

BCI QUARTERLY REPORT

Q4 2017: October – December

The Better Cotton Initiative exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future, by developing Better Cotton as a sustainable mainstream commodity.

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The Better Cotton Initiative (BCI) is the largest cotton sustainability programme in the world. Last year, with its partners, BCI provided training on more sustainable agricultural practices to close to 1.6 million farmers from 23 countries and mobilised €8.9 million in field-level investment. BCI is truly a global effort, encompassing organisations all the way from farms to fashion and textile brands, driving the cotton sector towards sustainability.

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Q4 Highlights

BCI Council Meeting

A major milestone was reached at the BCI Council Meeting in November 2017, with the approval of the revised BCI Standard System after more than two years of stakeholder consultation and research. The recent Standard revision represents the first major update of the Better Cotton Standard System and brings critical new approaches to BCI's work.

The 2018 Annual Operating Plan was approved. The 2018 priorities maintain a strong focus on demand generation, coupled with a field-level work programme focusing on continuous improvement, and building the capacity of partners to continue delivering solid programmes.

New Members

10 new Retailer and Brand Members joined this quarter: ALDI SÜD Dienstleistungs-GmbH & Co. oHG, Aritzia LP, Kmart Australia, Orsay GmbH, PVH Corp, Splash Gulf LLC UAE, Tape a l'Oeil, zLabels GmbH, AB Blåkläder, GANT AB. These new members are located in Australia, Canada, France, Germany, Sweden, United Arab Emirates and United States, reinforcing that BCI is truly a global organisation.

Uptake – 60% increase in 2017

In 2017, BCI Retailer and Brand Members increased uptake of Better Cotton by 60% on the previous year. Uptake increased from 461,000 metric tonnes (MT) in 2016 to 736,000 MT in 2017.

Membership – 22% increase in 2017

In 2017, BCI Membership grew to 1,197 members, a 22% increase on 2016.

Two Regional Member Meetings

Bangladesh

In November, 110 companies participated in the BCI Bangladesh Regional Members' Meeting.

Presentations were given by industry experts, and two panel discussions were held with BCI Supplier and Manufacturer Members and Retailer and Brand Members, in which H&M, Marks & Spencer, VF Asia Ltd, Noman Group, Pahartali Textile & Hosiery Mills and Outpace Spinning Mills Ltd shared their BCI stories and sustainability experiences.

China

The BCI 2017 China Regional Members' Meeting was held in Shanghai in November. The themes of the event – 'The Future' and 'Change in the Cotton Supply Chain' – encouraged discussions throughout the day. More than 270 participants from across the cotton supply chain attended. Guest speakers included representatives from China Cotton Industry Alliance, local government, international trader Paul Reinhart and Cotton Australia. BCI Farmers from Australia and China shared their insights during a farmer panel, while BCI Retailer and Brand Members' H&M and C&A gave an overview of their sustainability strategies.

Better Cotton Growth and Innovation Fund – New Microsite

A new microsite was launched in December, as well as the 2016 Better Cotton Growth and Innovation Fund Report, which can be accessed via the microsite: BetterCottonFund.Org



Selected Country Highlights



China

BCI China was invited to attend the China Chain Store and Franchise Association (CCFA) Roundtable along with other sustainability standards including Forest Stewardship Council (FSC), Marine Stewardship Council (MSC) and Roundtable on Sustainable Palm Oil (RSPO). The roundtables that CCFA convenes attracts both Chinese and overseas retailers. In Q4, the BCI China Team also had meetings with China Certification and Accreditation Institute (CCAI) and China Association of Standardisation (CAS), which are particularly important in BCI's efforts to working closely with national level organisations to embed the Better Cotton Standard System.

Mali

This year, 53,865 farmers participated in the BCI programme. There were a total of 18 verification visits conducted this season (including all second party credibility checks and third party verification visits), and licences for 13 out of 14 Producer Units were not approved due to two key reasons: a) Persistence of calendar spraying promoted by the Implementing Partner, which is not compliant with BCI's Principles and Criteria

and b) Lack of farmer field books, a key tool of the BCI assurance mechanism to help farmers collect data and learn from it. Compagnie malienne pour le développement du textile (CMDT), BCI Implementing Partner, followed up with corrective actions, including distribution of new farmer field books across the two regions. Regarding the phasing out of the systematic initial pesticide spray, farmer organisations and CMDT met to develop a common protocol for the upcoming season to ensure that farmers meet BCI requirements.

