BETTER COTTON CHAIN OF CUSTODY GUIDELINES V1.3

Summary of revisions

May 2018

ABOUT THIS DOCUMENT

> Provides an overview of the key changes in the revised Better Cotton Chain of Custody Guidelines (v1.3)

> Four sections:

1. Background and summary of key changes
2. Changes for Implementing Partners
3. Changes for Gins
4. Changes for all Other Supply Chain Organisations

> Note this is a summary of changes only – *please refer to the full CoC v1.3 for full detail (available on the BCI website here)*

BACKGROUND

> BCI has carried out a **minor revision** of the Chain of Custody (CoC) Guidelines in 2017 to clean up and restructure the document

> The updated version 1.3 was released on 1 May 2018, applicable from **1 August 2018**

> The main objective is to ensure the CoC Guidelines are clear and up-to-date, through:

1. Removing outdated or duplicative content
2. Clarifying unclear requirements
3. Providing more detail on BCI's approach to supply chain monitoring and penalties

*Most changes are minor – the **basic Better Cotton Chain of Custody model remains the same (product segregation from farm to gin level, and mass balance after the gin**)*

SUMMARY OF KEY CHANGES

> Simplified structure, with Chain of Custody (CoC) requirements for:
> - Implementing Partners
> - Gins
> - (All) Other Supply Chain Organisations

> New guidance added throughout– *guidance is not mandatory, but intended to provide useful context and examples*

> Revised and expanded definitions now included

> BCI's online volume tracking system, the Better Cotton Tracer, has now been renamed the **Better Cotton Platform** *(BCP)* – although functionality has not changed

> Mandatory use of the BCP will be expanded to all supply chain organisations by 1 Jan 2020
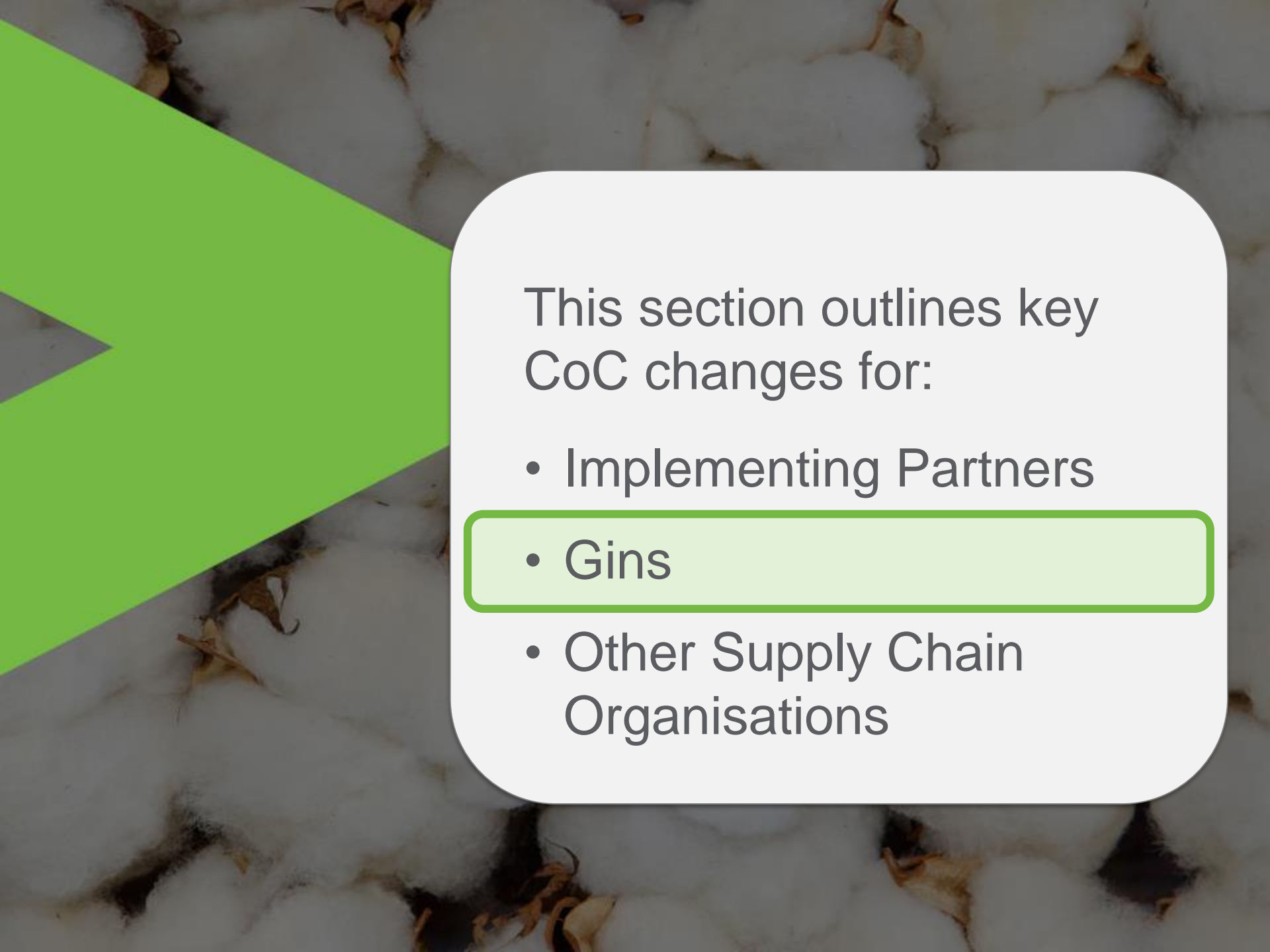
SUMMARY OF KEY CHANGES (CONT.)

