



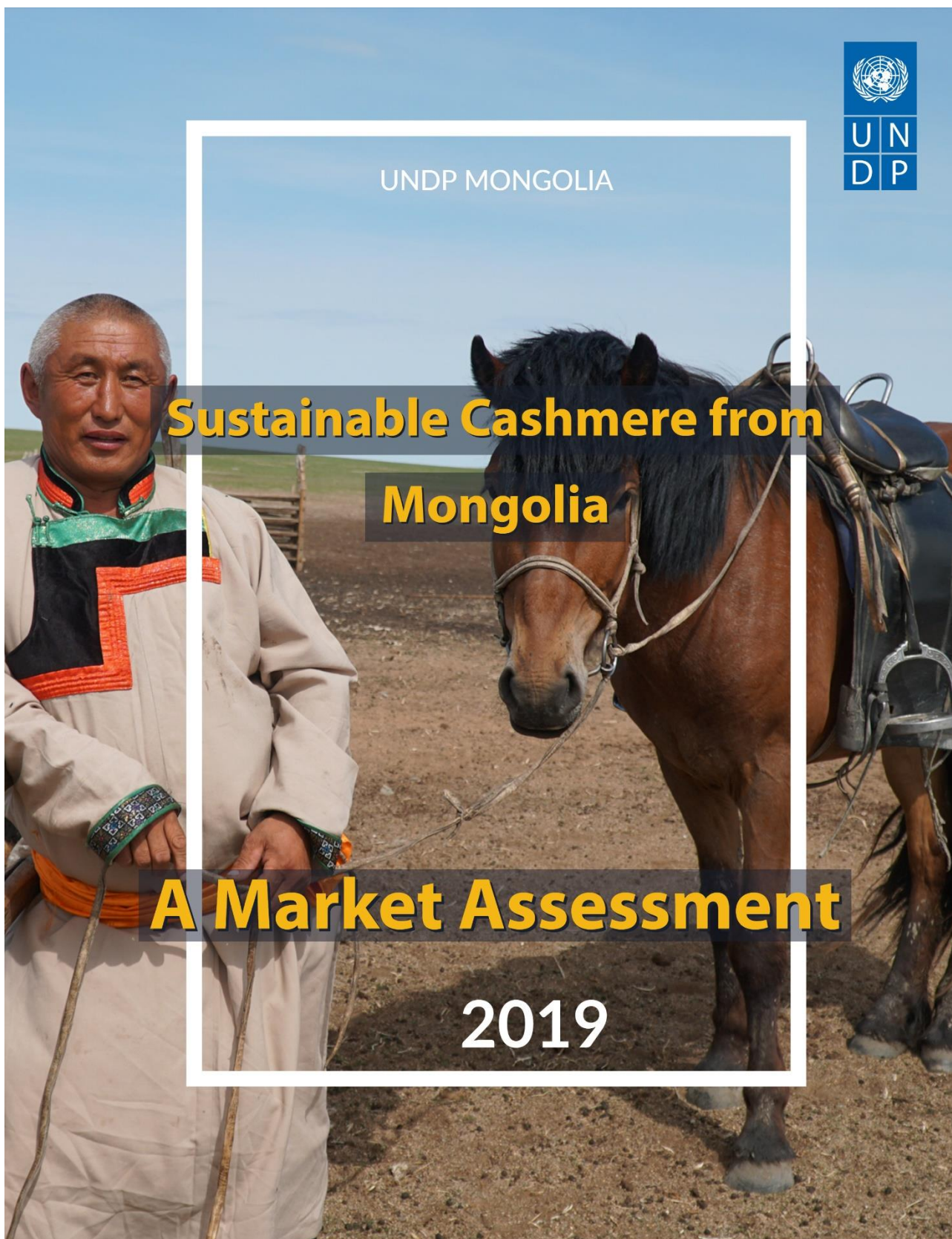
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UNDP MONGOLIA

Sustainable Cashmere from Mongolia

A Market Assessment

2019



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Disclaimers

The views expressed in this report are those of the authors and do not necessarily represent those of the institutions with which they are affiliated including UNDP and the apparel firms interviewed for this study.

I. Executive summary

Companies are increasingly recognising that 'business as usual' needs to consider sustainability in sourcing practices, especially of naturally derived materials and ingredients. The fashion industry is no different. Although emphasis has been placed on labour rights and ethical trade issues for many years, we have seen concerted efforts to start looking beyond the factory gate to origins of the fibres used in garment and accessory production. Cotton was one of the first materials to be tackled and has led the way in showing how multi stakeholder efforts can bring about sector change. But that was not enough. Campaigns and concerns about the security of supply have forced companies to look at their wider portfolio of natural and animal derived fibres and put in place plans to tackle issues such as animal welfare, child labour and pesticide use.

