

# MELA

# RISK ANALYSIS

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# MELA

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## 1. Introduction

The table below shows a comparison of different textile standards from a study by Hansen & Schaltegger in 2013. Both are among the leading researchers in sustainable business practices in Europe. Since the foundation of MELA in 2014, until today, this is one of the most comprehensive studies on textile standards that are relevant for cotton garments. Hence, it acts as a guiding principle for MELA in its product standards.

In this study, different standards are compared by ecological and social criteria along the entire textile supply chain. As shown in the table below, the Global Organic Textile Standard (GOTS) is one of the few standards covering the entire supply chain from fiber production to product use, including both social and ecological criteria. With the Fairtrade Cotton standard, we ensure that social criteria are adhered to in the cultivation of raw materials. Particular importance is attached to fair wages for cotton farmers.

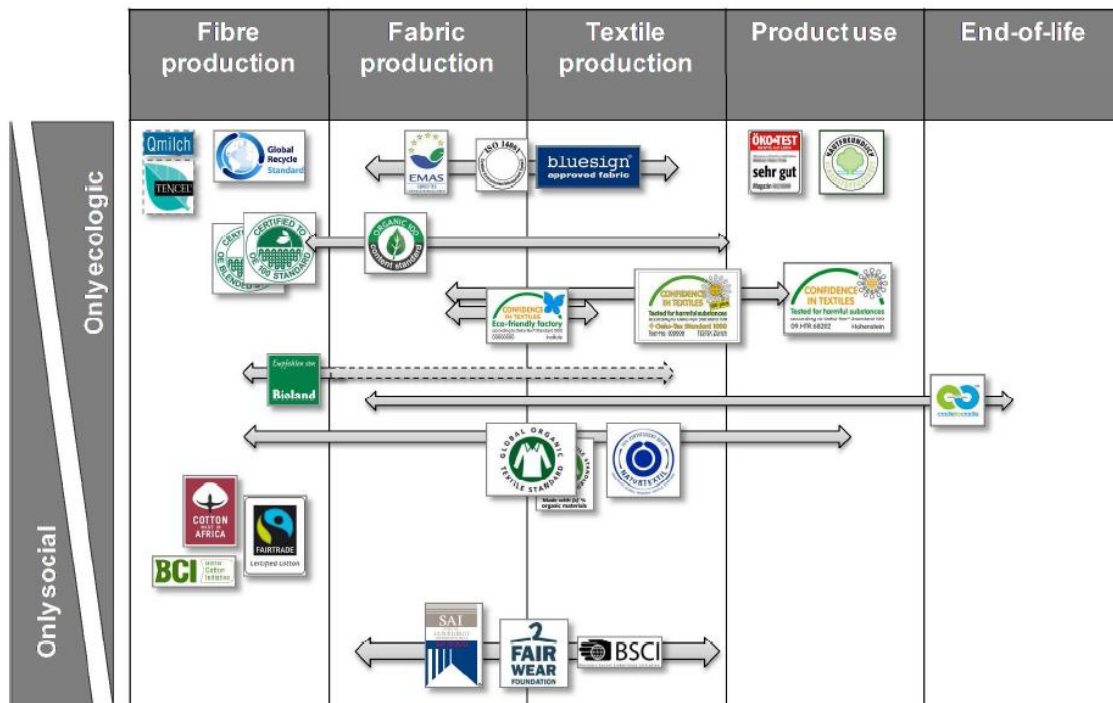


Figure 1: Comparison of standards by different criteria. Source: Hansen & Schaltegger 2013.

The table above shows that through certification of all MELA products with both GOTS and the Fairtrade Cotton standard, social and environmental aspects are monitored in our entire supply chains.

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MELA produces its textiles and backpacks in India, from the cultivation of organic cotton to the stitching of the final products. The organic and natural rubber used in the soles of our sneakers is grown in Sri Lanka. Hence, from the beginning of 2021 the production of our sneakers takes place in Sri Lanka, as MELA wants to add value in the country where the raw material has its origin.