Pakistan

In 2017, BCI Pakistan worked with more than 288,000 farmers, covering more than 30% of the total area under cotton cultivation in Pakistan, with more than 725,000 MT of lint licensed as Better Cotton. In Q4, the BCI Pakistan Team also conducted visits for external assessments as well as 488 monitoring visits to assess processes in 243 active ginning factories.

Senegal

Six verification visits were conducted across three Producer Units in December. This year, 2,874 farmers were licensed, 86 were

women. Next year, a new west African hub will be set up to increase credibility and robustness of implementation in the region.

India

Q4 was harvest season in many parts of India, and the BCI India Team focused on assurance related activities for the season. 64 second party credibility checks, across 9 states, were conducted, covering approximately 270,000 smallholder farmers. The estimated volume of Better Cotton licensed for the 2017/18 season is 1,630,000 MT of lint with gin uptake estimated to be 9%.

United States

This quarter focused on farm verification visits and new farm licensing. A number of membership activities were also organised and a field-trip for members. This year was the first time that field-trips were organised for retailers and brands, and the feedback from participants was overwhelmingly positive.



Event Updates: 2018

BCI 2018 Global Cotton Conference, Members' Meeting and Donors and Supporters Meeting

The 2nd Global Cotton Conference will take place on 27 – 28 June, in Brussels, Belgium. Please register as soon as possible (www.xing-events.com/BCI2018Conference).

A Donor and Supporters Meeting is planned for 26 June 2018 in Brussels, Belgium, on the morning before the BCI Members' Meeting. The topic will be the Sustainable Development Goals.

Q4 Summary Report

BCI Council

A major milestone was reached at the BCI Council meeting in November 2017, with the approval of the revised BCI Standard after more than two years of stakeholder consultation and research. The recent Standard revision represents the first major update of the Better Cotton Standard System and brings critical new approaches to BCI's work. With an increased emphasis on social issues – including more focus on gender and labour practices – and a shift of scope from water management to water stewardship, the new standard is both a recognition of the achievements reached in the first seven years of harvests and a platform to bring Better Cotton and its equivalents towards market transformation.

During the meeting, the Council asked the Secretariat to launch a governance review to ensure that BCI and the Better Cotton Growth and Innovation Fund are both well governed as they continue to grow. The 2018 Annual Operating Plan was also approved. The 2018 priorities maintain a strong focus on demand generation, coupled with a field-level work programme focusing on continuous improvement, and building the capacity of partners to continue delivering solid programmes.

This year, 2018, marks the mid-point of the current five-year plan. It is an appropriate time, not only to take stock of where the organisation stands, but also to look beyond the current objectives. BCI will begin work this year on confirming its strategic objectives towards 2030. Crucially, the BCI Council also approved the development of a strategy for Africa and a strengthened focus on production on this major cotton-growing continent.



Membership and Supply Chain

Members by Category

Retailers and Brands	83
Producer Organisation	32
Civil Society	31
Associate Member	12
Suppliers and Manufacturers	1039
Total Members	1197

(Source: BCI December 2017)

Members by Region

Africa	24	2.0%
Asia	835	69.8%
Europe	269	22.5%
North America	46	3.8%
Oceania	6	0.5%
South America	17	1.4%
Total	1,197	100%