> Clarified responsibilities for Implementing Partners with respect to control of Better Cotton from farm to gin and farmer training

> Clarified requirements for gins to be able to trace Better Cotton back to licensed BCI farmers and maintain purchase records (even if buying from middlemen)

> New maximum timelines for entering purchase/ sales into the Better Cotton Platform (BCP): *30 days for gins and 60 days for all others*

> New, reduced *2 year requirement* to maintain purchase/ sale records (previously 5 years)

> Mandatory transaction reference numbers now required for all purchases/ sales entered into the BCP (for better data verification)

> Additional detail included on BCI supply chain monitoring processes and penalties for non-compliance

SUPPLY CHAIN MONITORING AND PENALTIES

> The CoC Guidelines now include more detail on supply chain monitoring

> BCI will be carrying out increased monitoring and 3rd party audits of gins and other supply chain organisations – these visits check compliance with the CoC Guidelines

> BCI or 3rd party audits may also request purchase or sale documents remotely via email – *documents are to be provided within 10 days*

> Penalties for non-compliance with CoC Guidelines include minor/ major non-conformities, or suspension from the BCP *[refer to the CoC Guidelines v1.3 for more detail]*

This section outlines key CoC changes for:

- Implementing Partners

- Gins

- Other Supply Chain Organisations

CHANGES FOR BCI IMPLEMENTING PARTNERS

Background – farm to gin control

> Controlling the flow of Better Cotton from farm to gin is a critical step in the BCI programme

> Farmers, middlemen, and ginners must understand and implement the requirement to keep Better Cotton segregated from conventional cotton at all stages

> Gins must be able to trace back all Better Cotton to licensed BCI Farmers, and must keep records to prove this

> With the revised BCI P&C v2.0 requiring farmers to maintain sales records (indicators 7.3.5/7.3.6) BCI will increasingly be able to cross-check records between farmers and gins when necessary

UPDATED COC REQUIREMENTS FOR IMPLEMENTING PARTNERS

> Previous CoC Guidelines included requirements for IPs that were not practical to enforce – e.g. asking IPs to facilitate procurement logistics, ensure accurate weighing of cotton, etc.