Cashmere has long been a byword for luxury. This ancient fibre still commands recognition as a 'noble fibre'. But the demand for natural fibres and more accessible 'lux' products has resulted in unprecedented increase in demand for this fibre. This has already resulted in a rapid expansion of herds in Mongolia, the world's second largest producer of cashmere wool. There is an increasing awareness that the rising demand is causing significant environmental degradation. As was the case with other fibres when the industry started examining the sustainability issues, no single commonly-agreed standard exists to help guide herders, producers, traders, buyers or brands on the social, environmental or economic impacts of cashmere production.

Recognising that market demand and purchasing practices are a key part of the puzzle, UNDP Mongolia commissioned this report to assess market interest in sustainability for cashmere sourcing from the country. Using information from interviews with key actors in the sector, the report looks at overall trends in cashmere purchasing, sourcing requirements for quality and sustainability, and appetite for investment in the development of sustainable cashmere. The findings show us that there is broad recognition of the environmental and social impacts such as overgrazing by goats, loss of biodiversity, and incomes for herders. There is also an acknowledgment that currently there are a range of scattered initiatives all aiming to tackle some of the issues and to set up working models for sustainably produced cashmere wool. But the sector still lacks a harmonised vision of what 'sustainable cashmere production' should be and how to achieve it. The complexity of the supply chain, with poor traceability to herder amongst other factors, makes this all the more challenging. However, the appetite for engagement is present across the board, from high end to mass market, with universal desire expressed to find a way to improve the production of this vital fibre as long as quality and price are not negatively impacted.

II. Background

UNDP Mongolia is leading a programme to attract private sector investment into livestock commodity sectors into the country and is aiming to create a blueprint for ecologically sustainable and socially inclusive business models in the cashmere sector. It is widely recognised that the key barrier is the lack of consensus on a commonly agreed standard that can define and guide production of cashmere in an environmentally sustainable and socially inclusive manner. While there are a range of interventions and projects working with herders in Mongolia, they use different approaches and ways of measuring impact. This makes it difficult for buyers and brands to have clarity and confidence on what is the best approach to follow to ensure that sourcing of cashmere is meeting their sustainability requirements.

To ensure UNDP's work takes into account the market demands, it has interviewed key buyers and users of cashmere (focusing on users of Mongolian sourced wool) to help consolidate what their requirements and needs are from the demand side for sustainably sourced cashmere. This will complement and feed into other strands of work under the wider project including the supply side comparative analysis of the existing standards and projects focusing on Mongolian cashmere.

Nearly twenty individuals were consulted from companies involved across the cashmere supply chain including luxury high end brands, medium/mass market brands, and suppliers of fibre and finished goods. It should be noted that for some companies, cashmere is central to their business or an iconic fibre core to their brand, while for others it is one of hundreds of materials used. This is reflected at times by the resource and importance placed on understanding and engaging with their cashmere supply chain. All companies interviewed are based in Europe, the US or Mongolia. During the research period, we were unsuccessful in reaching Asian brands (especially Japan and China). All findings need to be seen in light of this limitation. As engagement with buyers from these countries continues, their views can be incorporated into this report.

This report will not examine in detail the sustainability challenges of Mongolian cashmere since they are well documented elsewhere.¹ But it is important to report the issues as it is a start towards identifying common concerns. The report will present the buyers interest and needs for sustainability, their views on the future demand from customers for sustainable cashmere, and the best approach to developing and funding future work.

III. Market demand

1. Overall demand for cashmere

The global demand for cashmere has been growing steadily across all sectors of the market, especially in Europe where Italy and the UK are the main importers from China and Mongolia. In 2016, these two countries represented over 97% of the European consumption volume.² The global cashmere clothing market is valued at US\$2,580 million in 2018 and will reach US\$3,500 million by the end of 2025, a steady yearly growth of 3.9%.³ Most respondents noted a steady increase in demand for luxury products over past few years and for the future, especially with increasing sales in accessory items using cashmere (e.g. scarves) which are more profitable for companies as well as being a more accessible entry point for customers. However, the majority of the recent increase in demand is to meet mass market fast fashion demand for low grade volume and not so much for the quality fibre required by the higher end segments of the market. This is giving rise to concerns for companies at the higher end of the market that supply of quality cashmere is under threat.⁴

Not all companies interviewed currently use cashmere from Mongolia. But for those that do, between 25-50% of their total raw wool used is known to come from Mongolia. A few

¹ For example, see a report "National Report on The Rangeland Health in Mongolia". Densambu, et al. 2018. http://greenmongolia.mn/upload/news_files/ee55b0b158c70450d3a2ac13ee10c3e7.pdf

² Reuters. 2019. <https://www.reuters.com/brandfeatures/venture-capital/article?id=82033>

³ Market Watch. 2019. <https://www.marketwatch.com/press-release/cashmere-clothing-market-2019-global-analysis-opportunities-and-forecast-to-2024-2019-02-18>

⁴ See an article in The Business of Fashion for a quote from Pier Luigi at Loro Piana "...a potential risk for the whole industry is the quantity approach: quantity seems to be overtaking quality."
<https://www.businessoffashion.com/articles/intelligence/solving-the-cashmere-crisis>

respondents commented that due to poor traceability systems only giving visibility to the processing facility, and given that most processing happens in China, it is not always known where the raw fibre comes from. One estimate was that up to 90% of Mongolian cashmere ends up being sold as Chinese.

