# Sector supply-chain guidance – cotton

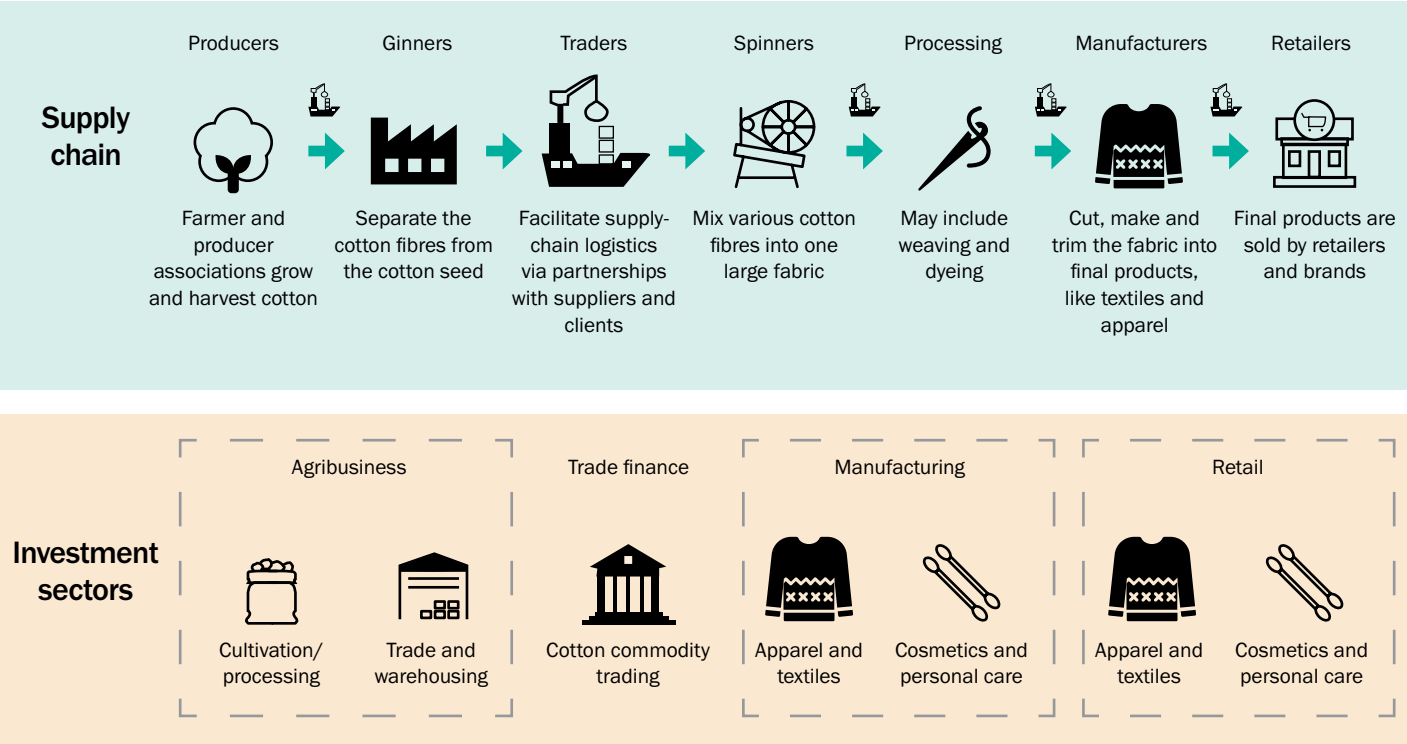
European Bank
for Reconstruction and Development

## 1. Introduction

This note focuses on actions that a company in the cotton supply chain can take to address environmental and social risks. The company may be an EBRD client to which the Bank is providing direct finance or a sub-borrower of one of the EBRD's financial intermediaries (FIs). It may also be an investee company of a fund in which the EBRD is investing. Note that while this briefing covers the full cotton value chain from cultivation to consumer retail, it focuses on those social and environmental risks in the downstream supply chain – specifically, cotton farming and ginning. However, also note that some 80 per cent of cotton serves the garment and apparel supply chain, itself associated with significant social and environmental impacts.

