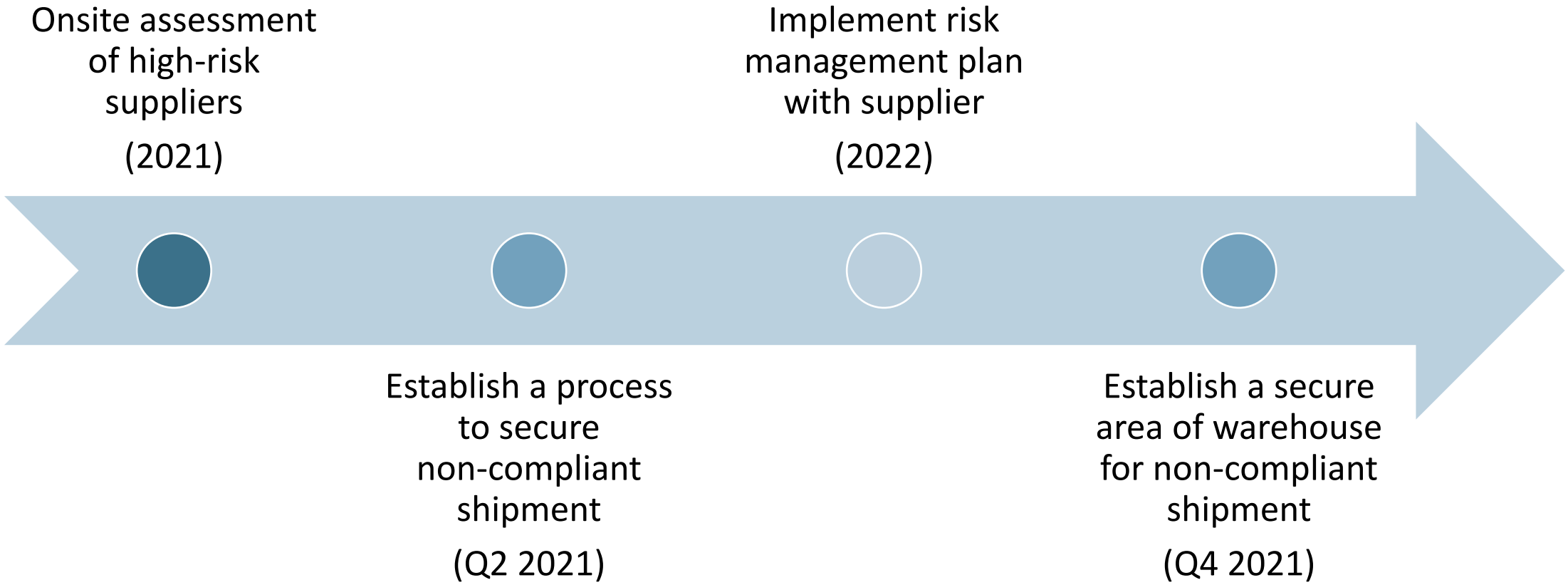
Tracking Progress and Monitoring Systems