> These have now been **simplified to better reflect actual expectations for IPs** related to Chain of Custody

> IP CoC requirements now cover 3 areas:
> 1. Connecting farmers and ginners
> 2. Segregation and documentation of Better Cotton between farm and gin
> 3. Distribution of Annual Authorised Volume (AAV) codes

UPDATED COC REQUIREMENTS FOR IMPLEMENTING PARTNERS

> **Connecting farmers and ginners –** IPs need to provide the BCI Supply Chain team with details of potential ginners at least <u>3 months</u> before start of the harvest season

> **IPs must train all IP staff and farmers on relevant CoC-related** requirements (and keep records of this training)

> They must ensure farmers are trained and understand their relevant CoC responsibilities:
>> To keep Better Cotton segregated from conventional cotton at all points of harvest, storage, sale and transport
>> To keep AAV/ farmer codes secure *(if relevant – in some cases codes are not shared directly with farmers)*
>> To maintain records of their sales of seed Better Cotton (as required in the revised BCI P&C, indicators 7.3.5/7.3.6)
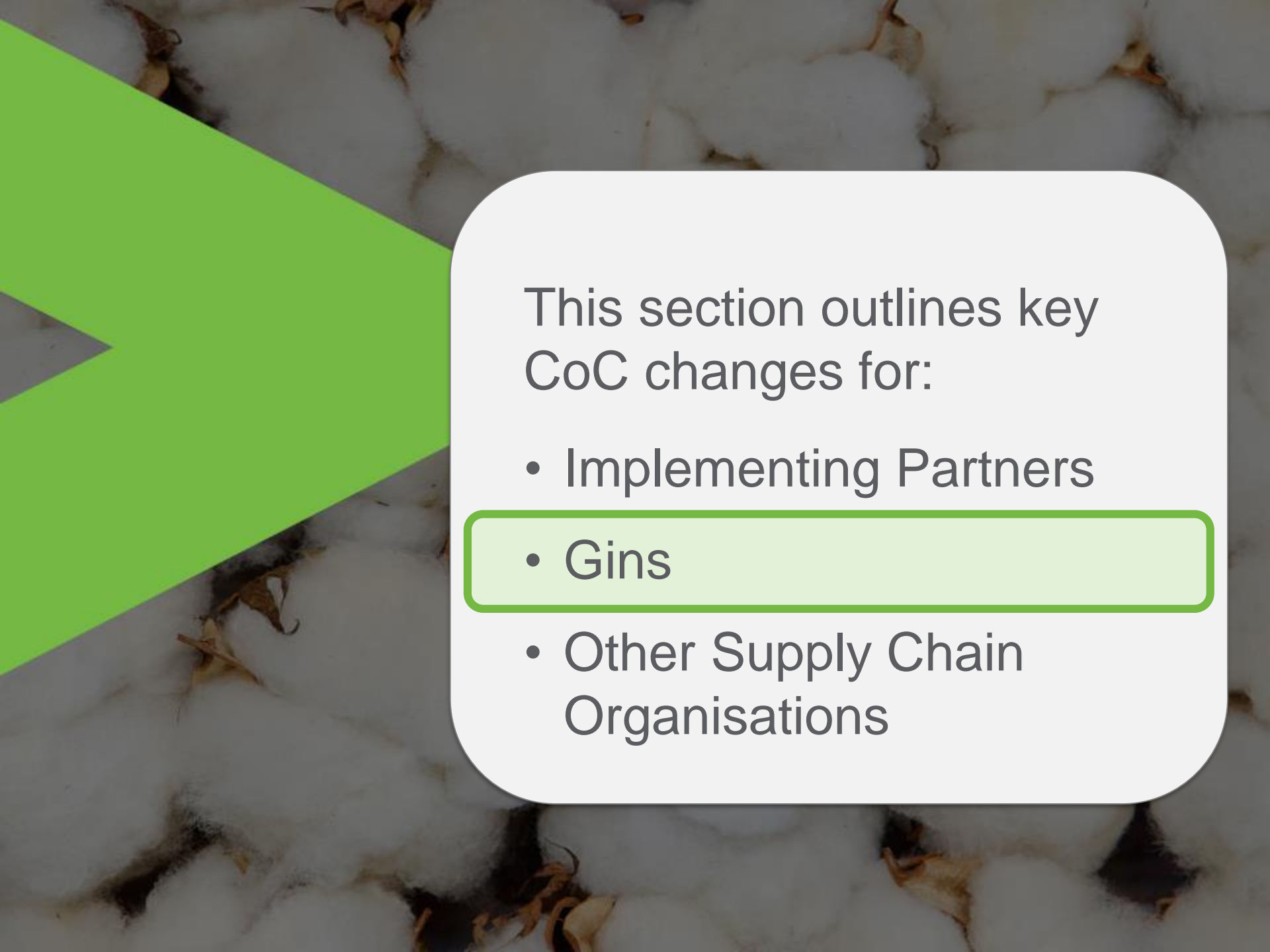
KEY CHANGES – now more specific requirement for IPs to train farmers on their relevant CoC responsibilities (and keep records of this training)