Cashmere from China (Inner Mongolia) accounts for the majority of volume used globally and is the main competitor to Mongolia in terms of quality, volumes and prices. Their dominance also dictates prices across the value chain for all cashmere products from herder to fibre globally but especially in Mongolia. Chinese traders are extremely active in Mongolia, buying wool directly from herders and benefiting from production and export incentives that European buyers don't have. Afghanistan and Iran also provide small volumes to a couple of the companies interviewed.

2. Considerations for purchase of cashmere

Quality is a fundamental requirement for purchase. Considerations of origin, sustainability and social impacts are in effect secondary to quality. Purchases will only be made of the right grade and specification required by the buyer and ultimately their clients and customers. This will include colour (white is preferable as more versatile), micron measurement of the fibre, length and size. All respondents from across the spectrum of companies were clear that this is the first critical requirement for purchase. The actual quality specifications are stricter for the higher end of the market. Mongolian cashmere is already limited in growth potential as the colour tends to be grey, brown and beige. Chinese cashmere comes mostly from goats that are reared on managed farms with better breeding stock, resulting in whiter wool with longer fibres considered to be more versatile and of good quality. There is some scope for blending fibres and increasing the volume used of Mongolian cashmere. But there will not be a wholesale shift even if sustainability assurances are in place.

We see a division between the high end and middle to mass brands on price sensitivity. Global prices for cashmere are driven by Chinese supply and demand: when prices go down there is an uptake in use by brands with a lower price point for manufactured goods, mostly of lower grade quality. However, once prices go up again as with the current market, this segment of demand will drop. As a result, we see fluctuations in demand driven by price at the lower end of the market. The cheaper cashmere is usually of Chinese origin. There were differing views on whether being able to demonstrate sustainably sourced cashmere would command a higher price and if premiums could be charged. For higher end, quality is paramount with more ability to absorb market price increases.

Where the fibre is core to business and brand, there will be longer term commitments and supply chain relationships with some ability to absorb price increases. Both diminish at mass market level where contracts by brands and their suppliers will be influenced by the price and by fashion trends. Here, suppliers are taking substantial risks to buy when the season starts at the market price. But orders will be placed months later. It is not known what the buyers will accept for price. Difficulty in predicting trends and demands, coupled with the increasing shift to short lead times, is putting more pressure on suppliers. Brands usually do not buy wool, fibre or yarn directly (except e.g. Loro Piana) but buy finished goods from a supplier, dictating the end specification of the quality of the fibres and yarns used. Within a company the raw materials teams, not the sustainability teams, will own the relationships with the cashmere suppliers and make purchasing decisions. The sustainability teams work in a supportive role and help provide tools and advice.

3. Buyer sustainability requirements

Most interviewees mentioned several reasons why they were already engaged in or considering engaging in the sustainability issues in cashmere supply. Some companies see sustainable sourcing as a core issue to their business and would like to be leaders in the field even if the majority of the market is still not requiring it. Components of company sustainable sourcing policies include labour rights, environmental impact and traceability.⁵ Some companies have set targets for materials that are strategic or high risk.

Many of the larger companies (e.g. LVMH, Kering, H&M, Fast Retailing) are part of international initiatives such as the Global Compact and the Carbon Disclosure Project.^{6,7} Therefore, they report on issues related to labour rights, water use, climate and forests. There are some requirements for reporting and compliance on these passed down the supply chain. For example, water use in both processing and at field and farm level has been a concern for some time with some bold initiatives looking to reduce the negative impacts across the supply chain.⁸

Traceability is the bedrock of all sustainability initiatives and most companies now have targets set for ensuring this across their supply chains. For example, H&M Group aims for 100% recycled or other sustainably sourced materials by 2030.⁹ Consumers are also increasingly asking about the provenance of goods they buy. This will be slightly easier for suppliers who are focused on one material than for a brand with multiple sub brands and hundreds of individual garment lines, each with multiple parts and fibres. Here, most companies have undertaken a risk analysis and prioritised specific materials such as leather, wool and cotton, taking a step-wise approach to ensure traceability and tackle sustainability issues.

Labour rights have been at the forefront of sustainability concerns in the fashion industry for many years and still form a central component of company requirements and codes of ethics.¹⁰ Supply chains need to ensure decent working conditions, fair wages and good treatment of workers.^{11,12} Although focus has been on tier one suppliers, companies are increasingly requiring that labour rights are upheld further down the supply chain to include raw material production, for example in cotton production.¹³ A couple of companies are going beyond looking at achieving basic labour rights and considering an improved share of value along the supply chain.

