

Copyright 2007. No quotation or citation without attribution.

IR/PS CSR Case # 07-22

# Greening the Supply Chain: A Case Analysis of Patagonia

By: Melissa Pongtratic

GRADUATE SCHOOL OF INTERNATIONAL RELATIONS AND PACIFIC STUDIES

UNIVERSITY OF CALIFORNIA, SAN DIEGO

Prepared for Professor Peter Gourevitch

Edited by Jennifer Cheng, MPIA 2008

Corporate Social Responsibility

Fall 2007

## **Abstract:**

*Patagonia, an outdoor retailer and leader in the green apparel market, is committed to achieving the triple bottom line: being profitable as well as environmentally and socially responsible in its business practices. Patagonia has used its environmental achievements to differentiate itself in the marketplace and in doing so has received great brand recognition within the apparel industry and amongst consumers. This paper's intent is to assess if Patagonia's business practices reflect its mission to reduce harm to the environment or if it is classic case of green marketing. In this case study of Patagonia's organic cotton line, the implementation and enforcement of environmental and labor standards the company uses will be evaluated. This paper will travel through Patagonia's global supply chain to explore the monitoring and transparency mechanisms Patagonia uses to add credibility to its products.*

## **Table of Contents**

Copyright 2007. No quotation or citation without attribution.

**I. Introduction**.....Error! Bookmark not defined.

**II. What is the Problem? Detriments of Conventional Cotton**.....4

**III. Organic Cotton** .....6

**IV. Global Standards**.....7

**V. Patagonia Philosophy and Background**.....8

**VI. Organic Exchange**.....10

**VII. Patagonia’s Internal Monitoring Mechanisms**.....12

**VIII. Case Study: Thai Alliance Textile**.....15

**IX. Transparency** .....18

**X. Conclusion** .....20

**XI. Discussion Questions**.....Error! Bookmark not defined.

**XII. Appendix**.....24

COPYRIGHT 2007. DO NOT COPY.

**I. Introduction**

**Copyright 2007. No quotation or citation without attribution.**

Textiles and their end-products rank as the world's second largest industry, just after food products. Approximately, 10% of the world's productive energies go into clothing manufacturing, making textiles one of the largest polluting industries in the country.<sup>1</sup> These growing environmental concerns have spawned recent trends for organic and eco-friendly products in the fashion and apparel industry. Although still a niche market, consumers are increasingly purchasing organic clothing that incorporate environmental, economic and social responsibility. With increased consumer demands concerning the origins and fiber content of their purchases, apparel manufacturers and retailers are looking to differentiate themselves in an already saturated market by "greening" their clothing lines. In doing so, more scrutiny has been given to the farming and manufacturing processes and labor conditions that comprise of a garment's end product.

Patagonia, a leading pioneer in outdoor retailing, has been at the forefront of this movement for environmental sustainability. Patagonia has committed to many environmental causes, including the company's programs for environmental grants, LEED Certified buildings, FSC Certification, 1% for the Planet Organization, and Common Threads Garment Recycling Program to name a few. Moreover, Patagonia promotes itself as having "The Cleanest Line" and has launched many commendable initiatives that in theory reduce harm to the environment. However, like most business Patagonia ultimate bottom line is profit. This paper investigates the truthfulness to Patagonia's environmental proclamations. In doing so, a case study of Patagonia's 100% organic cotton program will be analyzed to determine if its business practices in its global supply chain accurately reflects its mission statement or if this is merely an act of greenwashing? The monitoring methodologies, use of third party certifications, and practice of

**Copyright 2007. No quotation or citation without attribution.**

internal monitoring along the global supply chain will be accessed to determine the credibility and transparency of Patagonia's organic cotton line.

## **II. What is the Problem? Detriments of Conventional Cotton**

As the world's principal clothing fiber, cotton farming only comprises of 3% of the world's farming acreage, however, conventional cultivation uses approximately 25% of the world's insecticides and 10% of the world's pesticides.<sup>ii</sup> The conventional practice of planting the same variety of seeds on thousands of acres is called monoculture. Monoculture leaves crops extremely vulnerable to pests and diseases. To combat pests and disease, conventional methodology uses a barrage of hazardous chemicals including fertilizers, insecticides and pesticides that toxify the soil, air, and ground waters, making it one of the most damaging fibers. Seeds in the US are predominately genetically modified (70%) and are treated with fungicides and pesticides.<sup>iii</sup> Toxic chemicals, which sterilize the soil, are used to regulate the rate of growth of seeds, optimize the number of bolls, and control for uniformity. Synthetic nutrients, herbicides and pesticide are then used to fumigate seeds in order to prevent fungi growth, destroy unwanted weeds and exterminate insects. In the process, these chemical attempts to exterminate insects cause resistant strains of insects to grow and multiply. New insects strains spawn further research for stronger chemicals. In the U.S. today, for every new pesticide developed for cotton use, an average of \$100 million and 8 to 10 years are necessary.<sup>iv</sup>

Prior to the harvesting stage, defoliant is used to kill plants and remove leaves. The spillover of the chemical usage from crop dusting planes seep into nearby water supplies, waterbeds, farmhouses, drinking water sources, and run-off into irrigation ditches. These harmful chemicals damage eco-systems, destroying bird and wildlife populations. During the

**Copyright 2007. No quotation or citation without attribution.**

ginning process, leftover cottonseed containing harmful herbicides, pesticides, synthetic fertilizers and defoliants, is considered a by-product and transformed into oils. Cottonseed oil ridden with pesticides is found in snacks such as cookies and potato chips and used for animal feed.<sup>v</sup>

The detriments of conventional cotton go beyond the cotton fields and travel along the supply chain. At the manufacturing stage (spinning, weaving, knitting, dyeing and finishing), the chemical processing is used to soften the fiber. In the production and manufacturing of cotton, a slew of toxic chemicals are added at different stages of a products' life-cycle. These include silicone waxes, harsh petroleum scours, softeners, heavy metals, flames and soil retardants, ammonia, and formaldehyde. Although these chemicals typically bleach away pesticides and insecticides, these chemicals generally become permanently bound. These chemicals are slow to biodegrade and have recently been linked to "probable" carcinogens. At they dyeing and printing stage, toxic residues from the process are found in wastewater and cause problems of the central nervous system, respiratory system, headaches, dizziness, and skin and eye irritations.<sup>vi</sup>