A generic cotton supply-chain map setting out the key elements of the supply chain and associated investment sectors is set out below.

**Figure 1. Key elements of the supply chain and associated investment sectors**




## 2. Supply-chain mapping and traceability

### 2.1. Production and supply-chain context

The cotton supply chain comprises upstream, midstream and downstream players. Upstream involves primary producers, such as farmers, and primary processors, such as ginners (typically both located in the same area). Midstream encompasses secondary or value-added processors engaged in activities such as spinning, processing (such as weaving and dyeing) and product manufacturing. Downstream includes retailers and brands, or industrial products. Intermediaries and traders can operate at every stage of the supply chain.

The structure of the cotton supply chain varies greatly between and within countries, with multiple types of production and procurement practice. Cotton is grown on a variety of farms,[1] spanning small family-owned holdings to large, highly mechanised commercial operations, depending on the context, region, climate and farming practices. Smallholders account for around 75 per cent of global cotton production and are mostly present in Brazil, China, India, Pakistan and western Asia (also Türkiye and Syria).[2] Cotton is often rotated with other crops, such as soy in Brazil, for instance.

There are varying degrees of vertical integration in cotton value chains worldwide. "Vertical integration" describes the situation in which one entity, typically a ginner or spinner, controls and directs supply-chain actors, so has considerably greater visibility and leverage over the supply chain. For instance, Uzbekistan has in recent years seen the

[1] See ILO (2016). [2] Ibid.

development of "cotton clusters" producing cotton, ginning it and spinning yarn. Some of these clusters also produce fabric and others are fully vertically integrated, also producing ready-to-wear garments. Traceability is more straightforward in these vertically integrated supply networks, but not all transactions are equally documentable.[3]

A handful of players dominate the supply chain, including Olam International (OGA), Cargill and Louis Dreyfus.

China, India, the United States, Pakistan and Brazil are the top cotton producers globally.[4] The largest cotton consumers – China, India and Pakistan[5] – primarily use cotton in the textile and apparel sector for onward sale.[6] The apparel industry accounts for an estimated 80 per cent of global cotton use,[7] but cotton is also found in home furnishings, cosmetics, animal feed and edible oils.

**Table 1. Key control points**

| | |
|---|---|
| Ginning  | Ginning is a key control point, particularly in contexts where ginners have high visibility over the source of raw cotton. Ginning generally takes place in the country in which the cotton is produced. |
| Traders  | Traders are involved in several parts of the cotton supply chain, so play an important role in providing ongoing identity information to assist supply-chain transparency. For example, traders may buy cotton from farmers and sell to gins (seed cotton traders), buy from gins and sell to spinning mills (lint traders), or sell yarn or fabric to manufacturers (non-lint traders). |
| Spinning mills  | Spinning mills process cotton fibre into cotton yarn, which they then sell to fabric mills. Mills are often located close to clothing and apparel industries. Cotton yarn is typically blended from different sources.<br><br>Beyond the spinning mill, cotton traceability becomes more complex, as the fibre is often blended with cotton from other countries. For traceability purposes, determining the origin of cotton fibre before it is spun into yarn is, therefore, essential. Afterwards, it is impossible to determine the fabric's origin without some form of isotopic tracing. |

## 2.2. Sourcing and purchasing practices

Buyers adopt various sourcing strategies, influenced by factors such as the size and scale of their operations, risk tolerance and market price volatility. They may use a combination of sourcing strategies in order to manage risk and maintain a consistent supply of cotton. Cotton supply chains rely heavily on forward contracts, which are private agreements between buyers and sellers that specify the terms and conditions of exchanging cotton, including a pre-determined "maturity" date and agreed price. While these contracts offer some price certainty for producers, they prevent potential gains if market prices rise. Spot buying (purchasing immediately available products), meanwhile, only accounts for a small portion of the cotton trade. This practice is typically used by traders to take advantage of short-term market fluctuations or to meet urgent supply needs. Futures contracts (traded on a public exchange as a risk management or speculative tool, with no physical exchange of cotton) are predominantly used by larger industrial or estate farms capable of supplying cotton to multiple customers.