Effective Monitoring is Informal and Formal



Example: Supply Chain and Operational Improvements

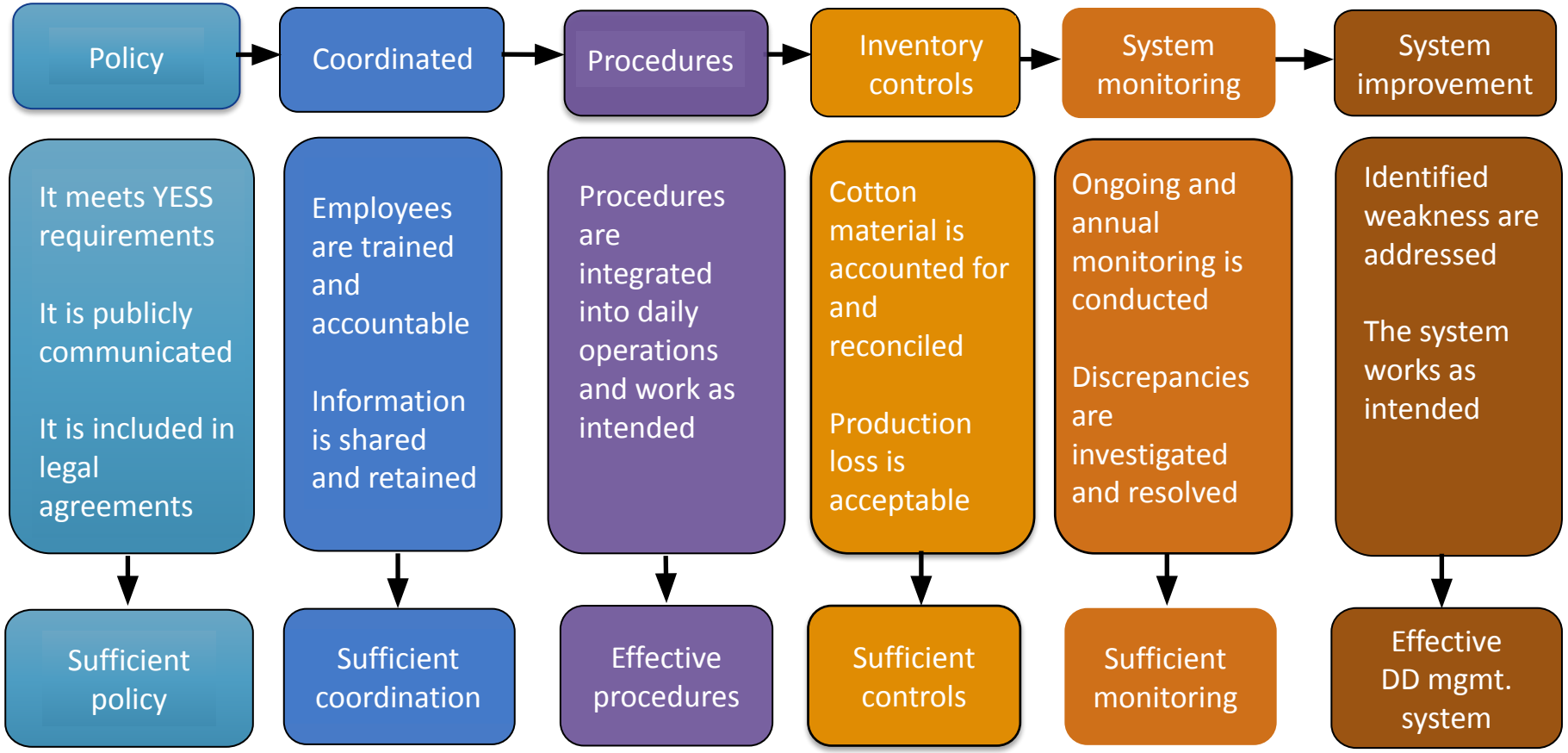


Annual Formal Review

No.	Activity	Topic-Specific Resource(s)	Completed (Yes / No)	Cite Document / Evidence	Comment
8	We maintain documents related to our due diligence management system for five years. (YESS Standard, IV.1.2.b)	Due Diligence Management System Checklist			
9	Our Know Your Supplier (KYS) process is approved and implemented prior to initial transaction and will be applied throughout the relationship. (YESS Standard, IV.2.1.a and 2.2.a)	KYS Checklist KYS Form			
10	Our procedure to inspect, validate the origin of, and assign a unique identification number to all cotton inputs is implemented. (YESS Standard, IV.2.1.c and d)	Cotton Receiving and Inventory Control System Checklist Cotton Receiving Inspection Form			
11	A procedure is in place to segregate and hold any cotton material in question (e.g., missing paperwork, discrepancies in weight / quality, inability to validate origin plausibility). (YESS Standard, IV.1.2.c)	Cotton Receiving and Inventory Control System Checklist			

YESS Resource: YESS Standard Review Checklist

Evaluating a Management System



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Annual Reporting

Initial Assessment: Due Diligence Policy and Systems

Responsible cotton sourcing policy

Due diligence system and integration (e.g., decision making, information systems)

- *Management organization and responsible personnel*
- *Supplier due diligence*
- *Cotton input due diligence*
- *Internal control systems*
- *Grievance mechanism*
- *Monitoring and continuous improvement*
- *Supply chain risk identification*

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YESS Assessment Reports

Confidential YESS Assessment Report: Summary of Findings

Summary of Nonconformances				
No.	YESS Standard section (select from list)	Nonconformance	Recommended improvement	Spinner's response
1				
2				
3				
Assessment Findings: Improvement Requirements				
Summary of Improvement Requirements				
No.	YESS Standard section (select from list)	Improvement Requirement	Recommended improvement	Spinner's response
1				
2				
3				
Assessment Findings: Continuous Improvement Opportunities				
Observations & Recommendations				
No.	YESS Standard section (select from list)	Observation	Recommended improvement	Spinner's response
2				
3				
Assessment Findings: Continuous Improvement Achievements				
Continuous Improvement Achievements				
No.	YESS Standard section (select from list)	Identified opportunity	Action taken	Improved outcome

Confidential YESS Assessment Report: Management System Checklist

Question number	YESS Std	Overarching questions	Criteria	*Spinning Mill lists prior to onsite assessment*	Assessment Team completes this section during the onsite assessment	
Section 1: Embed responsible business conduct in the enterprise, policy, and management system			*Auditee should address each of these criteria* *Assessment Team should assess conformance against each and all of these criteria*	**List evidence** (procedure, document, system)	**Assessment Team explanation**	**Assessment Team conclusion**
						Conformant
						Nonconformant
						Improvement Requirement
						Continuous Improvement
						N/A
1.1 Responsible sourcing policy						
1.1	V.1.1	Does the spinning mill have a documented and effective sourcing policy that commits to avoiding sourcing cotton produced with forced labor?	• A policy exists that: - Sets out a clear and coherent management process for risk management. - Commits the spinning mill to the due diligence steps described in the YESS Standard. - Commits us to observe the OECD Guidelines on Multinational Enterprises. - Commits the spinning mill to adhering to the YESS Standard and ensuring sufficient resources and support for effective execution of its policy. - States spinning mill's expectations of suppliers regarding cotton lint produced with forced labor (e.g., provide assurance that: cotton inputs they supply poses a low risk of having been produced with forced labor, they conduct due diligence of unassessed sources, they are actively preventing, mitigating, or ceasing actual forced labor in their supply chains). - States business consequences for suppliers that do not meet the spinning mill's expectations. - Commits the spinning mill to meaningful stakeholder engagement, including accepting and acting on complaints or recommendations on how to improve its due diligence program.			
1.2	V.1.1	Is the policy effectively implemented?	The policy shall: •Include an effective date for when the policy was established and/or adopted. •Be reviewed annually and revised as applicable.			