UPDATED COC REQUIREMENTS FOR IMPLEMENTING PARTNERS

Distribution of Annual Authorised Volume (AAV) codes

> Where relevant, IPs must share AAV codes with farmers **within two weeks** of receiving the codes.

> If Producer Units do not distribute AAV codes to farmers, the IP must ensure there is another system in place for gins to verify that they are purchasing Better Cotton from licensed BCI farmers

> New requirement that IPs must inform BCI of any potential or suspected mis-use of AAV codes (i.e. ginners entering AAV codes without legitimate purchases)

This section outlines key CoC changes for:

- Implementing Partners
- Gins
- Other Supply Chain Organisations

UPDATED COC REQUIREMENTS FOR GINS

Purchasing and control of middlemen

> Gins are required to be able to trace <u>all seed Better Cotton back to licensed BCI Farmers</u>, and keep records of each purchase - including seller, purchase date, volume, and AAV or farmer code (if purchasing directly from a farmer)

> New requirement for gins to <u>document their process for procuring</u> Better Cotton and the flow of Better Cotton from farm to gin

> If buying from a market or middleman, the gin will also need to:
>> keep an updated list of all markets/ middlemen from whom they buy Better Cotton
>> Ensure that middlemen have systems to keep Better Cotton segregated and can trace it back to licensed BCI farmers
>> Obtain from each middlemen purchase records showing the BCI Farmer, date of purchase, and volume

UPDATED COC REQUIREMENTS FOR GINS (CONT.)

Segregation and identification

> Gins will still need systems in place to keep Better Cotton segregated from conventional cotton and identifiable at all stages of handling

> In addition, all workers handing Better Cotton must understand the process for segregation (monitoring visits/ audits may interview workers)

> More specific requirement that gins need to ensure Better Cotton bales can be clearly identified (on bales and/or accompanying documentation) as Better Cotton

Responsibilities, training and record-keeping

> Records now only need to be maintained for 2 years (not 5 years) – *this means gins should have all purchase/ sale documents for Better Cotton available from current and previous season*

> New requirement to communicate any changes to BCI staff in writing with 15 days – *e.g. change in BCI contact person, procurement processes, outsourcing arrangements, etc*

UPDATED COC REQUIREMENTS FOR GINS

Use of the Better Cotton Platform (formerly the 'Tracer')

> New requirement to enter all purchase/ sales into the Better Cotton Platform (BCP) <u>within 30 days</u> – this will help ensure BCP data is accurate and verifiable

> New requirement to enter in the BCP <u>purchase date/ date range</u> for all purchase transactions entered in the system

> New requirement to enter the <u>invoice number (or delivery slip)</u> for all sales entered into the BCP – this enables better verification of data

Subcontractors (except transport companies)

> Must document the nature of the outsourcing agreement and share in writing with BCI (except for transport companies)