For our textiles we have two collections per year and try to have at least 20% remaining styles in each collection. Our bags, backpacks, accessories, and shoes normally stay in our assortment for a longer time. This way we can focus our efforts on material health and the improvement of social standards. This is how we managed to be the first brand worldwide that produces backpacks and sneakers certified according to the Fairtrade Cotton standard and GOTS at the same time.

## 2. Risk Analysis

For our risk assessments, the CSR Risk Check for Cotton Textile Fibers in India and the CSR Risk Check for Footwear and Shoes in Sri Lanka<sup>1</sup> as well as the country study for India from the Fair Wear Foundation<sup>2</sup> was used.

In the following four tables potential risks within the MELA textile supply chain in India and within the footwear supply chain in Sri Lanka are shown. These risks are checked and updated on a regular basis. The focus is on the stages of Cut-Make-Trim (CMT) and the wet-processes for dyeing.

The risks listed in the tables below were identified by the CSR Risk Check. The tables show how social and environmental risks are mitigated through the implementation of both the GOTS and the Fairtrade Cotton standard. Furthermore, additional activities that MELA conducts to mitigate the identified risks are shown in the last column. The order of the risks is ranked according to the priority (highest first), as MELA evaluates them within the supply chain. Priority is assessed according to the severity of the risk and the likelihood of it occurring. The higher the likelihood of the risk occurring and the higher the severity, equates to a higher priority.

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<sup>1</sup> This tool is available on the website <https://www.mvorisicochecker.nl/en/risk-check> and was developed by MVO Nederland and funded by the Dutch Ministry of Foreign Affairs.

<sup>2</sup> The document is available on the website <https://www.fairwear.org/programmes/countries/india/>

Possible supply chain risks India Textiles (ranked by priority)			
Environmental	Preventive Actions		
	GOTS Version 6.0	Fairtrade Trader Standard	Additional Activities
1. Chemical management & usage	2.3. General requirements for chemical inputs in all processing stages 2.4. Specific requirements and test parameters	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	As per our policy and PO agreements, we test each and every production against multiple chemical parameters at a Swiss laboratory SGS in Chennai. This is voluntary and even done for repeat styles/supply-chains/fabrics and on the final products. The costs involved is around 3-4% of our total purchase volume.
2. Soil & (ground) water contamination	2.4.11. Wastewater treatment 2.4.10. Environmental management	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	As per our policy and PO agreements, we test PH parameters at a SGS in Chennai. Also, our partners have effluent treatment plants, where dyeing takes place. Garments or fabrics are pre-washed with pure water only at CMT stage. We selected CMT units with trees and plants on their campus, which shows the quality of earth.
3. Environment & waste (general)	2.4.11. Wastewater treatment	3.2.4. Management of environmental impacts	Waste is separated into different categories. Fabric/ cutting waste is collected and sold for 2-3 rupees / kg for further usage and production within India.
4. Water use & water availability	2.4.11. Wastewater treatment 2.4.10. Environmental management	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	As we are using organic cotton, which by nature requires much less water than conventional cotton. Furthermore, the cotton in our products comes from an Indian region called Madhya Pradesh where it rains a lot, hence plants must normally not be irrigated.
5. Biodiversity & Deforestation	2.3.1. GMO is prohibited	<i>regulated in the small producer standard</i>	Commitment to organic farming and support of Fairtrade farmers cooperatives who cultivate their land with different crops each and every year.
6. Climate & Energy	2.4.10. Environmental management	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List 3.2.4 Management of environmental impacts	All our CMT producers use renewable energy like solar panels to quite a significant amount. We encourage them to increase the same while growing their business. Operations run at CMT mainly during daytime and machines are mainly sewing machines with low energy consumption.
7. Air pollution	2.4.10. Environmental management	3.2.1 Compliance with environmental law	Most of the workers are locals and not migrant. Also, most of the workers come to work by bicycle, shared rickshaws or public transport. All our CMT producers use renewable energy like solar panels to quite a significant amount. We selected CMT units that have trees and plants on campus which produce O2.