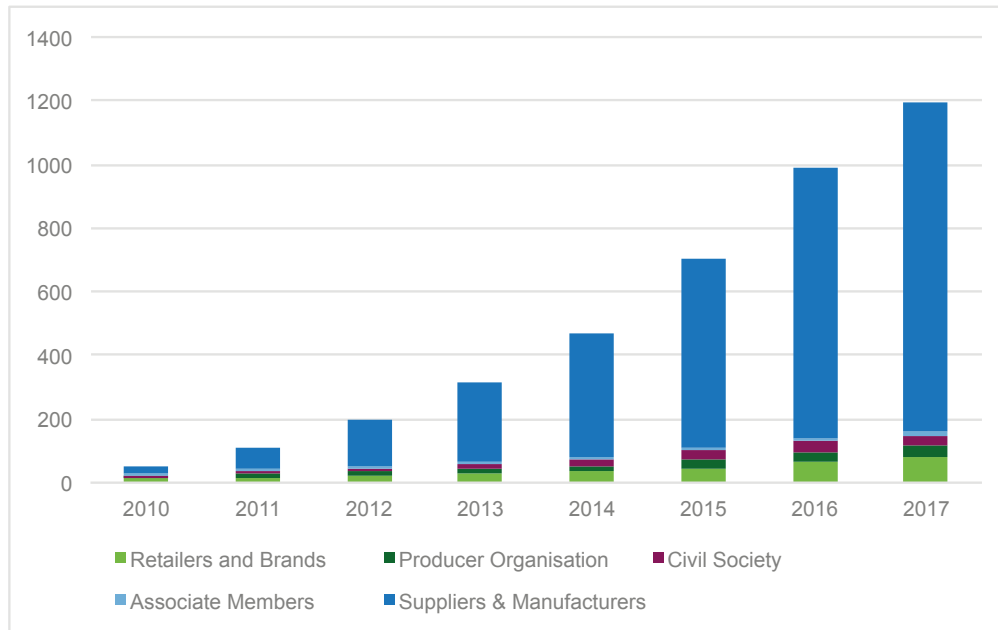
(Source: BCI December 2017)

Uptake of Better Cotton

	2016 (MTs)	2017 (MTs)	Increase from Previous Year
Spinner Uptake Q3	807,000	1,200,000	49 %
Retailer and Brand Uptake YTD	461,000	736,000	60 %

(Source: BCI December 2017)

Membership Growth



(Source: BCI December 2017)

Better Cotton Uptake

During Q4 2017, both spinner and retailer uptake increased relative to Q4 2016. Overall, uptake figures and increase rates for the entire year are found to be better indicators of the increased demand for Better Cotton in the industry.

Supplier Training Programme

In Q4, BCI held 19 Supplier Training Programme events, reaching 370 participants. Additionally, 210 participants accessed online trainings (Mindflash and webinars for Retailers and Brands).

During 2017, BCI held 69 Supplier Training Programme events in 11 countries, reaching 1,500 participants. Additionally, 780 participants successfully completed the online trainings.

Gin Processes 100% Better Cotton in the 'City of Cotton'

As a number of BCI Retailer and Brand Members set ambitious targets to source 100% more sustainable cotton by 2020, a knock-on impact can be seen at the ginning level. At the beginning of the 2016 - 17 season, Mr. Arshad, a ginner in District Vehari, India – known as the 'City of Cotton' – was ginning conventional and Better Cotton together in his facility. However, over the course of the season, many spinners requested Better Cotton, and as a result, he has shifted production to gin 100% Better Cotton. He has ambitious plans to scale up his business next year by getting more farmers into the BCI Programme.

Standard Revision

The BCI Standard review process has now come to an end. The revised Principles and Criteria of the BCI Standard were formally approved by the Council during their meeting in Geneva on 28 November. The new Standard will be effective on 1 March 2018.

Here are the major changes incorporated into the new Principles and Criteria.

- **Pesticide Usage and Application:** Restricted pesticides were adjusted, taking into consideration the banning of the Rotterdam Convention pesticides and the World Health Organization and Global Harmonised System classified pesticides (or active ingredients), on the acute toxicity phasing out process and natural substance use. Additionally, minimum personal protective equipment (PPE) was integrated into the Standard.
- **Water Stewardship:** The Standard shifted from water efficiency to water stewardship in order to notably address collective action towards local sustainable use of water.
- **Biodiversity Management:** It is now required to have a biodiversity management plan focusing on the identification, mapping and restoration or protection of biodiversity resources, degraded areas, beneficial insects and riparian areas.
- **Conservation Value Assessment:** There is now a requirement for the development and implementation of a risk-based approach to high conservation value assessment.
- **Soil Management:** A comprehensive soil management approach is now integrated into the Standard that includes identification of soil type and requires soil testing.
- **Climate Change:** Included as an annex is clarification on how climate change mitigation and adaptation is addressed throughout the Standard.
- **Gender Equality:** The Standard now provides a clear position on gender equality, which is aligned with the International Labour Organisation (ILO) Decent Work agenda requirements on gender.
- **Fibre Contamination:** There is a new requirement to further reduce foreign contamination of fibre through phasing out of synthetic bags during harvest.
- **Sanitation Facilities:** Mandatory access to sanitation facilities was added.