Use of chemicals is also a core area of sustainability. Companies are looking at use of chemicals in the growing and processing stages of production. NGO campaigns on

⁵ For example, see C&A website. <http://sustainability.c-and-a.com/sustainable-supply/>

⁶ See UN Global Compact homepage. <https://www.unglobalcompact.org>

⁷ See CDP homepage. <https://www.cdp.net/en>

⁸ For example, see H&M website. <https://hmgroupp.com/media/news/general-news-2019/Climate-crisis-requires-fashion-industry-transform.html>

⁹ See H&M website as listed above.

¹⁰ For example, see Kering's statement. https://keringcorporate.dam.kering.com/m/3ad5699224c09177/original/Modern-slavery_EN.pdf

¹¹ For example, see H&M website. <https://hmgroupp.com/media/news/general-news-2018/hm-group-fair-living-wage-summit.html>

¹² The basis used by most companies is the Ethical Trading Initiative Base Code. <https://www.ethicaltrade.org/eti-base-code>

¹³ See Better Cotton Initiative (BCI) website. <https://bettercotton.org/better-cotton-standard-system/>

detoxing of the fashion industry have led to a focus on monitoring and improving chemical use at processing (for cashmere this includes the degreasing and scouring phases).¹⁴ There are stringent tests and documentation required by many companies to ensure that they are meeting international environmental and safety standards and that all fibres have to be tested before use. Some suppliers require pre shipment samples and test results that show compliance. Others are going beyond this and have set targets to reduce use of chemicals. For example, Burberry aims to eliminate the use of all chemicals that may have a negative environmental impact by 2020.¹⁵

After cotton, animal fibres are the natural materials that have been highlighted as ones of concern from a sustainable sourcing and reputational risk perspective, especially with regards to animal welfare, an issue that is emotive and of concern for many consumers. Several high profile campaigns and constant pressure by activist NGOs, such as People for the Ethical Treatment of Animals (PETA), have alerted companies and consumers to the abuses present in supply chains for animal derived materials such as angora, mohair, fur, wool, exotic skins, leather and down.¹⁶ The response has been varied: some companies have moved to ban use of fur and exotic skins due to difficulties in securing a responsible source while others try to engage in tackling the issues, for example tracing all down used to farm level.¹⁷ Most companies now have internal animal welfare policies to which suppliers must adhere. Some are part of Business for Social Responsibility's (BSR) Sustainable Luxury Initiative that developed sourcing principles for members to use.¹⁸ These apply throughout the supply chain, including the catching, maintaining, breeding, raising, transporting, handling, and slaughtering of live animals. The principles include both wild-caught and farmed animals in their scope.

Although there is a growing interest by consumers on issues around sustainability, the ethical consumer is still a small percentage of the overall market. Some companies reported that they received a few enquiries about sustainability (mostly focusing on animal welfare, leather and exotic skins). This trend is growing. But it is still limited to the higher end luxury brands where it is suggested that customers expect them to already be sustainable. It is worth noting that consumer demand is influenced by wider trends in fashion and negative campaigns, for example on animal welfare, which will have an impact on demand. Most of the increase in demand for sustainability is coming from the US and Europe with low interest from Asian consumers since for many it is still a new concept. There have been some enquiries from fibre and fabric supply companies regarding the availability of organic fibres (including cashmere) due to consumer interest.

4. Sustainability and cashmere

Regarding cashmere sourcing, as it is a core fibre for many luxury companies, it is being looked at in great detail but not across the board.¹⁹ For others, cashmere is just one of hundreds of materials and fibres that need to be managed in relation to sustainability. For some, it does not currently feature on the 'active engagement' list as the focus is on more

¹⁴ For example, see Green Peace website. <https://www.greenpeace.org/international/act/detox/>

¹⁵ Burberry website. <https://www.burberryplc.com/content/burberry/corporate/en/responsibility/policies-and-commitments/environment/chemical-management.html>

¹⁶ See PETA website. <https://www.peta.org.uk/issues/animals-not-wear/>

¹⁷ Women's Wear Daily. 2018. <https://wwd.com/fashion-news/fashion-scoops/chanel-to-halt-use-of-exotic-skins-1202920043/>

¹⁸ See Business for Social Responsibility (BSR) website. 2016. https://www.bsr.org/files/work/SLWG_Animal_Sourcing_Principles.pdf

¹⁹ For example, see Burberry website. <https://www.burberryplc.com/en/responsibility/creating-tomorrow-s-heritage.html>

strategic or risky materials. It is critical to note that quality is the one fundamental supply chain requirement that must be met before sustainability is considered. If the specification does not meet the quality required, there will be no purchase even with robust sustainability assurances in place.