Possible supply chain risks India Textiles (ranked by priority)			
Social	Preventive actions		
	GOTS Version 6.0	Fairtrade Trader Standard	Additional Activities
1. Labour conditions (contracts, working hours)	3.8. Working hours are not excessive 3.9. No precarious employment is provided	3.1.1 Fundamental ILO conventions apply	Even though we agree on delivery dates and penalties for delays, mela wear GmbH is flexible with their application. Hence, we quite often agree to delays without penalties. This way, we help the producers to avoid overtime for their workers. Even in the Covid pandemic in 2021-22, Melawear has stuck to orders and has been particularly understanding of delays in production due to a reduction of staff attendance.
2. Health & safety at work	3.6. Working conditions are safe and hygienic	3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	In 2021-22 we supported our partners at by offering trainings for hygiene against Covid-19 through an online course run by the Indo German Chamber of Commerce. Further, NAPP (Fairtrade Asia) was offering trainings on these topics for workers at Purecotz as part of the new Fairtrade Textile Standard during the same.
3. Wage & remuneration	3.7. Fair remuneration	3.1.1. Equal Remuneration Convention, 1951 (No. 100)	We are currently testing the new Fairtrade Textile Standard as pilot partner together with Purecotz. We pay 1% more against the FOB value in order to help Purecotz to go beyond the national minimum wage and towards a living wage, as per the Anker method used by Fairtrade for the new standard.
4. Discrimination & gender	3.5. No discrimination is practised	3.1.1. Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	Our backpack producer runs two factories, one of which is a women only factory to support women from the local area. Purecotz has committees in place to make sure gender equality is taken care of and women are in supervising
5. Freedom of association	3.3. Freedom of association and the right to collective bargaining are respected	3.1.1 Compliance with labour law and ILO conventions - Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)	When we visit our producers we attend/call for the labour committees at the factory and discuss with them new topics and exchange experiences and thoughts. Also, we are free to walk around in the factories (also alone) and talk to the tailors. Our Agent regularly visits factories and interacts with the people and updates us.
6. Corruption / Bribery	3.12. Ethical Business Behaviour	No information	All our producers have agreed in their multiple standards that bribery is forbidden. However, for us it's very difficult to control this as we are a very small partner for our producers.
7. Child labour	3.4. Child labour must not be used	3.1.1 Worst Forms of Child Labour Convention, 1999 (No. 182)	All our producers have announced and unannounced audits for multiple standards that all forbid child labor.
8. Forced labour & human trafficking	3.9. No precarious employment is provided 3.10. Harsh or inhumane treatment is prohibited 3.11. Social Compliance Management is needed	3.1.1 Forced Labour Convention, 1930 (No. 29)	All our producers have announced and unannounced audits for multiple standards that all forbid forced labour.

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Possible supply chain risks Sri Lanka footwear and shoes (ranked by priority)			
Environmental	Preventive Actions		
	GOTS Version 6.0	Fairtrade Trader Standard	Additional Activities
1. Chemical management & usage	2.3. General requirements for chemical inputs in all processing stages 2.4. Specific requirements and test parameters	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	As per our policy and PO agreements, we test each and every production against multiple chemical parameters at a Swiss laboratory SGS in Chennai. This is voluntary and even done for repeat styles/supply-chains/fabrics and on the final products. The costs involved is around 3-4% of our total purchase volume.
2. Soil & (ground) water contamination	2.4.11. Wastewater treatment 2.4.10. Environmental management	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	As per our policy and PO agreements, we test PH parameters at SGS in Chennai. Also, our partners have effluent treatment plants, where dyeing takes place. Garments or fabrics are pre-washed with pure water only at CMT stage. We selected CMT units with trees and plants on their campus, which shows the quality of earth.
3. Environment & waste (general)	2.4.11. Wastewater treatment	3.2.4. Management of environmental impacts	Through our GIZ PPP (private public partnership) project we offer organic home gardens to the rubber tappers working in our supply chain. They are trained in organic/wet waste handling and organic growing techniques to protect the environment.
4. Biodiversity & deforestation	2.3.1. GMO is prohibited	<i>(regulated in the small producer standard)</i>	One of the major goals of our GIZ PPP project is to increase the conversion of land from conventional to organic rubber farming. The goal is measured in ha of land converted into organic.
5. Climate & energy	2.4.10. Environmental management	3.2.1 Compliance with environmental law 3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List 3.2.4 Management of environmental impacts	