> All subcontractors must sign a declaration agreeing to comply with Better Cotton CoC requirements and provide access to sites and records
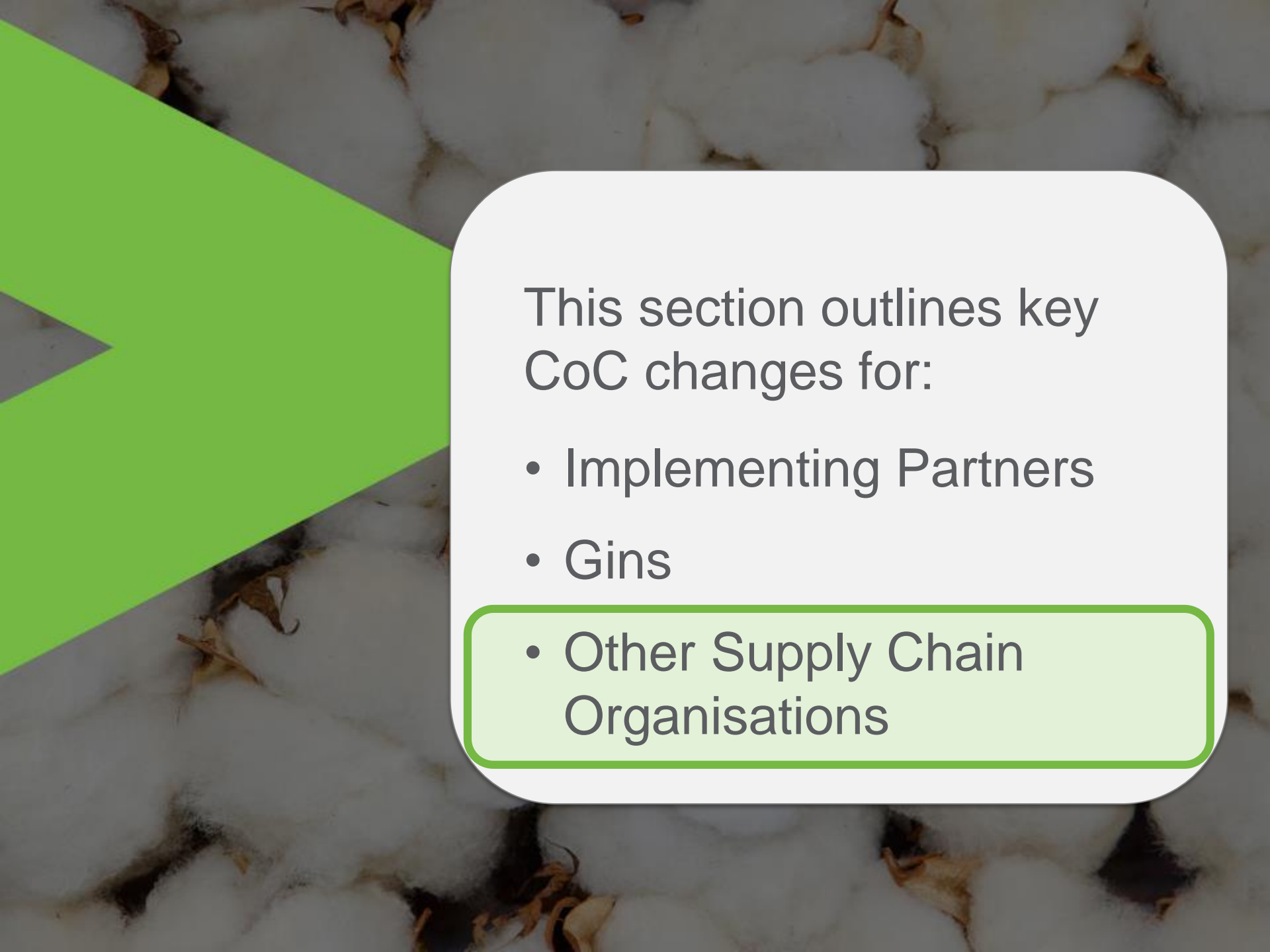
UPDATED COC REQUIREMENTS FOR GINS