Farmers and workings in the gins and spinning mills are forced to work in toxic environments, and communities are exposed to pollutants in the soil and water resulting in nearby communities linked with high rates of cancer. The U.S. EPA categorizes five of the top nine pesticides (cyanide, dicofol, naled, propargite, and trifluralin) used for conventional cotton to be the most dangerous chemicals.<sup>vii</sup> The World Health Organization estimated that pesticides poison approximately three million people yearly and 20,000 to 40,000 are killed.<sup>viii</sup> At the consumer level, claims have been made that chemical residue, especially for children, cause adverse health effects. There also is a risk for potential toxicity and contamination by dioxins resulting from bleaching and dyeing processes.<sup>ix</sup>

**Copyright 2007. No quotation or citation without attribution.**

Clearly, the societal and economic costs to produce conventional cotton t-shirts has a devastating and enormous impact on the air, water and soil quality that impacts global health. Furthermore, the policies and practices commonplace within the industry directly contribute to the existence of global poverty. Coupled with United States subsidies to the cotton industry and drive for corporate profitability, cotton farmers and garment workers in the developing world are challenged with social and economic hardships.

### **III. Organic Cotton**

Various stakeholders, including consumers, non-profit organizations, environmental activists, and companies along the supply chain have become more aware and more vocal about the hazards of conventional cotton. These stakeholders have turned to the use of organic cotton, where farming and manufacturing processes utilize methods and materials that reduce harm to the environment, cultivate fertility, and help to build biologically diverse agricultural systems. Organic farming methodology substitutes synthetically compounded chemicals such as pesticides, growth regulators, defoliants, fertilizers and genetically modified seeds with natural fertilizers, and beneficial insects such as ladybugs to control insect infestation. In addition, crop rotation with compost foster fertility and soil microbiology and weed control is managed with precision tillage and old-fashioned methods. To be considered certified organic, organic farms must have discontinued the use of pesticides for at least three years, the time it takes to rebuild the soil's natural fertility.<sup>x</sup> Furthermore, farms cannot use hard chemical bleaches or dyes and must be allergy-free. Although organic farming demands more intensive and innovative management, it offers an opportunity to product differentiate, and position companies for profitability and long-term growth. New market exposure and aggressive marketing has resulted

**Copyright 2007. No quotation or citation without attribution.**

in a surge in organic product sales. In 2001, global organic cotton product sales were \$245 million, with the United States at \$86 million. In 2005, worldwide sales increased by 35% to \$583 million, with US growth of 55% to \$275 million.<sup>xi</sup> This has spawned an eco-chic movement in the fashion industry where high and low-end retailers alike, are trying to grab a slice out of this emerging market.

#### **IV. Global Standards**

In the United States, the USDA's National Organic Program (NOP) has set regulations for the organic certification process based on standards set in the Organic Food Production Act of 1990. Surprisingly, these government regulations were implemented because of a push from the cotton industry. According to Mark Bradley, associate deputy administrator of the USDA's NOP, "The cotton industry came to us, the government, and said 'We want you to regulate us.'"<sup>xii</sup> However, although the USDA NOP offers recommended criteria for organic processing/manufacturing and importation of organic cotton, these regulations stop at the farm level in the US. Currently, the US lacks universal certification and labeling standards concerning manufacturing and production processes for sustainable textiles such as organic cotton. (See Appendix A for Certification Flow Chart)

The lack of government regulations has ignited reaction from the demand side. To offer greater transparency, non-profit organizations, farmers, retailers, manufacturers, brands and activists are leading the way in developing standards to improve environmental and social aspects of the global supply chain. For example, the Global Organic Textile Standard (GOTS) is commonly used by international supply chains to set guidelines for dye requirements, haberdashery, and the social and environmental impact of caused by production.<sup>xiii</sup> Suppliers

**Copyright 2007. No quotation or citation without attribution.**

also seek out certification standards for EU 2092/91, organic production standards created for the European Union that also sets criteria for importation of organic manufacturing from developing countries and JAS, which sets regulation for organic production and importing criteria in Japan. Non-profit organizations, such as the Organic Exchange have also set voluntary industry standards such as the OE Blended Standard and OE 100 Standard for 100% organic cotton. These voluntary guidelines involve the regulation standards for the manufacturing/production operations of organic agriculture.

Certification bodies such as Control Union (previously Skal), the Federation of Organic Agriculture Movements (IFOAM), International Organic Accreditation Service (IOAS) have also taken initiatives to develop and enforce broader certifications at an international level. In the marketplace brands can use ecol-labels to offer organic validity and to differentiate products to consumers. Labeling can also be a preventive measure to suppress attacks from vigilantes.<sup>xiv</sup> Many national and international labeling standards such as the European Union's EKO Label, Japan's Eco Mark, and the Nordic Countries' White Swan are examples of eco-labeling the US can model itself after.

## **V. Patagonia Philosophy and Background**

Patagonia, a subsidiary of Lost Arrow Corporations, is a privately held company that debuted in 1973 by a group of surfers and climbers. In 2006, Patagonia totaled \$270 million in revenues, wielding market power in the green apparel market.<sup>xv</sup> A purveyor in outdoor clothing and gear, Patagonia manages its research and development, design, manufacturing, merchandising and sales of all its products. Holding a competitive advantage in technical innovation, it is the leader in the outdoor retail industry. Patagonia prides itself on its deep

**Copyright 2007. No quotation or citation without attribution.**

commitment to environmental and socially sustainable industrial practices, and continually launches new products that are dedicated to its mission statement:

**“Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.”**

An unusual mission statement, company founder Yvon Chouinard's vision for long-term sustainability and low environmental impact has attracted employees devoted to shared environmental causes. Currently, Patagonia employs 1381 people worldwide, with 11 staffed in its Environmental Analysis Department.<sup>xvi</sup> Its impressive environmental responsibility agenda and human resources practices have resulted in a high employee retention rate compared to industry averages. Moreover, the level of customer loyalty and brand recognition surpasses the size of its company. Customers rely on Patagonia for its technical excellence, performance and quality, with only 20% of its customers caring about the environmental impact of their purchases.<sup>xvii</sup> However, in a competitive market where technological performance has become more difficult to differentiate, Patagonia has successfully been able to differentiate its products with its environmental performance. These initiatives have been used as a cornerstone to Patagonia's marketing and public relations.