Possible supply chain risks Sri Lanka footwear and shoes (ranked by priority)			
Social	Preventive actions		
	GOTS Version 6.0	Fairtrade Trader Standard	Additional Activities
1. Health & safety at work	3.6. Working conditions are safe and hygienic	3.2.2 Hazardous Materials List (HML) 3.2.3 Use of materials in the Orange List	We test input materials for our sneakers before we select them for production. Especially the adhesives in the conventional shoe industry are solvent based and toxic chemicals, therefore we use water based adhesives. Instead of the normally used mesh or polyester upper, we use organic cotton uppers which are also better for the health of the workers. The factory follows the governmental Covid-19 regulations.
2. Labour conditions (contracts, working hours)	3.8. Working hours are not excessive 3.9. No precarious employment is provided	3.1.1 Fundamental ILO conventions apply	Even though we agree on delivery dates and penalties for delays, mela wear GmbH is flexible with their application. Hence, we quite often agree to delays without penalties. This way, we help the producers to avoid overtime for their workers due to delivery dates. Our shoe manufacturer is a big company with a well organized HR department.
3. Freedom of association	3.3. Freedom of association and the right to collective bargaining are respected	3.1.1 Compliance with labour law and ILO conventions - Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)	We are free to walk around in the factories and talk to the workers. Our Agent regularly visits factories and interacts with the people and updates us.
4. Corruption / Bribery	3.12. Ethical Business Behaviour	No information	All our producers have agreed in their multiple standards that bribery is forbidden. However, for us it's very difficult to control this as we are a very small partner for our producers.
5. Discrimination & gender	3.5. No discrimination is practised	3.1.1. Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	Our shoe manufacturer is located in Galle, in the south of Sri Lanka. The main conflict of the country between the Tamil and Sinhalese population is in the north. Our factory offers jobs for both ethnicities and has anti-discrimination policies in place.
6. Wage & remuneration	3.7. Fair remuneration	3.1.1. Equal Remuneration Convention, 1951 (No. 100)	In general Sri Lanka has higher salaries than India and its economic progress is getting better each year. Wages are benefitting from this. Our shoe manufacturer is one of the biggest companies in Sri Lanka and is also known for being one of the best places to work (own survey and feedback from GIZ Sri Lanka).
7. Child labour	3.4. Child labour must not be used	3.1.1 Worst Forms of Child Labour Convention, 1999 (No. 182)	All our producers have announced and unannounced audits for multiple standards that all forbid child labor.



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## 2.1. Vulnerable stakeholder groups

Vulnerable stakeholder groups that might be affected by our operations have been identified for the country of India, since this is MELA's main production country. For the identification the recommendations of the OECD, the CSR Risk Check for Cotton Textile Fibers in India and the country study for India from the Fair Wear Foundation was used. As most vulnerable stakeholder the following groups have been identified: women, ethnic, religious and caste minorities, international and domestic migrant workers, indigenous people, home-based workers, and community members. We commit to consider their needs in the implementation of our own due diligence processes where possible, by prioritizing and developing measures which take their interests into account. With the help of the Fairtrade Cotton and the Fairtrade Textile Standard we are able to rely on a systematic approach to consider the needs of vulnerable stakeholders in our supply chains.