Over the past five years, there has been a rise in demand for sustainable cashmere, mostly driven by movements in other fibres, increased engagement in understanding and managing the sustainability impact of the fashion industry, and concerns about campaigns from animal rights groups around the use of animal fibres. Demand for sustainable cashmere is driven by a range of motivations: risk reduction, customer demand, supply chain security and brand purpose to name a few. However, concerns about the difficulties in ensuring a sustainable supply have led to some companies choosing to opt out of using virgin cashmere fibre.²⁰ There is also a growing trend to use recycled materials. Although recycled cashmere cannot compare in quality terms with virgin wool, it has an appeal for companies wanting a lower price point and the added marketing claims.

Companies interviewed span a wide range of knowledge on sustainability issues in the global cashmere supply chains. There are some who have been working on cashmere for many years and engaged in the sustainability challenges of sourcing this fibre. Others who prioritised efforts on other fibres first are now turning their attention to cashmere. But they are just starting to understand the complexities involved. In some cases, companies are dependent on their suppliers to advise and work on the issues while others have invested resources to ensure a deeper engagement all the way to herder level. Where there are long term and strong relationships of companies across the supply chain from herder to brand, it has helped join forces and resources, develop a common approach, and collaborate in assessment, intervention and monitoring.

The main sustainability concern mentioned by all respondents focused on animal welfare. A lack of traceability is making it difficult for companies to have a good assessment of exactly what aspects would need to be tackled for fibers from Chinese farms and Mongolian herders. PETA is bringing visibility to the stress goats face in the shearing process although there has not yet been a dedicated campaign on cashmere as there was on angora and merino wool.²¹

Environmental concerns were also identified for cashmere supply chains from both main origins.²² Although goats in China are mostly kept on farms, where grazing is better managed, there are some negative impacts on biodiversity of fencing off large tracts of land and reduced fertilisation from goat manure on pasturelands. In Mongolia, the main concern is around degradation of the pastureland from the rapid increase in goat herd numbers and resulting desertification.²³ Some are aware of the impacts on biodiversity loss and climate change.

Surprisingly, very few respondents mentioned the social element of sustainability. Those with deeper knowledge are aware of the issues facing herders and the concerns around viable livelihoods, drift to the cities, young people not being interested in continuing the

²⁰ For example, see H&M website. <https://hmgroup.com/sustainability/Planet/animal-welfare.html>

²¹ See PETA website. <https://investigations.peta.org/cashmere-cruelty-china-mongolia/>

²² Natural Resources Defense Council. 2011. https://www.nrdc.org/sites/default/files/CBD_FiberFacts_Cashmere.pdf

²³ The causes of desertification are multifold including irresponsible and illegal mining and timbering, increasing herd size and climate change. For example, see a report on "Mongolia Second Assessment Report on Climate Change 2014" <http://www.jcm-mongolia.com/wp-content/uploads/2015/10/MARCC-Final-Bk-2014-book-Ist.9.17-ilovepdf-compressed.pdf>

herding traditions, loss of knowledge of herding skills, exploitation of herders by middlemen, and child labour. Again, due to poor traceability, it has not been possible to obtain an accurate picture of the social impacts and what needs to be addressed in Mongolia (or China).

5. Demand for sustainable cashmere from Mongolia

All respondents are broadly familiar with sustainability issues in Mongolian cashmere with varying degrees of knowledge depending on the company's position in the supply chain, brand values and sourcing approach even if they currently do not source from the country. There is a widespread recognition that the surge in demand for cashmere has led to a push for this sector by the government and resulted in a significant increase in goats in Mongolia (one estimate was that it has gone up from 7 to 27 million over the last two decades).²⁴ Scattered nomadic herders and purchases via traders and middlemen makes traceability, assessment and monitoring of social and environmental aspects difficult, leading some to question if it is even possible to achieve sustainable sourcing for cashmere from Mongolia.

As noted before, the lower quality (and colour) of Mongolian cashmere will limit the demand for cashmere from Mongolia. Chinese sourced cashmere will still be an important part of purchase volumes. However, many buyers are committed to sourcing from Mongolia and working to help identify and resolve the complex issues and see Mongolia as being an easier origin to engage with on sustainability than China. In addition to the global sector issues identified above, companies interviewed had some further insights on specific issues they are working on or would like to see addressed in Mongolia.

Improvements in herding practices to make it more sustainable and regenerative would be one priority as the evidence is showing extreme degradation. Lack of land tenure or collective management of grasslands and nomadic herding practices makes it difficult to work with herders on good practices although there are some examples.²⁵ Use of satellite data for monitoring of land degradation has been a useful tool. But there are concerns over the costs of obtaining the data. Quality of the herd stock has been declining while breeding programmes are difficult and need many years before any results can be seen.

Processing in Mongolia is also seen as a limiting factor as it is not yet up to meeting the capacity or quality needed by European markets, especially at the high end. The few (and reducing) number of local dehairing plants have poor and unreliable infrastructure. Their costs are higher than Chinese ones. As a result, a lot of wool is exported to China for processing.