Many smallholder cotton production systems use a "contract farming" model, whereby an entity – typically a gin or, in some cases, a trader – provides inputs such as fertilisers and seeds to farmers on credit, in the expectation that the farmers will sell back all of their cotton exclusively to them.

## 2.3. Traceability

The cotton supply chain spans multiple territories, especially for garments and textiles – making it difficult to determine the source of fibres in consumer items, as fibres from several countries may all be combined into one garment at a textile mill in yet another country[8] (although there are moves towards country segregation traceability options from major certification schemes, including Better Cotton).[9] Traceability is further complicated by the fact that most cotton is traded internationally through commodity exchanges,[10] involving multiple stages of exchange, processing and manufacture. The presence of spot buying, whereby buyers can purchase from any producer or seller without prior planning, adds to the difficulty of mapping the supply chain.

Some countries' regulations require importing companies to offer origin assurances specific to a product or batch of cotton.[11] Some commercial, technology-based approaches to cotton traceability are currently in development or available to the market,[12] such as forensic testing,[13] blockchain systems, software solutions or the insertion of traceable fibres and DNA markers at the time of ginning. However, these are unlikely to be practical for large-scale implementation.

Many multi-stakeholder initiatives have emerged in the cotton industry to improve traceability to farm level. Examples include the Elevate Global Trace Protocol pilot programme in Pakistan, which tracks the cotton supply chain from farmer to processor and beyond (to address transparency gaps that are often in supply chains after tier 1), as well as Verité's Streams Mid-Tier Gatekeeper Pilot and Cotton Chain of Custody Pilot, which focus on improving due diligence and traceability in cotton supply chains in India.

Some large-scale, mechanised cotton producer countries, such as Australia and the United States of America, provide traceability from farm level to spinning mill (unique bale identification numbers and barcode identifiers, with data

[3] See Better Cotton (2022). [4] See US Department of Agriculture Foreign Agricultural Service (2024). [5] See OECD and FAO (2020).
[6] See FAO (2021). [7] See FAO (n.d.). [8] See Better Cotton (2022). [9] See Better Cotton (2023). [10] See Environmental Justice Foundation (2009).
[11] See Streams and Verité (n.d.). [12] See Cotton Australia (n.d.). [13] See Streams and Verité (n.d.).

inserted at the time of harvest and attached to the bale at the time of ginning). In smallholder and family-farming contexts, particularly in lower-income countries, farm-level traceability is much more challenging. Equally, where risks are linked to contextual factors such as low incomes, land-use arrangements or indebtedness, traceability to the level of individual producer may be less critical, as a broader approach may be required to address labour risks.

| Key resources on mapping and traceability |
|---|
| • Verité Supply Chain Traceability Matrix, Cotton<br>• Cotton Works, Cotton Traceability Basics<br>• Better Cotton Traceability<br>• Traceability of Fairtrade Cotton |

### 2.4. Overview of potential actions to improve mapping and traceability

**Table 2. Potential actions for midstream and downstream investee companies to improve mapping and traceability**

| | Examples of foundational actions | Examples of intermediate actions | Examples of leading practice |
|---|---|---|---|
| Mapping and traceability | Company maintains a complete and accurate list of business partners supplying cotton and cotton products to the level of yarn spinners. | Company develops approaches to increase visibility of provenance of cotton beyond the level of yarn spinning (to gin and back to farm).<br><br>Identified proof of third-party cotton certification indicating one of the following chain-of-custody models: identity preserved, segregated, or mass balance.<br><br>Company can describe the management practices for verifying and assuring that a sample of incoming volumes matches with corresponding traceability documentation for certified cotton. | Company establishes progressive time-bound commitment to increase cotton supply-chain traceability to farm level and reports on progress. |
| Supply-chain data collection and management | Company records and identifies cotton and cotton products according to their country of origin. | Company maintains and/or has access to supply-chain monitoring data. | Company deploys technology-based approaches to create whole-value-chain visibility and transparency.<br><br>Company uses a combination of verification tools, such as SourceMap, Open Supply Hub, EiQ and/or EiQ Sentinel, to cross-check supply-chain information among sources. (Apparel companies are doing traceability work with DNA and isotope testing providers such as Oritain and Applied DNA Sciences to confirm the cotton origin of their products.) |