## 2.2. Procurement Practices

MELA carefully selects its producers in India and Sri Lanka according to the highest sustainability standards in the organic cotton textile industry and limits the number of producers to a minimum.

To find our first producer, Purecotz Eco Lifestyles Pvt Ltd. in India, a MELA delegation selected more than 20 GOTS and Fairtrade Cotton certified producers and visited all factories personally within a trip of four weeks. Following these visits, MELA selected Purecotz Eco Lifestyles Pvt Ltd as the most sustainable textile producer, by using a complex decision matrix covering multiple aspects of sustainability. The experience and knowledge gained through the selection process helped MELA later to find its backpack supplier. In 2021 and 2022 MELA selected three further garment producers to minimize supply chain risks associated with producing all garments with just one factory in India, especially as the textile collections are becoming bigger and more complex. The new factories were visited during supply chain tours in 2021 and 2022 and were selected due to their high social and environmental engagement.

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## 2.3. Method to minimize risks

MELA personally handles its entire sourcing with its first-tier suppliers in India and Sri Lanka. This helps to minimize risks in the supply chain. Additionally, MELA only designs products, where the main material is made from Fairtrade and organic cotton. This way it becomes much easier to control the supply chain in general.

For any order that MELA places, a purchase order (PO) agreement is made and signed by both of the parties. The PO agreement contains clear instructions, that the products must meet the GOTS and Fairtrade Cotton standard rules. Additionally, the PO agreement makes it mandatory, that the supplier must guarantee and hand over all relevant information about the product and its supply chain prior to any shipment. This information includes:

- Fairtrade Supply Chain listing from cotton field to final product with valid FLO IDs
- GOTS accessory list with all ingredients used
- GOTS test reports from SGS lab for bulk fabric and final products
- GOTS transaction certificate
- GOTS and Fairtrade Cotton certificate (once a year)

Additionally, MELA must inform Fairtrade Germany about any new supply chain or product purchased in India and sold worldwide. Through the online database of Fairtrade Connect, data is collected, checked, and approved by Fairtrade authorities. In case, any of the suppliers from the selected supply chain has not passed the Fairtrade Cotton audit or lost its certification, the issue would appear, and the product cannot be bought or sold under the Fairtrade Cotton standard.

Every year, both our suppliers and MELA itself get audited by an independent party of the GOTS. An in-depth audit checks all activities related to materials used and the tests conducted, as well as product labelling. Any misuses or non-compliance would lead to a loss of the valid GOTS certificate.

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## **2.4. Possible long-term risks**

Even though MELA is growing in terms of order volume, our share at our producers remains relatively small for them. It's important for us to keep sharing our knowledge and our high sustainability ambitions to stay attractive to our producers. The recent steep increase in cotton prices and the availability of organic certified cotton in India is an overall risk for MELA's current business model.

## **2.5. Grievance mechanisms**

Grievance mechanisms play a central role in strengthening human rights, environmental protection, and integrity in textile supply chains. Effective mechanisms are a fundamental part of identifying problems and giving people the opportunity to communicate their concerns. Therefore, we have implemented a complaint mechanism on our website that is easily accessible for everyone in the dropdown menu of our website. For the procedure of complaints, we have developed a process chart that shows the precise process after receiving a complaint as well as the responsible staff and the timelines. We are committed to protect complainants from retaliation. The MELA management contacts the supplier's management related to the complaint and discusses the issue anonymously to explore if an immediate solution is possible.

## **2.6. Commitment towards living wages**

We are seeing remuneration and wages as one of the most urgent topics in our supply chain. This is why we are a pilot partner of the new Fairtrade Textile Standard as together with our garment supplier Purecotz. We pay 1% more against the FOB value in order to help Purecotz go beyond the national minimum wage and move towards a living wage, as per the Anker method used by Fairtrade for the new standard.

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