The birth of Patagonia's organic cotton line originated in 1994, when organic agricultural activist Will Allen, took a group of representatives on tour of cotton farms in the San Juan Valley in California. This marked a pivotal, evolutionary event in Patagonia's history propelling the company to look within its supply chain to reduce environmental damage. Conventional cotton methodology footage and findings were presented to the company and the Board of

**Copyright 2007. No quotation or citation without attribution.**

Directors. As a result, Patagonia has sent over 350 people to conventional cotton farms, to see first-hand the social, economic, and environment costs the cotton industry is causing to the environment and people. In 1996, with the Board's approval, Patagonia committed to manufacturing only 100% organic cotton clothing. It led an emotionally charged three-day supplier conference to convince existing suppliers to make the switch with them. It then went on to create marketing and communication materials to its suppliers, consumer, and competitors to generate a demand for the organic market. This ignited Nike, Adidas and Levi to take the organic cotton plunge as well.<sup>xviii</sup> Furthermore, to inspire and promote environmental awareness, Patagonia, sponsors environmental internships to their employees. Patagonia employees can leave their jobs for up to two months with continued salary pay and benefits, to intern at an environmental organization of their choice. This offers Patagonia employees the opportunity to explore, learn, and actively participate in combating environmental issues, including conventional cotton.

## **VI. Organic Exchange**

The Organic Exchange (OE) is a non-profit, membership based organization comprised of leading retailers and brands, whose mission is to "Catalyze market forces to deliver sustained environmental, economic, and social benefits through expansion of organic fiber agriculture."<sup>xix</sup> The OE offers many different services to promote and educate the benefits of organic agriculture including educational symposiums to spread awareness about the environmental and social benefits to organic cotton products, development of new business models and tools to support greater use of organic inputs, and increased consumer awareness of organic farming and product

**Copyright 2007. No quotation or citation without attribution.**

availability. Recently, OE has been responsible for setting voluntary standards for organic agriculture manufacturing/production processes.

Patagonia, along with other large retailers such as Nike, has been with the OE since its inception in 2002. Today, the OE is staffed with fifteen employees and twelve members sit on the Board of Directors. The Board, comprised of cotton industry representatives, lacks any representation from environmentalists, workers' rights groups, or government participation. In addition, the Executive Director, LaRhea Pepper, is also a US organic cotton farmer and has an invested interest in maintaining a competitive advantage in the industry by setting stringent organic regulation, making barriers to entry high. The OE believes that by setting and implementing voluntary regulations standards, certified manufacturers and retailers can justify and market certified organic products as a perceived added value, which can be sold at a 20%-40% price premium.

It is important to remember that the OE is a non-profit organization established for for-profit purposes. OE's mission statement alone, gives rising concern regarding a conflict of interest. Currently, Jill Dumain, the Environmental Analysis Director for Patagonia is acting Chairperson of the Board of the OE and Patagonia's spinning supplier, Thai Alliance Textile also sits on the Board. The governance make-up of the OE and its Board bring suspicion concerning the creation and monitoring of standards given the groups that are setting the standards for organic cotton are also the same groups who are implementing and enforcing these standards. Although admirable that retailers and farmers demonstrate initiative to setting universal cotton farming and manufacturing organic processes it also offers these businesses a competitive advantage to their products. This monetary incentive may be cause to question if these measures are effectively implemented and monitored, or pre-empt government regulation.

**Copyright 2007. No quotation or citation without attribution.**

## **VII. Patagonia's Internal Monitoring Mechanisms**

In implementing the Board's decision to go 100% organic cotton in 1996, Patagonia approached existing suppliers to join in their organic movement. Patagonia urged suppliers to help in the development and implementation of greening the supply chain. In doing so, Patagonia convinced suppliers this organic "co-venture" would be a competitive advantage to both Patagonia and its suppliers. However, many suppliers discouraged by the high costs and market risk declined Patagonia's offer. Today, Patagonia is supported by only 90 suppliers compared to Gap's 2,000.<sup>xx</sup> This manageable number allows Patagonia greater control and oversight of the manufacturing/production processes to ensure that the quality and integrity of its products meet compliance and that standards are being met. However, with corporations increasing operations overseas, typically to developing countries, where production costs are lower and less stringent environmental and social laws are enforced, there is an incentive to both cheat and collude. Patagonia is no exception to this as will be evident in the case of Thai Alliance Textile.

Like most retailers, Patagonia outsources cotton fiber and production predominantly to developing countries. Patagonia encourages farmers to take an active roll in the certification process. In doing so, Elissa Loughman, Social Responsibility Manager at Patagonia, reports that this outdoor retailer allows its farmers to choose their own certifiers. Although Patagonia claims all certifiers are USDA accredited, Patagonia is enabling their suppliers the option to use sub-par standards for certification. Given the costs of certification and perceived values, farmers may have an incentive to use third-party certifiers who are cheaper, require fewer and less thorough inspections, and are less stringent on organic and environmental standards. This combination for

**Copyright 2007. No quotation or citation without attribution.**

location sourcing and third party certifier selection proves to be advantageous for both Patagonia and farmers.

Patagonia, whose profitability relies on timely and continuous delivery of organic cotton, has an incentive to allow for this process to exist. If a farmer is de-certified or production is stalled because farms do not meet regulatory standards, Patagonia risks losing a season's fiber for production, a risk that could amount to millions of dollars in potential profits. It is in Patagonia's best interest to delegate authority to farmers to select monitors as it gives increased assurance that its supply of organic cotton fiber and volume will be fulfilled at a reasonable price. If farmers can keep production levels up and minimize price with cheaper monitoring fees and regulations, Patagonia reduces the risk of economic uncertainty in the supply chain. From the organic farmers' perspective, where organic farming methods are more costly and time and labor intensive than conventional farming, they cannot economically afford to lose a contract because of de-certifications.