- **Recording Sales:** There is now a process for maintaining transaction records for Better Cotton sales.

The new Standard will be effective on 1 March 2018, although a transition period will be granted for some new requirements to allow farmers time to plan and build certain competencies to effectively implement the Better Cotton Standard System.

In parallel, two pilot projects have been launched on the new water stewardship and land use change approaches:

- The BCI water stewardship pilot project is testing the new approach across smallholders, medium and large farm contexts in India, Pakistan, China, Tajikistan and Mozambique. Together with Helvetas and the Alliance for Water Stewardship, BCI will develop training modules and conduct face-to-face trainings on each component of the new water stewardship plan.
- With the High Conservation Value Resource Network, BCI has developed a procedure to evaluate the risk that conversion may pose to areas with high environmental, social or cultural value. This procedure will be tested in 2018.

Selected Project Updates



Pakistan

Centre for Agriculture and Biosciences International (CABI) Trainings on Tackling Insect Pests

Insect pests can cause substantial damage to crops around the world, and Pakistan is no exception. One Implementing Partner in Pakistan, CABI, trained a representative from each project area in Pakistan in Natural Enemy Field Reservoir (NEFR). A NEFR is a facility for breeding beneficial insects to enable a reduction of chemical use for crop protection and would form part of Integrated Pest Management Plans which are required within the BCI Standard. The training was also rolled out to Producer Unit (PU) Managers in their respective project areas with 80 PU Managers trained across Pakistan. Each project also established one model NEFR in its project area, therefore, 15 new NEFR's were established in Q4.

Story from the Field

Implementing Personal Protective Equipment in Pakistan

In Sakrand, a town in the Sindh province of Pakistan, BCI's Implementing Partner, Cotton Connect, is working with local partner Sustainable Agriculture and

Friendly Environment (SAFE), to implement better cotton farming practices, including the use of personal protective equipment (PPE) when applying pesticides.

BCI Farmer Ghounhwar Khan Bhutto lives in a village near Sakrand. He is a smallholder and has been cultivating his land for the past 15 years. He became a licensed BCI Farmer in the 2017 season and has already seen some benefits.

Before learning about the Better Cotton Standard System, he had little knowledge of using PPE when applying pesticides to his cotton crop and would expose himself and his workers to unnecessary risks when applying chemicals. He was also unsure of how to optimise the timing and quantity of pesticide applications, leading to poor crop yields.

Since joining the BCI Programme and becoming a licensed BCI Farmer he has developed a much stronger knowledge of safe and timely pesticide applications. He also understands the value of using PPE. Ghounhwar Khan Bhutto regularly participates in training sessions organised by BCI field staff and he believes his quality of farming and health have improved.



Mozambique

Instituto do Algodão de Moçambique (IAM)

An annual partnership meeting between BCI and Instituto do Algodão de Moçambique (IAM) was held and led to the re-instatement of IAM's commitment to support BCI in Mozambique. The meeting also updated the terms of the strategic partnership agreement. Mozambique is experiencing a financial crisis, and while it is committed to BCI and has incorporated the BCI Principles and Criteria into its cotton regulations, the government is not yet able to provide a financial contribution towards implementation and training. IAM does provide logistical and staff time support to the programme.

First Conference of Biological Invasions in Agriculture

The Better Cotton Standard System was showcased as a farmer's capacity building approach for sustainable farming in the first conference on Biological Invasions in Agriculture in Mozambique. The conference was an opportunity for BCI to share its progress in Mozambique, and its contribution to the farmers livelihoods, with a wider range of agricultural stakeholders both in Mozambique, and in the Southeast Africa Region. BCI's participation brought a better understanding of how more sustainable agricultural programmes can be implemented at a time when farmers of different crops are encouraged to adopt more sustainable crop production practises.