## 3. Risk identification

Note that the scale and nature of different risks in the cotton supply chain vary significantly from location to location, as they are often linked to the type of supplier and broader contextual factors.

### 3.1. Linked upstream risks

#### 3.1.1. Cotton farming

The most significant risks in the cotton supply chain arise at farm level. Cotton production, which is largely mechanised and takes place on larger-scale commercial farms, presents a lower risk of forced and child labour.

**Child labour**

Child labour risks are prevalent in the global cotton supply chain, primarily in the upstream stages, particularly during harvesting (excluding smallholders). Child labour risk is heightened in the production of hybrid cottonseeds.[14] The US Department of Labor has identified cotton as a commodity produced with child labour in Argentina. Azerbaijan. Benin, Brazil, Burkina Faso, China, Egypt, India, Kazakhstan, the Kyrgyz Republic, Mali (where boys are reportedly trafficked to Côte d'Ivoire to work on cotton farms),[15] Tajikistan, Türkiye, Turkmenistan and Zambia.[16]

**Forced labour**

Forced labour is a risk in the context of cotton cultivation in a number of producer countries, notably during harvesting.[17] Forced labour risk is heightened in the production of hybrid cottonseeds.[18] The US Department of Labor has identified cotton as a commodity produced with forced labour in Benin, Burkina Faso, China, Kazakhstan, Pakistan, Tajikistan and Turkmenistan.[19] The US Department of State also reports the forced labour of Uyghur children and adults in cotton production in the Xinjiang Autonomous Region,[20] which produces about 90 per cent of China's cotton.[21] The US has tried to address this with the 2021 Uyghur Forced Labor Prevention Act. There is evidence of state-imposed forced labour in cotton production in some countries.[22]

**Deforestation**

There are some deforestation risks at farm level in the cotton supply chain. In Brazil, cotton is commonly rotated with soy, an agro-commodity associated with deforestation.[23] Sixty per cent of Brazilian soybean production is grown on the Cerrado, and soybean production has already converted almost half of this land. If conversion continues, an additional one-third could be destroyed by 2050.[24, 25]

**Risk of harm/occupational safety and health issues**

Risks of chemical/particulate exposure, along with poor health and safety standards, are prevalent in the global cotton supply chain – particularly upstream at the harvesting stage. Hazardous tasks, such as pesticide application, are common on farms. Cotton accounts for 24 per cent of global insecticide use in agriculture.[26] Exposure to agrochemicals used in pesticides and fertilisers has led to pesticide poisoning and other health issues. Adequate personal protective equipment (PPE) is essential to mitigate the risks of inhaling certain substances, and workers must receive proper training on its use for it to be effective. Work may also involve heavy lifting and repetitive motions, such as carrying water for irrigation or loading trucks with cotton.

#### 3.1.2. Ginning

Cotton products are typically linked to health and safety risks at the ginning level.

**Risk of harm/occupational safety and health issues**

Ginning presents a range of health and safety hazards, specifically, exposure to particulates (cotton dust), noise and machine safety (especially hands, musculoskeletal and eye injuries). Gin workers are particularly at risk of pulmonary diseases such as byssinosis. These risks are highest in those contexts where legal enforcement is weakest, the provision of PPE at no cost to workers is not the norm and where health and safety cultures – supported by information, consultation and training with workers – are less developed.

#### 3.1.3. Manufacturing

Child labour risks exist at the manufacturing stage, particularly when specific tasks are outsourced or subcontracted.