To ensure that environment and labor standards are being met to Patagonia's expectation, the company requires its suppliers to abide by its Code of Conduct and CSR manuals. However, because it is a privately held company, these standards and procedures of which Patagonia demands of its manufacturers/suppliers are not available to the public, this offers little transparency or credibility in its standard development and implementation. The public's inability to review and evaluate these standards raises suspicion as to how stringent, thorough, and applicable these internal codes are to its suppliers' countries. Why does Patagonia not make its Code of Conduct public? In keeping its code private, the metrics Patagonia uses to design its standards, how and who adopts it, whether and how compliance is monitored, and whether the rules actually achieve what Patagonia's mission statement purports it does is under

**Copyright 2007. No quotation or citation without attribution.**

speculation. Perhaps, this form of self-regulation is a strategic move Patagonia has enforced to appease critics and deter regulations. By not disclosing its CSR standards, Patagonia limits the information left to public scrutiny that could tarnish its brand reputation.

Additionally, to monitor that environmental and labor conditions are being met to international organic manufacturing standards Patagonia uses third party certifiers to monitor that factory compliance is being met. Although, Patagonia's monitoring selection is dependent on where factories are located, Patagonia mainly refers to the Fair Labor Association's (FLA) accredited monitors for selection.<sup>xxi</sup> The FLA is a non-profit organization whose mission is to "combine the efforts of industry, civil society organizations, and colleges and universities to protect workers' rights and improve the working conditions worldwide by promoting adherence to international standards."<sup>xxii</sup> FLA has been under public scrutiny since convened by President Clinton, where critics complain that the FLA is simply a tool of corporate public relations by the apparel industry (Patagonia being a corporate affiliate) and has yet to improve industry labor conditions. The FLA bases its monitoring on voluntary codes of conduct, which vary from code to code and company to company. FLA also has a Code of Conduct of its own, but is very vague and fails to address specific issues relating to different industries and different countries. "FLA companies will choose the factories to be inspected and the inspections will be conducted by monitors chosen, controlled, and paid by the companies themselves."<sup>xxiii</sup> This in effect, makes FLA monitors a type of internal monitoring mechanism for Patagonia where Patagonia is accountable for monitoring its own Code of Conduct for compliance. Because monitoring of compliance is conducted in a closed system, this minimizes public disclosure of unflattering facts.

**Copyright 2007. No quotation or citation without attribution.**

To increase public access and deter from public criticism, FLA makes public its annual reports and its website includes FLA tracking sheets from years 2002 to 2006. These tracking sheets lack any teeth in that they are not considered audits but merely recommendations for improvement on environment and work conditions. In attempts to find tracking sheets for Patagonia factories only one chart was available in 2004 from a factory in Southeast Asia and in 2003, three audits (2 Southeast Asia and 1 in the US) were made public. This presents concerns that because the FLA, after the initial period does not require a set number of factories to be inspected, the number of inspections and factories chosen are limited and biased. After the passing the initial period, Patagonia can theoretically receive a rate of approval from the FLA without visiting 95% of its factories. These tracking sheets are most likely pre-selected and screened to showcase factories more compliant and, thus, lack the transparency of adequate monitoring.

**VIII. Case Study: Thai Alliance Textile**

One of the first programs Patagonia implemented was its partnership with Thai Alliance Textile. In 1995, Thai Alliance started its organic cotton program with Patagonia. As one of the first and reputable yarn spinners in Thailand, it supplies both 100% organic and organic cotton blended with conventional cotton to the world's leading apparel brands. Thai Alliance claims to use only certified organic cotton. To avoid contamination with its conventional cotton and blended cotton, Thai Alliance takes such measures as to store 100% organic cotton fiber in separate warehouses and uses only gas forklifts to move the raw materials to avoid exhaust air emitted from diesel engines that contaminate organic cotton. To verify its organic processes, Thai Alliance looks to third party certifier Control Union to certify that its spinning processes

**Copyright 2007. No quotation or citation without attribution.**

meet voluntary international standards. In communicating with Khun Thaweeporn Theeratattanon, Operations and Mill Director for Thai Alliance, he indicated and provided documentation for the different certifications Control Union certificates. This includes a certificate for Products from Organic Production, GOTS Textile Certification, Transaction Certification for Sustainable Textile Products, and Certification for Organic Exchange 100 Guidelines. (See Appendix 2). The Certificate for Products from Organic Production and the Transaction Certification is illustrative documentation for each organic cotton bale. These certifications and fiber content are traced using an industry on-line tracking system. The cotton fiber in a garment can be tracked down to the company, certification accreditations, bale number, cone number as it moves along the supply chain.

Although, Thai Alliance offers Patagonia a thorough paper trail from fiber to fabric, the monitoring process raises several issues of concern. First, in reviewing the GOTS Certification and OE Exchange, both of which expire November 7, 2008, indicates inspection occurs only once a year. This gives rise to suspicion on the frequency of the voluntary standards being met. The garment industry typically runs on four seasons, where new production and design is constantly changing. With new lots of cotton continuously needing examination, does certification once a year provide adequate verification that global standards are continuously being implemented and enforced? Furthermore, details are not provided as to if there is any unannounced inspections, how inspections are taken place and in what environmental context, who is interviewed, and if complaints from employees or managers are ever collected. This becomes an even more pressing concern, when Thai Alliance contracts with companies such as Nike and Timberland who both buy organic, blended, and conventional cotton. If there is only one yearly inspection, the possibility that organic manufacturing/production processes are

**Copyright 2007. No quotation or citation without attribution.**

violated as well as the likelihood that conventional and organic cottons are mixed and sold to Patagonia at 100% cotton increases.

