



Liz's Newsletter

Issue No. 15, Summer 2011

Greetings!

In this newsletter I discuss three different areas of my work: conducting conflict-free minerals audits, strengthening Mozambique's cotton sector, and marketing brand value over green products.

These articles present different approaches to creating and communicating positive change: an industry ban of conflict minerals that is driven by third party audits; sourcing partnerships under the umbrella of the Better Cotton Initiative; and company-level reporting and product-level marketing (and the need for third party certification). Despite many differences between these issues, they are all examples of how organizations are working to advance the sustainability movement and engage stakeholders - from suppliers to consumers - while maintaining a high level of credibility.

I hope you enjoy reading about our work supporting organizations as they scale up positive change.

Best wishes,

Liz

Conflict-Free Minerals Workshop

I attended a recent Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) Extractives Supply Chain Workshop that centered on regulations and efforts to identify or ban conflict-free minerals (CFMs). CFMs are minerals (namely gold, tantalum, tin and tungsten) that do not directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo (DRC) or adjoining countries.

Industry members shared insights into the EICC-GeSI's Conflict-Free Smelter (CFS) assessment program, which is aimed at banning minerals that come from conflict regions from entering the electronics industry's supply chains. Smelter audits are central to the CFS program now in its first year of implementation. As I mentioned in my last newsletter, Liz Muller & Partners is one of three teams that conduct audits for the CFS program.

The CFS program centers on smelters because they are the first to process and mix ore sources - essentially removing the ore's link to its country of origin. The end buyers (e.g. Apple, Intel, HP, Motorola) will track CFMs from the smelters to their end products individually. I believe the CFS assessment program is well designed, thorough and effective. It is consistent with Organization for Economic Co-operation and Development (OECD) due diligence guidelines and is being conducted by qualified third-party auditors.

More importantly, the combination of instituting a CFS program and putting responsibility on the smelters to drive the need to use and document CFMs down to their suppliers is making a difference. Smelters and their suppliers are shifting away from conflict regions of the DRC, and awareness of the issue and the need for a solution is being raised throughout the industry. In addition, the program is bringing discipline and transparency to smelter procurement operations and improvements in their inventory management processes. Many smelters and suppliers have found additional business benefits such as stronger partnerships with suppliers and buyers. With this said, the system is operating in a very complex and interwoven supply chain and will continue to evolve over time.

In addition to participating in the CFS program, individual brands must also take inventory of the potential use of conflict minerals and map associated supply chains. During the workshop, we learned of an effort by end buyers to develop a common reporting tool to track CFMs along their supply chains. Despite the clear value of using a common form, there was concern that without a central repository for the information gathered, these efforts would create additional work for suppliers to complete and send the form to all of their customers.

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A Visit to Cotton Farms in Mozambique

I had the pleasure of traveling to Mozambique recently to see one of my client's cotton operations there. In addition to seeing Olam International's (Olam's) cotton program we met with the Cotton Institute of Mozambique (IAM), the government body that oversees the cotton sector in Mozambique. Colleagues from The Dutch Sustainable Trade Initiative (IDH) and the United Nations Development Programme's (UNDP's) Green Commodity Facility accompanied us. Together, with the Better Cotton Initiative (BCI), IDH, UNDP and Olam have forged a partnership aiming to work with IAM to bolster their Cotton Reviving Programme (a national effort to improve cotton productivity and market position) by bringing BCI to Mozambique and linking the BCI cotton to retailers' supply chains.

After flying to the north of the country, we traveled hours along a bumpy dirt road - catching glimpses of the basic roadside dwellings and schools - to the small, individual cotton fields. These fields are less than five acres and are managed by individual farmers who pick the cotton by hand. We then toured Olam's gin, where seed cotton is converted into bales of cotton lint for sale on the global market. Seeing Olam's operations firsthand and meeting their farmer partners helped all of us understand the important role they play in helping the farmer improve their crops and bring it to market.

Mozambique is located along the southeast coast of Africa and faces challenges common to other African countries: weak economy, poor infrastructure, high rates of HIV and illiteracy, and many rural communities with limited opportunities. Agriculture is an important source of income for many of Mozambique's residents. Cotton is the country's third most important export crop and benefits more than 300,000 families (1.5 million individuals), according to IAM.

Mozambique's cotton production has been inconsistent and has fallen short of production capacity since the country's civil war, which ended in 1992. Its cotton sector faces many challenges, including small-scale farming, poor seeds, limited access to agronomists and challenging terrain. On average, Mozambican farmers grow only 450 kilograms per hectare (kg/ha) of seed cotton, compared to most African farmers who produce close to 1,000 kg/ha. For further comparison, consider that India's average yield is 1,800 kg/ha, the United States, Brazil and Australia are each 5,000 kg/ha, and China is in excess of 6,000 kg/ha. Despite these challenges, Mozambique's outlook is bright - it has rich soil, produces quality cotton, is operated by a strong and fair government, and is supported by international donors and cotton companies.