For some companies, a switch to Mongolian sourced cashmere would be done if it can be marketed as a higher quality product where quality comes from the traceability and ability to show provenance. The good story telling potential of Mongolia can help market and lever price rise. This can be done only if traceability and positive impacts are demonstrated. For others that are not reliant on quality cashmere (mostly the mass market

²⁴ For accurate figures, see statistics of National Statistical Office of Mongolia.
http://1212.mn/tables.aspx?tbl_id=DT_NSO_1001_021V1&BAG_select_all=0&BAGSingleSelect=_0&TYPE_OF_LIVESTOCK_select_all=0&TYPE_OF_LIVESTOCKSingleSelect=_0104&YearY_select_all=0&YearYSingleSelect=&viewtype=linechart

²⁵ For example, see Green Gold Animal Health Project website.
<https://www.eda.admin.ch/countries/mongolia/en/home/international-cooperation/projects.html/content/dezaproyects/SDC/en/2015/7F09484/phase1?oldPagePath=/content/countries/mongolia/en/home/internationale-zusammenarbeit/projekte.html>

brands) if they are unable to source virgin cashmere that will meet their corporate targets for traceability and sustainability, they will switch to using recycled cashmere or alternatives such as yak wool.

IV. Sustainability standards

Companies have said that a standard would be a useful tool to help set targets and develop internal sourcing guidelines. Having a common standard across the sector is important so that all will have the same understanding and consumers will not be confused by different definitions. Interviewees identified several key issues they wanted to see addressed in any future sustainable cashmere standard including process, such as establishing a joint definition of sustainability and robust metrics and following ISEAL principles, and content including animal welfare, fair pricing, good herding practices and environmental aspects spanning biodiversity protection and pastureland management. Respondents recognised that changes need time since they will need to consider the timelines for various levels of planning including internal changes to sourcing policies and procedures and on-the-ground changes to practices and setting up new processes. All of these take time. These time lags have to be factored into the development of any action plans and targets.

There were mixed responses to whether having a certification scheme would be helpful. It can help meet external stakeholder and consumer scrutiny by having an independently audited and verified scheme that shows companies are doing what they claim and may justify a higher price. But the concern is that, in many cases, it can lead to extra admin and workload to manage these, which creates a disincentive internally. Sourcing teams in companies already have many requirements, policies and codes to check. Therefore, any new ones should fit in as much as possible and not create additional burden.

Most companies have been part of collaborative processes to establish sustainability standards for some of their key materials, for example working with Textile Exchange to set up the Responsible Down and the Responsible Wool Standards (RWS).^{26,27} The process of setting up the RWS was cited by a few respondents as a good example of collaboration in a pre-competitive space to develop and adopt a standard and use it to make improvements in their business. Membership gives participants the opportunity to join the debates, learn about the issues, influence the standard development and be able to make more informed decisions due to increased exposure and understanding of the issues. Having representation from across the sector, especially the brands, is crucial to drive workable solutions. It is also important to involve local government, civil society, herder groups and trade bodies. As textile supply chains are very long and complex, a trusted body is needed to lead and facilitate the process. This body needs to be good at facilitation and engaging a wide range of stakeholders. Some felt that having brand leadership of stakeholder collaboration is vital but it is not being done at the moment. Government involvement is also crucial, given the nature of some of the issues that need to be addressed, such as climate change impacts on pasturelands.

For cashmere, nearly all buyers interviewed are working with the Sustainable Fibre Alliance (SFA) to help develop sustainability codes of practice for Mongolian cashmere, focusing on the better management of pasturelands, herder livelihoods and animal

²⁶ Textile Exchange. See Responsible Down Standard homepage. <https://responsibledown.org>

²⁷ Textile Exchange. See Responsible Wool Standard homepage. <https://responsiblewool.org>

welfare.²⁸ Many see SFA as being the organisation most active in Mongolia on sustainability with a clear message and work streams for cashmere, a good local team, and moving quickly to get work going. Its work has involved good cross industry collaboration and input from many stakeholders including experts on key issues such as animal welfare and land management. The work has resulted in the development and piloting of Codes of Practice in 2016 and 2017. SFA has also implemented several direct interventions with herder cooperatives. Its work to monitor impact is also underway. The fact that it includes members from across the range of brands from high end to mass is seen as positive and could help bring about change in the sector.

However, many still feel there is a need for a process to establish a jointly agreed definition and view of what 'sustainable cashmere' should be and establish underlying principles. As done by SFA, it will be valuable to have experts support and give their views on what is achievable and measurable given the complex context. For example, given the level of degradation now seen, how much can be protected or even be restored to claim sustainable sourcing? Nearly all respondents agreed that there is currently no agreed definition of what sustainable cashmere is, or even the basic elements needed, with a realistic view of what it looks like on the ground. This is a key barrier to progress.

The need for robust metrics is also important to be able to confidently monitor impact and give assurance on sustainability. But there is a trade-off between the cost of getting robust evidence (for example satellite imagery to monitor pasturelands is expensive) and investment at herder level work. Good examples of documentation are from the work that SFA and Green Gold Animal Health Project are carrying out.