Additionally, Control Union is a privately held company, and chooses to not make public its monitoring process, selection/training processes for monitors, company audit reports, or if there have been any de-certifications and how many. Since monitoring processes of Control Union are not publicly available, it is difficult to evaluate how thorough its monitoring process is. Considering three of the four certifications Khun Thaweporn provided were certified by the same person, S.K. Pathirago, this questions if the certifier is qualified to assess all three organic standards adequately and how much time does he spend at the factory to ensure that these standards are being met. Furthermore, if S.K. Pathirago is responsible for all of Control Union's inspection for Thai Alliance there could exist a strong business relationship, where the monitor is more inclined to provide certification, dismiss violations, and conduct less thorough inspections.

Furthermore, pressured by low production costs and short lead times there is an incentive for Thai Alliance to cheat. Certification can be expensive, especially if Thai Alliance has to certify each cotton lot and annually renew certification accreditations. The economic costs from the risk of losing large contracts from de-certification gives Thai Alliance an incentive to cheat. Lastly, there exists a risk of collusion in both the Thai Alliance-Control Union and Thai Alliance-Patagonia relationships. In the former case, because Control Union generates revenue from monitoring fees and Thai Alliance's reputation relies on certification, both monitor and monitoree have an incentive to collude. In the latter case, Patagonia and Thai Alliance have an incentive for colluding against the consumer in the interest of profit.

**Copyright 2007. No quotation or citation without attribution.**

**IX. Transparency**

Patagonia has implemented many different programs to increase the level of transparency in its products. Firstly, in order to track goods along the supply chain Patagonia partakes in OE's Online Tracking system. The system, for industry use only, helps to easily track the purchase and use of documents of certified organic cotton of products along the supply chain efficiently and easily. This service is free to members, but non-member can purchase an account for \$600/year. The intent is to provide retailers improved confidence that the garment has followed their organic standards. However, this program, also poses several unanswered questions. If the Online Tracking System is available to only OE members or by yearly fee account, this may discourage different groups along the supply chain to use this service. Lack of participation in this virtual data chain translates into lack of information the tracking service is able to provide. It is unknown how many suppliers along the supply chain participate in this virtual system and how representative is it of the actual practices being enforced. Each organization is responsible for inputting their own data into the system. This opportunity leaves room for error and allows for organizations to cheat.

To provide traceability for its products, Patagonia's website offers "The Footprint Chronicles" that allow consumers to trace five representative Patagonia products and their environmental impacts from design through delivery. The Chronicles illustrate to consumers the pros and cons of producing each garment with compelling graphics, blogs, thoughtful explanations, and YouTube clips of interviews with factory managers, workers and a social auditor. For each product, Patagonia touches on such issues as where and what materials were involved, the energy used, and the labor standards practiced. Other CSR websites, including Wal-Mart have sought advice from and mimics Patagonia's Chronicles. In contrast, however, Wal-Mart's Sustainability website simple journeys through its global supply chain. It indicates

**Copyright 2007. No quotation or citation without attribution.**

how Wal-Mart's production as a whole is attempting to reduce its carbon footprint, yet it offers no detail as to specific products, factories, standards or certifications.<sup>xxiv</sup> Patagonia, on the other hand, supplies information that consumers can use to contact or further research and evaluate individual manufacturers and working and environmental conditions along Patagonia's supply chain.

The Chronicles has received great applaud from the public and apparel industry, however, could this just be a marketing ploy, a gimmick for transparency? As a retailer whose bottom line is profit, consumers must question how Patagonia screens and determines what information it provides on its website. A question of contemplation is: In the green apparel industry where standards validate production, why does Patagonia fail to discuss the certification standards it practices, its monitoring mechanisms, or information regarding third party-certifiers for organic production? Patagonia's business accomplishments have been anchored by its ability to successfully market itself as an environmental and socially responsible company and it prides itself on producing the "Cleanest Line." However, if Patagonia's business practices were truly green, why does it not promote and market to consumers, the certifications and monitoring processes it partakes in? Lack of this information in meeting specifications for organic regulations, gives little validity that organic processes are actually occurring.

According to Mike Simpson, a Patagonia Contract Manager, Patagonia plans to launch a new program to increase transparency known as "Track and Trace." Another Organic Exchange project, the "Track and Trace" allow consumers to trace the origin of a garment along the different stages of production. With each 'responsible' garment purchased, "Track and Trace" will attach a bar code affixed to the price tag that will enable consumers to personally plug in the information into the computer that will take them through the entire value chain of their

**Copyright 2007. No quotation or citation without attribution.**

purchase. The system will supply information from fiber to fabric including: cotton farms that supplied fiber, cotton bale number, ginner processor, and knitting/weaving conversion processes at the factory level.<sup>xxv</sup> Similar to Patagonia's other transparency programs, this tracking system in theory provides great traceability and credibility for organic production but in practice does this tracking system give consumer a false sense of security that their organic products they buy are actually organic? There is an incentive from all levels of the supply chain to screen or provide inaccurate information that may be detrimental to their product. This closed system of transparency, relies heavily on the trust that Patagonia and its suppliers disclose all encompassing and truthful information.

#### **X. Conclusion**

With increased globalization and the industry's weak regulatory infrastructure, the environmental and social impacts from textile production/manufacturing and jobs associated with them have come under magnified scrutiny. So, do Patagonia's business practices uphold to the environmental and social standards that it has set forth in its mission statement? This case demonstrates that Patagonia has taken initiative to greening its supply chain by training and demanding suppliers to comply with international voluntary standards. However, the mere fact that suppliers adopt these standards does not necessarily translate into thorough, transparent monitoring methodology. Patagonia's, as a pioneer in organic apparel has adopted many voluntary standards along its supply chain that offers a paper trail from fiber to fabric, however, because its monitoring and transparency mechanisms occur in a closed system this leave room for corruption and collusion.

**Copyright 2007. No quotation or citation without attribution.**

The fact that Patagonia is private allows the company to withhold valuable information to consumers to evaluate the CSR standards they profess to uphold, given no metrics as to how these regulations are implemented and enforced. Although there are several noteworthy criticisms of Patagonia's monitoring methodologies in its organic cotton line, it is important to remember that Patagonia has helped to pioneer and trail blaze the path for monitoring and transparency in the apparel industry. To provide more transparency and credibility to its products, a system needs to be created where industry pioneers who are producing organic products are not the same actors that are creating and monitoring these standards. Patagonia offers a detailed paper trail along its global supply chain, however, because of its closed monitoring system, there is still no guarantee that these standards are put into practice. However, because the system currently lacks any legal or public accountability there is little, if any incentive, for Patagonia to re-evaluate its metrics for monitoring and transparency.