India

Water and Productivity Project (WAPRO)

The Water and Productivity Project (WAPRO) aims to address inefficient irrigation practices in smallholder farming by increased water efficiency and food production in the supply chains of key commodities, such as cotton, through multi-stakeholder partnerships by applying a push-pull-policy strategy. In India, the WAPRO approach related to smallholder cotton farming is being implemented in the state of Gujarat by the Coastal Salinity Prevention Cell (CSPC), one of BCI's Implementing Partners in India.

In Q4, CSPC purchased soil excavators to scale up and improve its on-going work on water harvesting. A mobile based SMS programme was also deployed in which 10,000 BCI Farmers have so far been sent four sets of informative messages on relevant aspects of sustainability in cotton farming.

The project also conducted trainings with 7,569 farmers on fibre quality including best practices related to cotton picking, storage and transportation as well as minimising trash and contamination of cotton. CSPC also organised an awareness campaign in 16 villages on pink bollworm management.

Current outreach figures for the project, across three Producer Units, are given in the table below:

Total number of villages	Total farmers associated	Total area under cotton cultivation (Ha)
83	10,045	6,500

Based on an adoption survey, 30% of farmers have adopted alternate furrow irrigation and 31% of farmers have adopted intercropping as a result of the project.





Communications

Member Communications

In person communications training was delivered to the marketing teams of five Retailer and Brand Members, including Gap and M&S. A further 19 meetings were conducted remotely. These meetings were tailored to the needs of the specific members but all shared the same goal: enabling marketing collateral to be produced that suits individual member needs while never misleading, in turn, protecting the credibility of BCI. This quarter, 28 brands produced new marketing and communications materials and six brands were approved for use of the On-Product Mark.

To support the growing number of members making claims and to offer transparency to consumers, new content was published on the BCI website. This consumer-friendly content explains what the BCI logo means when seen in a commercial context as well as explaining why BCI utilises a system of Mass-Balance administration. The infographic can be seen on the next page.

Media

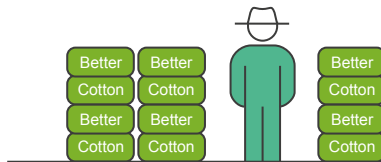
During Q4, BCI had 78 media impressions, a 13% increase on Q3 2017. Highlights included appearances in The Guardian (UK), EDIE, and the WWF blog.

Mass Balance

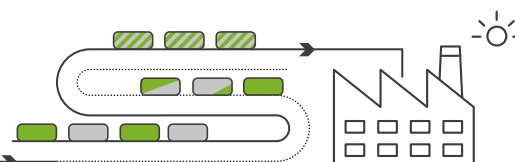


What is it?

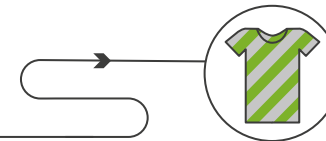
Better Cotton is sourced from licensed BCI Farmers.



The Better Cotton gets mixed with conventional cotton in a complex supply chain.



The retailer has sourced the Better Cotton and BCI Farmers have seen the benefit, but the Better Cotton may not be in the end product.



What does the BCI logo mean?



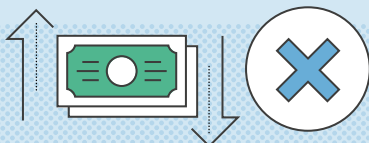
When you see the On-Product Mark you know you are supporting more sustainable practices at farm level. You are buying cotton from a committed BCI Member who is investing in BCI.

The cost to the retailer of sourcing Better Cotton goes directly back to field level activities including training and monitoring. It doesn't matter to the farmer where the Better Cotton ends up.

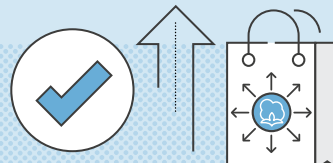
It's better for the people who produce it, better for the environment it grows in and better for the sector's future.

Why do it like this?

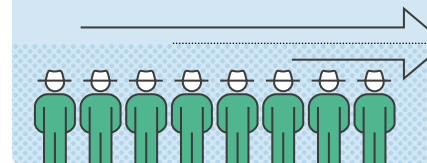
Mass Balance is less complicated than physical traceability and is therefore less costly...