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YESS Resources

YESS Resources

Trainings

Checklists

Flowcharts

Forms

Technical Advice

www.sourcingnetwork.org/yessportal

Resources are Listed in the YESS Standards

Section 1: Embed responsible business conduct in the fabric mill's policy and due diligence management system (OECD Step 1)

The fabric mill shall use good faith, make reasonable efforts, and integrate progressive and appropriately robust approaches in its application of the *OECD Due Diligence Guidance*. These efforts include monitoring emerging risks and incidents of forced labor in cotton production in its supply chain(s) (e.g., sourcing from new countries or suppliers), as well as shifts in trade flows or the fabric mill's sourcing strategies.

These approaches shall be supported and coordinated across relevant business units.

Refer to YESS Resources No. 1. YESS Standard Review Checklist.

1.1. Adopt a sourcing policy that addresses forced labor in cotton production

The fabric mill shall have a documented, effective, and publicly communicated sourcing policy that addresses forced labor in cotton production for procurement of cotton yarn or other cotton inputs (referred to as the responsible cotton sourcing policy). The policy shall be developed with and informed by relevant internal and external stakeholders and approved at the most senior level of the fabric mill. The responsible cotton sourcing policy shall be implemented within the fabric mill's due diligence management system and shall:

- Set out a clear and coherent due diligence management system to address the risk of forced labor in cotton production within its supply chain.
- Commit the fabric mill to the due diligence steps described in the YESS Standard for Fabric Mills and guarantee sufficient resources and support for effective execution.

YESS Standards: Annexes

Annex I: Data and Document Guidance for Suppliers and Cotton Inputs

Table 5: Cotton Inputs from Low-Risk Origins: Data and Document Guidance by Input Type

Expectation	Level	Data points	Example document types (Not every document is necessary if sufficient evidence is provided; required documents are noted by an asterisk [*])
Know Your Supplier (KYS)	Supplier	• Identity, location, legality, and type of business • Acknowledgement of spinning mill's responsible sourcing policy	• Business license, registration, or tax identification* • KYS questionnaires: sourcing regions, acknowledgement of spinning mill's responsible sourcing policy* • Reports on efforts to prevent and mitigate forced labor in cotton production • Documentation of membership in a cross-referenced multi-stakeholder

YESS Resources

No.	Expectation	Topic-Specific Resource(s)	Completed (Yes / No)	Cite Document / Evidence	Comments
1	We have read and understood the YESS Standard.	YESS Standard			
2	We have participated in or observed all available YESS trainings.	YESS Trainings			
3	Our responsible cotton sourcing policy meets YESS expectations and is approved and effective. (YESS Standard, III.1.1)	No. 2. Responsible Cotton Sourcing Policy Checklist No. 2a. Responsible Cotton Sourcing Policy Examples			
4	Our responsible cotton sourcing policy is publicly available, has	No. 2. Responsible Cotton Sourcing Policy Checklist			

Year 1 Assessment and Improvement Plan Resources

Assessment

1. YESS Standard Review Checklist
2. Responsible Cotton Sourcing Policy Checklist
   - 2a. Responsible Cotton Sourcing Policy Examples
3. Due Diligence Management System Checklist
4. Management System Monitoring Checklist
5. Cotton Inventory Control System Checklist
   - 5a. Cotton Receiving Inspection Form – Cotton Inputs
   - 5b. Cotton Receiving Inspection Form – Recycled Cotton Fiber
   - 5c. Incoming Cotton Documentation Inspection Form
6. Know Your Supplier (KYS) Checklist
   - 6a. Know Your Supplier (KYS) Form
   - 6b. KYS Tracker – Basic Information
   - 6c. KYS Tracker – High-Risk Supply Chains

Improvement Planning

7. Procedure to Identify High-Risk Origins Checklist
   - 7a. Sample Procedure to Identify High-Risk Origins
8. Supply Chain Risk Identification Checklist
   - 8a. Cotton Inputs Risk Decision Tree
9. Risk Assessment and Response Checklist
10. Grievance Mechanism Checklist
    - 10a. Sample Procedure to Respond to Grievances

YESS Portal

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OUR WORK ABOUT BLOG

RESPONSIBLE sourcing network

MEDIA PUBLICATIONS DONATE

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YESS PORTAL

DONATE

JOIN OUR MAILING LIST

See the YESS Pilot Project for information and updates on our pilot this year.