As a consumer, Patagonia provides a plethora of marketing information regarding the detriments of conventional cotton through its catalogue, website, in-store displays and marketing materials, and through its public relations. However, when I visited the Patagonia flagship store in Cardiff-by-the-Sea, California, I was surprised that there was Patagonia labels that self-proclaiming "100% Organic" (See Appendix 3) yet products lacked any label or certification from a third party monitor. In asking a salesperson, what standards and certifications did Patagonia use to demonstrate its products were made from 100% organic cotton fiber, the staff member guided me to the website, but could offer me no information as to any organic labels or certifications. Given no true indication that certified organic cotton was used, this could leave Patagonia vulnerable to vigilantes blowing the whistle. Discontented NGOs, consumers, or environmental or social activists could pose a threat to Patagonia's reputation and brand strength

**Copyright 2007. No quotation or citation without attribution.**

if their cotton line isn't truly 100% organic by holding protests, boycotts, or making these facts known to the media. Clearly, to prevent any negative press and market share loss, Patagonia should evaluate its monitoring and transparency processes. Although, it has implemented many monitoring and transparency mechanisms, too little information is given to the public to adequately assess its paper trail. But then again, for a company whose bottom line is profit, perhaps this lack of disclosure is a strategic business move.

COPYRIGHT 2007. DO NOT COPY.

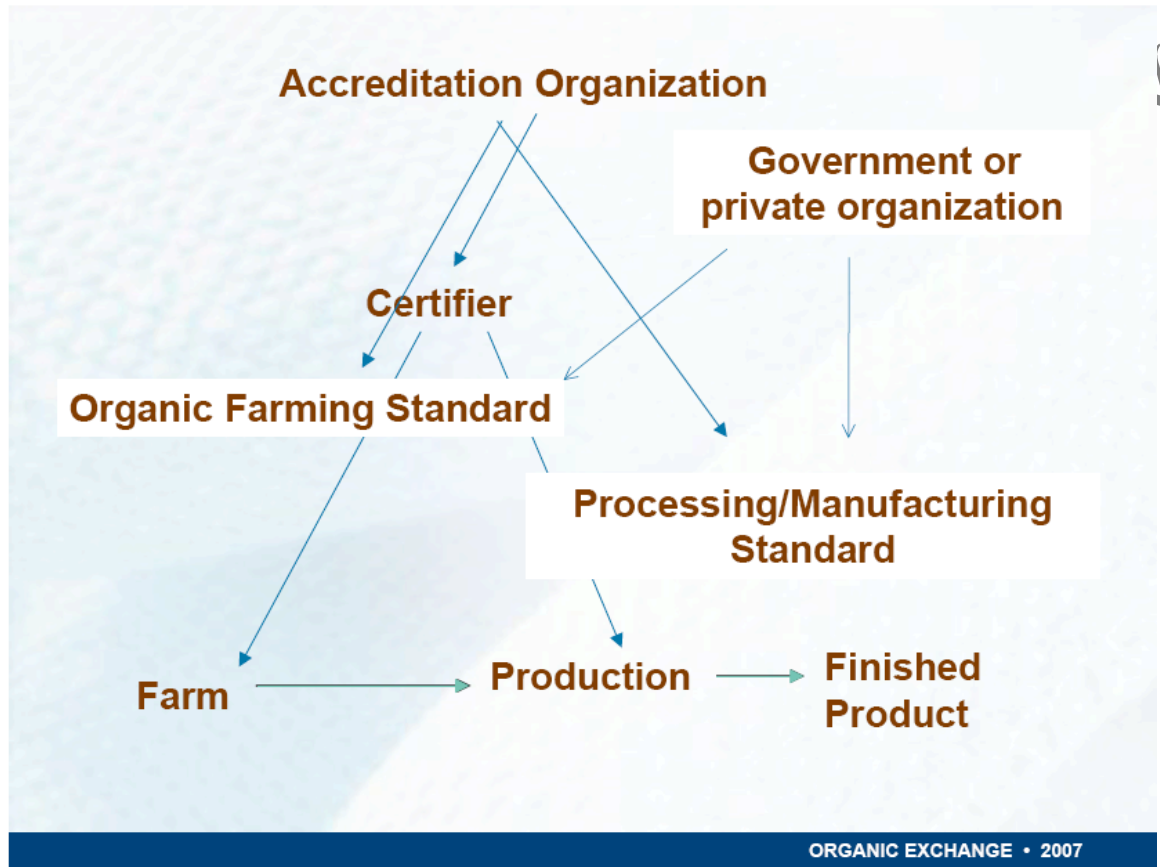
**Copyright 2007. No quotation or citation without attribution.**

## **XI. Discussion Questions**

1. How does Patagonia's affiliation with the FLA pose a potential conflict of interest? Does its association with the FLA represent a truly independent third party monitor?
2. Because Patagonia is a privately held company, how does self-regulation through its Code of Conduct pose itself as a problem?
3. Do you think that standards and regulations should continue to be voluntary or is it necessary to have a shadow of state?
4. In what way does Patagonia's reduction of certified suppliers increase confidence in Patagonia's organic products? In what ways does it not?
5. What are the problems of sourcing from suppliers that also manufacture products for other companies?
6. The lack of strong government oversight is a major issue in outsourcing. Would moving manufacturing back to the U.S. enable Patagonia to better monitor its suppliers' activities? If not, how can Patagonia strengthen its monitoring process?
7. In your opinion, do Patagonia's efforts seem genuine or are its programs merely an exercise in green-washing?

XII. Appendix

Appendix A



COPYRIGHT



Copyright 2007. No quotation or citation without attribution.