Which helps create more demand for Better Cotton...



Which enables BCI to reach more cotton farmers.



Better Cotton Growth and Innovation Fund

The Better Cotton Growth and Innovation Fund (GIF) Secretariat is currently processing 48 project applications from India, Pakistan, China, Mozambique, Turkey and Senegal for the 2018 - 19 season. The full portfolio will be reviewed, debated, and voted on by the Field Innovation & Impact Committee on January 25-26, 2018. The Fund aims to support projects that will reach over 1 million farmers out of BCI's estimated 2.5 million total global reach.

On 13 December 2017, the Buyer & Investor Committee (BIC) met in London to review the Fund's plans for 2018, including two new pilot projects in China and India. The committee were joined by Allan Williams, R&D Manager for the Australian Government Cotton Research and Development Corporation for a talk on agriculture's role in climate change. Attendees included representatives from Nike, H&M, C&A, Marks & Spencer, ASOS, Decathlon, IKEA, Levi's, Tommy Hilfiger and VF Corporation.



Story from the Field



United States

BCI Farmers Stand at the Forefront of Soil Conservation

Soil is one of our planet's most vital resources. Healthy soil is a starting point for farm productivity and sustainability, and that is why soil health is one of the six Better Cotton Principles and Criteria, which BCI Farmers must adhere to.

Some BCI Farmers are advancing this principle by implementing innovative practices, in order to not only care for soil health, but also, to give something back to the soil. Zeb Winslow is one of these farmers.

Based in North Carolina, USA, Zeb is a fifth generation farmer who is prioritising soil conservation on his family's cotton farm.

Always at the forefront of more sustainable farming practices, the family switched from conventional tillage 17 years ago to strip-till, which can provide soil conservation and efficiency benefits, plus increased erosion resistance. They also implemented Integrated Pest Management practices to manage insecticide sprays and to utilise as many beneficial insects as possible.

However, the family didn't stop there. They are now leading the way with a farming practice called 'cover cropping'. A cover crop is a type of plant grown primarily to help suppress weeds, manage soil erosion, improve soil quality, and control diseases and pests. However, it is not a common practice in cotton farming but that could be about to change in the US.



Story from the Field (Continued)

Along with Zeb, there is a new generation of farmers who are more environmentally conscious and more open-minded to trying new practices. “North Carolina as a state is one of the larger adopters of cover crop use in the US, and across the entire country we are seeing a soil health movement. With cover crops, people are trying to look at a more holistic way of treating and using our soil as the valuable resource it is,” comments Zeb.

“Cotton is a greedy crop, it takes quite a lot from the ground and doesn’t give a whole lot back. Cover crops help by feeding something back into the land during the off season,” he explains. Having used a single grain cover crop for many years, Zeb switched to a multi-species cover crop blend four years ago to increase his above ground bio-mass

further. The benefits of this method were noticed immediately, and within the first year of using a multi-species cover crop, Zeb saw increased weed suppression and soil moisture retention. He believes that he has been able to cut herbicide input on his plants by 25% in the past two years. As the cover crops begin to pay for themselves, and Zeb reduces his herbicide input, economic benefits may be realised in the longer-term.

Is Zeb’s father, also named Zeb Winslow, and a cotton farmer from the previous generation, supportive of this new method? “In the beginning, I thought it was a crazy idea. But now that I’ve seen the benefits, I’ve become more convinced,” he says.

As Zeb explains, it isn’t easy for farmers to move away from traditional and proven

farming methods, and until recently, cotton farmers didn’t know as much about soil biology. In the last 10 to 15 years, great strides have been made in understanding what’s going on under the ground. Zeb thinks that as soil knowledge increases, farmers will be better equipped to harmonise better with nature by working with the soil instead of fighting against it.

With an eye to the future and to the next generation of Winslow cotton farmers, Zeb believes that, “Eventually, if there is going to be cotton it is going to have to be sustainably produced, as is everything else. As the population increases there will be less and less land, and as we try to increase yields to meet demand it’s also important that we ensure soil, as a vital resource, is there for future generations.”