As detailed before, another barrier identified to achieving sustainability in the cashmere supply chain is the difficulty in establishing traceability. Any standard would need to be able to show how it can deal with the complexity of sourcing from a scattered supply base of nomadic herdsman and follow the fibre through the various stages of middle men and processing stages. It is essential to give the assurance needed that the final product bought and traded has indeed come from sources that are meeting the established parameters for sustainability. However, given its potential prohibitive cost, a mass balance approach could be considered, as for Better Cotton Initiative. As some companies have tackled issues such as tracing down to individual farms, they are hopeful that a solution can be found for cashmere, too.

V. Inward investment

Overall, there was appetite for investment from most of the companies interviewed. Many stated they are already doing so in some capacity, for example putting funding into their membership of SFA and other specific projects such as herder training. In some cases (especially where cashmere is a strategic fibre), staff time from the company was also considered an additional investment with teams regularly visiting Mongolia and being actively engaged in work on the ground. In these cases, the company sees itself as being part of the debates and actively engaged in developing solutions. But some companies are happy for others to lead and once a solution is found they will adopt it. The rapid uptake of SFA membership by a wide range of companies shows that there are many keen to be involved in tackling the sustainability issues. Some signaled willingness to increase support if the right mechanism was found. But there is a lack of clarity on what investment is needed. This unclarity manifested in questions such as if this is a short term effort to

²⁸ See SFA website. <https://www.sustainablefibre.org/sfa-work>

develop a standard, if the demonstrably sustainable source of cashmere will be more expensive, and if this would result in a wholesale shift upwards of prices and ongoing increased cost.

For companies that rely on cashmere as strategic fibre, they are already investing to secure the quality and quantity needed in the future. They have a need to tackle the risks and challenges such as impacts of climate change and supporting resilient herder communities. A couple also wanted to see more development of in-country ability to process quality fibre but saw investment for this coming from the government or donors.

The reasons for investing in developing a sustainable source of cashmere are not only to secure supply chain or reduce reputational risk. Increasingly, investors and shareholders are asking questions on environmental and social impact of a company's business and requiring to see plans for identified risks such as climate change impact on raw material availability. Some investors and retailers such as Selfridges and Galleries Lafayette have recently made specific enquiries on cashmere from Mongolia. Where companies were already engaging in activities around sustainable fibres, they mentioned that this also had a positive effect internally with teams across the business outside the sustainability and procurement teams.

Funding for investments currently comes from a range of budgets. For example, the corporate sustainability or responsibility budgets cover SFA membership and project support. Funding to develop the Responsible Wool Standard with Textile Exchange was given as an example of investment (funds and staff time), following a PETA campaign on animal welfare. While there was no existing standard to meet the need, these investments now form the basis of several company targets for sustainable sourcing of wool. Another example is Burberry Foundation's support to Oxfam and Pur Project in Afghanistan working with cashmere herders to develop cooperatives, technical skills, access to markets and sustainable farming.²⁹

Very few instances of procurement budgets were cited as being the source of funding. There were no cases of it being part of cost of goods (COG) or in the product price for final brands, indicating that investments are not hitting margins. In some cases, intermediary suppliers were including it in the cost of the supplied yarn and fabric. Some suggested that the best approach would be to include the cost into COG of final product (where margins are higher) in the future so that purchasing teams are factoring in the price of a sustainably sourcing fibre rather than sustainability activities being seen as an add-on managed by the CSR teams. This would require dealing with some of the on-going tensions between meeting sustainability targets of the CSR teams and meeting financial margin targets of the purchasing teams.

However, impact on price was a major concern, especially in the current context of high market prices. Any increase in price could only be borne by brands who rely on cashmere and could be justified if the product meets the company targets, quality spec, and sustainable sourcing criteria. But appetite was low to non-existent for this. Demonstrable assurance of sustainability as a result of increased pricing is also needed, showing value going to the herders and changes in herding practices for example, which is why robust metrics were mentioned as key. Any costs related to increased administration and checking of a standard would not be tolerated but making a difference to herders would. But this shift in mindset and budgeting will take time. Also, the time lag in designing and

²⁹ Burberry. 2018. <https://www.burberryplc.com/en/news/news/responsibility/2018/burberry-foundation-partners-with-oxfam-and-pur-projet-to-support-social-and-economic-empowerment-of-rural-communities-in-afghanistan.html>

sourcing production (at least two years) need to be considered. This means any planning need to factor in long lead times as was done for cotton.

VI. Conclusions and recommendations

The findings showed us three key challenges companies face in sourcing sustainable cashmere from Mongolia. The first challenge is the lack of buyer confidence in quality. The quality deficiency stands as a general barrier to the expansion of purchasing volumes irrespective of the fibre being considered as 'sustainable'. To improve quality, it is necessary to strengthen breeding management and harvesting and processing capacity. The recently announced government programme (National Cashmere Programme 2018-2021) proposes a series of measures to improve the quality. This answers some companies' expectations for the government and donors to continue to play a role in enhancing in-country ability to process quality fibre.