**Appendix B**

**Organic Cotton Certificate**

070RG04

**CERTIFICATE FOR PRODUCTS FROM ORGANIC PRODUCTION**

1. Body issuing the certificate (name and address) Control Union Certifications Kazim Dirik Mah. Kurtulus Cad. No: 87/1 3540 Bornova, Izmir - Turkiye		2. Regulation (EEC) No 2092/91 /Skai International Standards Reference number of the certificate 06.004294.TR026	
3. Seller of the product (name and address) KADIOGLU TARIM TICARET VE SANAYI A.S. ISCILER CADDESİ NO.176-35230 ALSANCAK IZMIR / TURKEY		4. Inspection Body* (name and address) Control Union Certifications Kazim Dirik Mah. Kurtulus Cad. No: 87/1 3540 Bornova, Izmir - Turkiye	
5. Producer or processor of the product* (name and address) KADIOGLU TARIM TICARET VE SANAYI A.S. ISCILER CADDESİ NO.176-35230 ALSANCAK IZMIR / TURKEY		6. Country of dispatch TURKEY	
7. Consignee (name and address) THAI ALLIANCE TEXTILE COMPANY LIMITED 270 M.1. SOI WADKUSANG, SUKSAWASDI RD., PHRASAMUTJEDEE SAMUTPRAKARN 10290 THAILAND		8. Country of destination THAILAND	
		9. Address of place of destination* THAI ALLIANCE TEXTILE COMPANY LIMITED 270 M.1. SOI WADKUSANG, SUKSAWASDI RD., PHRASAMUTJEDEE SAMUTPRAKARN 10290 THAILAND	
10. Marks and numbers, Container no(s), number and kind, Trade name of the product. THE PRODUCT LISTED BELOW FROM ORGANIC PRODUCTION METHODS. 2006 CROP EGE(ZMIR) ORIGIN ORGANIC COTTON TOP QUALITY AVAILABLE FROM GROWERS KADIOGLU INVOICE NO.: 7814 dd. 11.01.2007 TRANSPORT DOCUMENT NO. KKLUIZM011915 dd. 14.01.2007 TRANSPORT COMPANY: K.LINE KADI BRAND LOT NO: KAD06-022 CONTAINER NO: FSCU 943750-0 / KKFU 714959-2 / KKFU 714086-7 / TGHU 743167-1 / KKFU 728553-6 HARVEST/PRODUCTION YEAR: 2006		11. Gross mass 231.615,27 LBS 105.060,00 KGS	
		12. Net mass 282.969,75 LBS 103.860,00 KGS	
		13. Alternative units* 480 BALES	
14. Declaration of the body issuing the certificate This is to certify that the products designated above have been obtained in accordance with the rules of production and on inspection of the organic production method, as set out and monitored by the control body mentioned in box 4.			
15. Additional declaration (if appropriate)			
16. Place of issue the certificate Date 15.11.2007 Name and signature of authorised person On behalf of Managing Director SAH GECIKMS		Stamp of the issuing body  	

\*Explanatory notes

Box 4: Control body for compliance with the rules on organic production methods.

Box 5: The firm, which carried out the last operation (processing, packaging, labelling) on the batch.

Box 9: The address of the firm where the batch will be delivered, if different from the address in box 7.

# GOTS Certification

## CERTIFICATE

CERTIFICATE N°: C802040GOTS-02.2007

Field of attention:

**Textile  
GOTS**

Issued to:

**Thai Alliance Textile Co., Ltd.  
Bangkok, THAILAND  
Project in: THAILAND**

Standard:

**"Global Organic Textile Standard - GOTS"  
standards for the processing of fibres from certified organic agriculture.**

**Valid until: 7 November 2008**

Control Union Certifications declares to have inspected the unit(s) and/or product(s) of the above mentioned client, and have found them in accordance with the standards mentioned above.

This certificate covers the unit(s) and/or product(s), as mentioned in the authenticated annex of this certificate.

This certificate is in force until further notice, provided that the above-mentioned client continues meeting the conditions as laid down in the client contract with Control Union Certifications.

Based on the annual inspections that Control Union Certifications performs, this certificate is updated and kept into force.

Date of certification:

20 August 2007

Place and date of issue:

Columbu 04, 10 September 2007

Declared by:

On behalf of the Managing Director

Mr. G.K. Pathirage  
Certifier

Control Union Certifications  
P.O. Box 161  
8000 AD Zwolle  
The Netherlands  
<http://www.controlunion.com>  
tel.: +31(0)38 4260100



**CONTROL UNION CERTIFICATIONS**

COPY

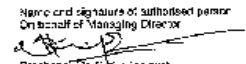


COPY.

Copyright 2007. No quotation or citation without attribution.

## Transaction Certification

JPY.

### TRANSACTION CERTIFICATE FOR SUSTAINABLE TEXTILE PRODUCTS

<b>1. Body issuing the certificate (name and address)</b> Control Union certifications B.V. Maaswijkstraat 4-6 8011 BZ ZWOLLE NETHERLANDS		<b>2. Global International Standards for sustainable textile production.</b> Reference number of the certificate: PUJ 002640303757	
<b>3. Seller of the product (name and address)</b> The Alliance Textile Co., Ltd. 1FF Tower, 147, 1402/2 Siam Front 10300 Bangkok THAILAND		<b>4. Issuing body* (name and address)</b> Control Union certifications B.V. Maaswijkstraat 4-6 8011 BZ ZWOLLE NETHERLANDS	
<b>5. Producer or processor of the product (name and address)</b> The Alliance Textile Co., Ltd. 273 Moo 1 So Wachulung Sub-division road, Chasamungroed 10250 Samutprakan THAILAND		<b>6. Country of dispatch</b> THAILAND	
<b>7. Consignee (name and address)</b> Global Challenge Co., Ltd 203-8 High Rise Tower, 203-8 Guro-3 Dong, Guro Gu, Seoul, KOREA (South)		<b>8. Country of destination</b> KOREA (South)	
<b>9. Address and place of destination*</b>			
<b>10. Marks and numbers, container type, number and kind, trade name of the product.</b>			
EKO 2, sustainable textile standards certified	Production year: 2007	Lot no: 2109	Gross net mass (kg) 143,75 Gross mass (kg) 148,88
Cotton yarn-spun, packed in 06 burlaps *Via organic production methods. Certificate: TA 0025207 del. 05-01-2007 Transport document no: THPL 57A3222A del. 07-07-2007 Container no: EUCU122262 U Identification codes: del. 12. 2109		<b>11. Net mass</b> *139,66 kgs	
<b>12. Alternative units*</b>			
<b>14. Declaration of the body issuing the certificate</b> This is to certify that the products certified above have been obtained in accordance with the rules of production and on inspection of the organic production method, as set out and monitored by the respective aud and/or other body mentioned in box 4.			
<b>15. Additional declaration (if appropriate)</b>			
<b>9. Place and date of issue</b> Maastricht, 20 July 2007 Name and signature of authorised person On behalf of Managing Director  Pauline van der Knaap		Stamp of the issuing body  	