The Mozambique government operates the cotton sector through a concession basis, whereby a cotton company will have exclusive rights to purchase all seed cotton produced in its concession. The cotton company is also expected to support the farmers in its concession to produce the best possible yields and lint quality. IAM convenes stakeholders prior to planting and again prior to harvest to establish minimum cotton prices based on the cotton's quality. This model ensures a fair minimum price to the farmer and enables cotton companies to invest in the farmers in their concessions with the knowledge that they will have exclusive rights to purchase the resultant improved crop.

Olam operates three Mozambique concessions covering 35,200 hectares (87,000 acres) and farmed by 35,500 farmers. Olam has a great deal of experience working through integrated supply chain models similar to Mozambique concessions. Their expertise in developing farmer partnerships and a "boots on the ground" approach is evident by the doubling of productivity rates of one of its concessions within the first year of operations. Olam supports their farmer partners in Mozambique by:

- Building farmer extension agronomy competencies
- Providing better seeds and inputs
- Engaging authorities and stakeholders
- Training farmers on improved practices
- Promoting a rotation of crops (for product diversification and soil health)

To date, BCI's retailer members have experienced challenges getting Better Cotton from other regions - namely India and Pakistan - into their supply chains. Olam's expertise in helping farmers to grow cotton in a more sustainable fashion and operating integrated supply chains with direct linkages to retailers' suppliers can help retailers overcome these sourcing challenges. Olam operates in a similar fashion in other African countries, including Ivory Coast. Their work in Ivory Coast was recently featured - with praise - in a new book by Conor Woodman, *UnFair Trade*. *UnFair Trade* presents Woodman's view on how ordinary people around the world survive at the bottom of the supply chain.

As the demand for traceability along a supply chain and promotion of sustainable agriculture practices grows, I believe companies like Olam who have integrated sustainability and social well-being into their operations will lead the way forward.

The Death of Green Marketing and the Rebirth of Building Brand Value

Most of us would agree that sustainability has moved into the mainstream and that implementing sustainability practices has become a necessary part of doing business. However, businesses rarely “get caught doing good” and they are increasingly communicating their sustainability efforts and accomplishments to consumers and interested stakeholders. Two common communication approaches include corporate responsibility reports and green product marketing.

In my [January 2009 newsletter](#), I shared the philosophy and approach I follow when I assist clients with writing corporate responsibility reports. The content of most corporate responsibility reports is fairly standardized and consistent with the Global Reporting Initiative framework. These reports are useful sources of information for stakeholders, namely investors or activists, to keep up with a company's efforts and progress across all of its operations and product lines. These reports are quite successful and some companies are beginning to integrate this type of reporting into their annual financial reports.

Consumer-facing marketing, on the other hand, has recently come under fire. SC Johnson, maker of Windex and other household products, recently settled two class action lawsuits that accused them of “green washing” and misleading consumers. The lawsuits centered on SC Johnson's own Greenlist label, which is used on products meeting the company's internal standards for less-harmful products - but was not certified by an independent, third party. SC Johnson admitted they could have taken a better approach to identifying green products and they have learned from this experience. I believe that SC Johnson's acknowledgement of these missteps will contribute to their reputation of being a responsible brand in the long run.

Having green claims validated by independent third parties will add credibility to such claims, but will do little to help consumers understand what the claims really mean. Few consumers fully understand (or are interested in) the extent and complexity of the social and environmental impacts across any one product's supply chain - not to mention across all products we purchase in our daily lives. To expect consumers to authenticate sustainability claims and preferentially select products based on these criteria alone is not realistic.

As Joel Makower of GreenBiz shares in his [May 16, 2011 blog](#), "consumer-focused green marketing is just not working. It never really did." Aside from purchases that benefit consumers personally (e.g. eating organic food), consumers may select a green product if all other factors (price, quality) are equal. They are more interested in - and loyal to - brands that provide quality and value. Patagonia is one of the leading-edge sustainability brands with a very loyal customer base. Patagonia's success is largely due to their high quality product that meets the demands of their rugged customers. The sustainable attributes of their products are secondary to most consumers.

I continue to believe that the brands acting responsibly across all of their operations and supply chains will benefit in many ways, including by building a loyal customer base. Rather than marketing an individual product on its “green” merits, the focus should continue to be on the product's value and quality under the umbrella of a trusted and responsible brand. The companies that get this right may find that their loyal customers can be their best source of marketing.

Conflict-Free Minerals Workshop (continued)

OECD provided an update on its [Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#). OECD's guidelines include a five-step risk-based due diligence framework with supplements that are specific to each of the four target minerals. The Tin, Tantalum and Tungsten Supplements are currently available. The Gold Supplement is in progress and should be completed by the end of 2011.

We also received updates and progress reports from people who work in the DRC, including a description of the chain of custody (“bag-and-tag”) and registration system that is designed to identify, segregate and track ore from conflict-free sources in the DRC. These systems are essential to allowing miners of CFMs, many of whom are small-scale artisans, to have access to a market that is vital to their livelihoods.

These are all significant and positive steps forward. However, it will be important for other industries to develop similar programs to help their members identify or ban the use of conflict minerals. Industry - or cross-industry - approaches should be implemented to leverage resources and purchase power and minimize redundancy and disruption to business.