Supply chain monitoring

> Additional detail on gin monitoring and third party audits now included, along with penalties for non-compliance

> Gin monitoring/ audits may include interviews with farmers to cross-check a sample of purchase records – more information and protocols will be available on the BCI website

BCI will introduce a revised Ginner Agreement, which will include an Annex with all relevant Chain of Custody requirements for gins

This section outlines key CoC changes for:

- Implementing Partners

- Gins

- Other Supply Chain Organisations

OVERVIEW

> This section applies to all companies buying or selling Better Cotton products after gin level – i.e. spinners, traders, garment manufacturers, fabric mills, end-product manufacturers, brands/ retailers, etc.

> **Mass balance** chain of custody model still applies to all companies after gin level

>> Refer to the Introduction section of the Chain of Custody Guidelines v1.3 for more explanation

KEY CHANGES FOR ALL OTHER SUPPLY CHAIN ORGANISATIONS

Responsibilities, training and record-keeping

> Purchase and sale records for Better Cotton products now only need to be maintained for **2 years** (not 5 years) – *electronic or paper-based*

> More specific requirement that all workers responsible for compliance with the CoC requirements must be <u>trained and competent</u> (workers may be interviewed during audits)

> > Any staff using the Better Cotton Platform (BCP) must have completed specific training on the BCP (available from BCI)

> Now required to communicate any relevant changes to BCI with 15 days – *change in BCI contact person or organisational structure (e.g. merger) that affects set-up in the BCP and sourcing of Better Cotton products*

KEY CHANGES FOR ALL OTHER SUPPLY CHAIN ORGANISATIONS

Use of the Better Cotton Platform (BCP)

> New requirement to enter all purchase/ sales into the BCP **within 60 days** of the shipment date – *this will help ensure data in the BCP is accurate and verifiable*

>> Retailer/ brands only can have a 30 day window to acknowledge a transaction entered by a supplier

> Now mandatory requirement to enter a Transaction Reference Number (e.g. invoice or delivery slip #) for all purchases/ sales in the BCP – *this will improve auditability of data in the BCP*

>> If purchases/ sales are 'grouped together' in one BCP entry, a separate reference number, or range (e.g. invoice #s 54001-54020) must provided for each individual purchase or sale

KEY CHANGES FOR ALL OTHER SUPPLY CHAIN ORGANISATIONS

Use of the Better Cotton Platform *(cont.)*

> More explicit requirements that any transaction entered in the BCP must relate to a physical purchase or sale of Better Cotton products

>> *i.e. no BCCUs can be transferred unless they are linked to an actual physical purchase or sale*

> Specific requirements for fabric mills or end-product manufacturers that need to transfer BCCUs directly to the end-buyer (e.g. retailer)

> More specific and updated requirements on using Output Declaration Forms – these are required when selling to a buyer who is not using the BCP

Annual reconciliation for retailer/ brands

> Explicit requirement for all retailer/ brands to reconcile data in the BCP by 31st December for each year *[this means all purchases of Better Cotton for the calendar year must be entered in the BCP by this deadline]*

KEY CHANGES FOR ALL OTHER SUPPLY CHAIN ORGANISATIONS

Expanded use of the Better Cotton platform

> Currently all ginners, cotton traders, spinners, and brand/retailers are required to use the BCP to enter purchases/ sales of Better Cotton products

>> Use of the BCP has been optional for other organisations

> However, from **1 January 2020, all supply chain organisations will be required to use the BCP** if they are buying/ selling Better Cotton products

>> This includes e.g. fabric mills, garment manufacturers, end product manufacturers, sourcing agents, import-export companies, waste traders, waste processors, paper mills and nonwoven fabric manufacturers

This change will eventually eliminate the use of 'Output Declaration Forms' and help ensure better credibility/ transparency throughout Better Cotton supply chains – while giving companies a gradual transition time to begin using the BCP

> Please note this document includes a summary of changes only

> Please refer to the full Better Cotton Chain of Custody Guidelines v1.3 (*available on the BCI website here*) for additional clarification and detail