**Child labour**

Child labour risks in the cotton supply chain are also present at the manufacturing stage. Textile manufacturing appears frequently on the US Department of Labor List of Goods Produced by Child Labor or Forced Labor[27] This risk is particularly high when specific tasks are outsourced or subcontracted.

**Key resources on risk identification**

- US Department of Labor List of Goods Produced by Child Labor or Forced Labor
- Verité Commodity Atlas, Cotton
- Fairtrade Risk Map – Cotton
- Better Cotton's Global Forced Labour Risk Assessment Methodology

[14] See Streams and Verité (n.d.). [15] See US Department of State (2022). [16] US Department of Labor (2022).
[17] See Verité (n.d.). [18] See Streams and Verité (n.d.). [19] See US Department of Labor (2022). [20] See US Department of State (2021).
[21] See US Department of Agriculture Economic Research Service (2022). [22] See Streams and Verité (n.d.). [23] See Wielaard (2021).
[24] See FAIRR (2019). [25] See Ceres (n.d.). [26] See IDH (n.d.). [27] See US Department of Labor (2022).

### 3.2. Overview of potential risk identification actions

**Table 3. Potential actions to identify risk**

| Examples of foundational actions | Examples of intermediate actions | Examples of leading practice |
|---|---|---|
| Identifies and verifies supply-chain risks using self-assessment questionnaires for suppliers.<br><br>Overlays information on the location of production with environmental and/or social risk information that has a geographical component. | Conducts some risk assessment and prioritisation that informs cotton supply-chain risk management activities. | Conducts or commissions risk assessments to prioritise key countries and sourcing regions within the cotton supply chain. |

## 4. Risk mitigation

Effective risk mitigation for the cotton sector is likely to include participation in industry certification schemes and multi-stakeholder initiatives. Another key area is engaging with the root-cause drivers of the complex socioeconomic and environmental challenges (including rural poverty, indebtedness, informality and land-use arrangements) that underpin the key risk issues.

Specific risk mitigation actions should be based on the results of mapping and risk identification. Based on the overall risk profile for cotton, focus areas are likely to include child labour and forced labour risks related to cotton production.

**Table 4. Examples of foundational actions, intermediate actions and leading practice**

| | Examples of foundational actions | Examples of intermediate actions | Examples of leading practice |
|---|---|---|---|
| Cotton production – child labour and forced labour | Making a public commitment to tackling child labour and forced labour in cotton supply chains.<br><br>Developing specific approaches for high-risk sourcing countries. | Participating in a credible third-party cotton certification scheme that covers child labour and forced labour, for example: the Global Organic Textile Standard, the Better Cotton Initiative or Cotton Made in Africa. | Having a time-bound plan to increase the percentage of cotton sourced through a credible certification scheme.<br><br>Investing in projects that address the root causes of child labour and forced labour in cotton-growing areas. Potential focus areas may include living incomes and education. |

### 4.1. Certification schemes

Between 10.2 per cent and 11.4 per cent of cotton's cultivated land is certified by at least one scheme.[28] However, demand is not always well matched to supply: three-quarters of sustainable cotton is still sold as conventional cotton.[29] Farmers may end up selling the majority of their more sustainable production as conventional cotton due to a lack of demand. In some cases, this is associated with a price premium of 5 per cent to 20 per cent depending on factors such as market conditions, country of origin, arrangements between value-chain players and product quality.