The second challenge is inadequate traceability. Brands have their own targets and approaches to traceability to develop ethical sourcing systems that look beyond the environmental and social sustainability concerns at upstream. Some brands emphasized that without traceability, sustainability issues to be addressed remain unclear. Traceability improvement may need to precede any productive discussions on sustainability. Furthermore, the cost of traceability remains unclear. There is a need for more insights into what can realistically be achieved, at what cost, and if any alternative models, such as mass balance, are better suited to this sector.

The third challenge is the lack of collaboration among stakeholders across the value chain. Stronger collaboration is needed with more inclusion and participation of actors including the Chinese traders. Nearly all interviewees acknowledged that the complex issues that need resolving cannot be addressed by one actor alone.

The findings also showed us that many companies are investing resources in initiatives seeking to find solutions for the sustainability challenges and there is an appetite to continue. Some companies are keen to bring resources and participate in an initiative that would tackle the challenges raised above; other companies said they were still unclear on exactly what were the issues of concern. Once the core issues of concern become clearer, a concrete discussion on what realistically can be achieved will unfold. Unless a positive impact on identified areas of concern can be demonstrated, it is unlikely that all companies will be able to invest significant additional funds, particularly at a time of high prices for cashmere.

To tackle these challenges, this report suggests the following:

1. Forge clarity and common agreement on the definition of 'sustainable cashmere' from Mongolia (but also the wider cashmere sector ideally), including a joint understanding of the issues to be tackled and the required measurement of progress and impact. Further suggestions include:
 - Establish clear and robust indicators and monitoring frameworks. They should show the impact and change achieved as a result of investments. Targets must be realistic and achievable.
 - Develop a monitoring system based on transparency and common vision and measurement metrics with teeth to give assurance on the robustness of monitoring.

- Assess costs so that investments are not disproportionately spent on monitoring of indicators instead of improving herder incomes, for example. Collected insights on the costs of attaining differing levels of traceability and sustainability will help companies develop investment plans beyond the short term and potentially raise it as a COG consideration.
 - Facilitate coordination between investments with clarity on how they contribute to the impact and change, especially at herder and landscape level.
2. Establish a multi stakeholder platform for cashmere in Mongolia to ensure stronger collaboration to identify and tackle sustainability challenges. Further suggestions include:
- Build on the existing multi stakeholder initiatives such as SFA as they are seen as an important learning and sharing space for companies.
 - Ensure the inclusion and consideration of differing views and needs of the stakeholders and establish a collective action plan that can work with and will benefit all actors. The process of establishing trust and arriving at commonly agreed goals is an important outcome on its own.
 - The platform should be a pre-competitive space for collaboration and learning, especially given the differing levels of expertise and engagement in sustainability issues.
3. Deepen understanding of the current context and underlying issues giving rise to unsustainable practices in order to inform the strategy and action plan development. Further suggestions include:
- Technical expertise should be brought in to help stakeholders understand, analyse and assess the options for action, and identify additional areas for research.
 - In addition to the identified areas of support, other commodities' best practices and experiences can be brought in on issues such as innovation in traceability, use of technology at different points of the value chain, and how to develop an investment vehicle.

Lastly, when developing solutions and plans it is important to consider different needs of actors on the demand side. Buyers, traders, brands and retailers have different exposure to risk, work with differing lengths of contract, and have different forward visibility of demand. Similarly, different industry timelines and processes need to be considered so that any proposed plans will work with and for the industry. For example, since the time lag between design, sourcing, and manufacture can be two years, companies will find it difficult to work with narrow purchasing windows and changing price structures.

Annex

Companies and organizations interviewed

	Link
LVMH	https://www.lvmh.com/group/lvmh-commitments/social-environmental-responsibility/life-initiative-lvmh/
Kering	https://www.kering.com/en/sustainability/our-strategy/care/
Burberry	https://www.burberryplc.com/content/burberry/corporate/en/responsibility/policies-and-commitments/environment/responsibility-sourcing-policy.html
Johnstons of Elgin	https://www.johnstonsofelgin.com/retail/about-johnstons-of-elgin/our-philosophy/
Alex Begg	http://www.alex-begg.co.uk/sustainability/
H&M	https://hmgroupp.com/sustainability/Planet.html
C&A	http://sustainability.c-and-a.com/sustainable-products/sustainable-materials/other-raw-materials/
Gobi	https://www.gobicashmere.com/pages/sustainability
Wildlife Conservation Society	https://www.wcs.org/wildcards/posts/on-mongolias-vast-steppes
Textile Exchange	https://textileexchange.org/materials/
Sustainable Fibre Alliance	https://www.sustainablefibre.org/sfa-work
Schneider	https://www.gschneider.com/cashmere/
Patagonia	https://eu.patagonia.com/gb/en/corporate-responsibility.html