\*Explanatory notes:  
 Box 4: The inspection and certification body for compliance with the rules on organic production methods.  
 Box 5: The firm which carried out the last operation (processing, packaging, labelling) on the batch.  
 Box 6: The address of the firm where the batch will be delivered, if different from the address in box 7.  
 Box 10: e.g. volume in metric tons or pieces, where appropriate, in supplement to the declaration in boxes 11 and 12.

CU

Copyright 2007. No quotation or citation without attribution.

### OE 100 Certification



COPY

Copyright 2007. No quotation or citation without attribution.

Appendix 3

**organic cotton**

The benefits of eating organically grown food are well understood. Much the same is true of organically grown fibers, even though we don't eat them. Cotton is one of the most toxic crops on the planet, receiving some 10% of the pesticides and 25% of the insecticides worldwide. Pure and natural? Anything but. Up to 1/3 of a pound of synthetic chemicals (much of it derived from oil) goes into producing a single pound of cotton using "conventional" means. We use only 100% organically grown cotton in our cotton clothing.

**Benefits**

- Reduces the use of toxic pesticides and synthetic fertilizers that contaminate the earth, air, water and living things, including people
- Uses no risky genetically engineered cotton plants
- Supports biodiversity
- Slows erosion and improves soil

Photo: Scott Wilson

**recycled and recyclable polyester**

Virgin polyester is made from crude oil – an incredibly useful but increasingly scarce and nonrenewable resource associated with a host of environmental and social issues, war and downsidies (pollution). We recycle fabric.

**patagonia's mission statement**

**Patagonia**

For more information on Patagonia's environmental work, visit [www.patagonia.com](http://www.patagonia.com)

Copyright 2007. No quotation or citation without attribution.

- 
- <sup>i</sup> [www.yogitimes.com/los\\_angeles/articles/09\\_2005/images/sept\\_coverstory.pdf](http://www.yogitimes.com/los_angeles/articles/09_2005/images/sept_coverstory.pdf)
- <sup>ii</sup> <http://www.ecobedroom.com/1/cotton.html>
- <sup>iii</sup> Brown, Michael and Yvon Chouinard. Going the Organic: Converting Patagonia's Cotton Product Line. *Journal of Industrial Ecology*. 1991. p. 121.
- <sup>iv</sup> [http://www.ecobedroom.com/1/cotton\\_statistics.html](http://www.ecobedroom.com/1/cotton_statistics.html)
- <sup>v</sup> [www.organicexchange.com](http://www.organicexchange.com)
- <sup>vi</sup> [http://www.lotusorganics.com/articles/cotton\\_facts.aspx](http://www.lotusorganics.com/articles/cotton_facts.aspx)
- <sup>vii</sup> [http://www.ecobedroom.com/1/cotton\\_statistics.html](http://www.ecobedroom.com/1/cotton_statistics.html)
- <sup>viii</sup> [www.who.org](http://www.who.org)
- <sup>ix</sup> Nimon, Wesley and John Beghin. Are Eco-Labels Valuable? Evidence from the Apparel Industry. *American Journal of Agricultural Economics*. Vol. 81, No.4. p. 802.
- <sup>ix</sup> <http://www.organicexchange.org/mission.php>
- <sup>x</sup> *ibid*
- <sup>xi</sup> [www.organicexchange.org](http://www.organicexchange.org)
- <sup>xii</sup> [http://www.apparelnews.net/news/details?article\\_id=2199&page=2](http://www.apparelnews.net/news/details?article_id=2199&page=2)
- <sup>xiii</sup> *ibid*
- <sup>xiv</sup> Nimon, Wesley and John Beghin. Are Eco-Labels Valuable? Evidence from the Apparel Industry. *American Journal of Agricultural Economics*. Vol. 81, No.4. p. 802.
- <sup>xv</sup> [http://money.cnn.com/magazines/fortune/fortune\\_archive/2007/04/02/8403423/index.htm](http://money.cnn.com/magazines/fortune/fortune_archive/2007/04/02/8403423/index.htm)
- <sup>xvi</sup> Email Correspondence: Elissa Loughman. Patagonia, Environmental Analyst. November 29, 2007.
- <sup>xvii</sup> Greenleaf Publishing. (1999). *Patagonia first ascents: finding the way toward quality of life and work*. Retrieved November 13, 2006, from <http://www.greenleaf-publishing.com/>
- <sup>xviii</sup> Greenleaf Publishing. (1999). *Patagonia first ascents: finding the way toward quality of life and work*. Retrieved November 13, 2006, from <http://www.greenleaf-publishing.com/>
- <sup>xix</sup> <http://www.organicexchange.org/mission.php>
- <sup>xx</sup> <http://www.time.com/time/world/article/0,8599,1677385,00.html>
- <sup>xxi</sup> Email Correspondence. Nicole Basset. Patagonia, Social Responsibility Manager. November 13, 2007.
- <sup>xxii</sup> <http://www.fairlabor.org/mission>
- <sup>xxiii</sup> <http://www.amrc.org.hk/Arch/3703.htm>
- <sup>xxiv</sup> [http://walmartstores.com/microsite/walmart\\_sustainability.html](http://walmartstores.com/microsite/walmart_sustainability.html)
- <sup>xxv</sup> <http://www.thehindubusinessline.com/2006/11/17/stories/2006111703590700.htm>