The main standard-setting bodies in the cotton sector include the following:

Better Cotton is the most far-reaching cotton initiative and also serves as a certification scheme. About 22 per cent of global cotton production adheres to its sustainability criteria, though not all is certified as "Better Cotton". Better Cotton is grown in Australia, Benin, Burkina Faso, Brazil, Cameroon, China, Côte d'Ivoire, Egypt, Ghana, Greece, India, Israel, Kazakhstan, Madagascar, Mali, Mozambique, Nigeria, Pakistan, South Africa, Tajikistan, Tanzania, Türkiye, Uganda, the United States and Zambia. These Better Cotton bales are segregated and traceable from farm to gin through a chain-of-custody system with guidelines and requirements at each step. Better Cotton offers a mass balance option (which allows the combination of conventional and Better Cotton during processing), as well as a segregated option (which does not allow the combination or substitution of Better Cotton of different origins and conventional cotton of any origin).[30]

[28] See International Trade Centre, International Institute for Sustainable Development and Research Institute of Organic Agriculture (2022).
[29] See WWF, Solidaridad and Pesticide Action Network UK (n.d.). [30] See Better Cotton (n.d.).

This allows products to claim that a certain percentage of Better Cotton was used in the product's creation, but does not guarantee that individual items contain a specific percentage of Better Cotton material. Better Cotton also works to identify, prevent, mitigate and remediate child labour[31] and forced labour,[32] as outlined in its principles and criteria,[33] and is actively engaged in dialogue with stakeholders on these issues, including civil society organisations, retailers and brands, and expert organisations.

Cotton Made in Africa (CmiA) is another sustainability certification standard focused on improving the livelihoods of smallholder cotton farmers and working conditions in ginning factories in sub-Saharan Africa while reducing the environmental impact of cotton production. The standard applies to companies with direct links to farmers through at least one ginnery. CmiA cotton is grown under rain-fed conditions, using pesticides and fertilisers responsibly, and harvested by hand. CmiA's standard also prohibits all forced labour and child labour outside of a family context,[34] as well as any form of exploitative child labour or child labour that harms a child's health or development. Compliance is verified regularly. CmiA offers brands two sourcing options: the Hard Identity Preserved option, whereby the cotton is traceable to one country and kept segregated from conventional cotton throughout the supply chain, or the mass balance approach, which allows blending with conventional cotton at spinner level.

Fairtrade certification adheres to rigorous social, economic and environmental standards, including price guarantees, environmentally sustainable agricultural practices and non-discrimination requirements. It notably prohibits forced labour[35] and child labour[36] in its criteria. Fairtrade focuses on empowering small-scale farmers by collaborating with producer organisations in regions where government support for cotton farming is limited. While most Fairtrade Cotton is grown in India, partner organisations are also found in Mali, Cameroon, Burkina Faso and Senegal. Brands can source Fairtrade Cotton using either the segregated model for the entire supply chain or the mass balance approach.

### 4.2. Multi-stakeholder initiatives

Various cotton-industry multi-stakeholder initiatives focus on enhancing traceability to farm level. These initiatives encourage and educate companies on implementing supply-chain due-diligence measures. Examples include the aforementioned Fairtrade, Better Cotton, the Elevate Global Trace Protocol pilot programme and Verité's Streams Mid-Tier Gatekeeper Pilot and Cotton Chain of Custody Pilot.

The Cotton Campaign and Responsible Sourcing Network's Cotton Programme work to eradicate forced labour in Turkmenistan and Uzbekistan. The Cotton Campaign is an advocacy coalition comprising non-governmental organisation, government, investment, company and media partners. It reports on issues, facilitates stakeholder dialogue and makes recommendations to eliminate forced labour in cotton production.

The Sustainable Apparel Coalition is a global alliance of apparel, footwear and textile companies, as well as other stakeholders, which aims to enhance the environmental and social sustainability of its products and supply chains. It has developed the Higg Index, a suite of tools enabling companies to measure and assess the sustainability performance of its products, facilities and processes. Covering various sustainability aspects, such as environmental impact, social responsibility and product performance, the Index helps identify areas for improvement and track progress over time. This helps companies to reduce their environmental footprint and improve working conditions, for example. The coalition also conducts research, education and advocacy around sustainability in the apparel industry.

[31] See Better Cotton (2018). [32] See Better Cotton (2021). [33] See Better Cotton (2019).
[34] Cotton Made in Africa (n.d.). [35] See Fairtrade (n.d.a). [36] See Fairtrade (n.d.a).

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