

Rabobank's position on Cotton

Rabobank Group

Our aim

Sustainability is one of the four core values of Rabobank Group, next to Respect, Integrity and Professionalism. We aim to contribute to the sustainable development of society in economic, social and ecological terms. In order to cope with risks related to global environmental change and resource scarcity, it is essential that supply chains become sustainable. Companies face a number of sustainability challenges. This implies that sustainable solutions need to be integrated in their daily business. Sustainable resource management will be key for the long term viability of their business. In our view sustainability is not an option but a condition for future prosperity. This implies that sustainability issues need to be integrated in daily business and that positive and negative impacts as a result of our clients' activities on society and on the environment throughout the supply chain need full consideration in our decision making processes.

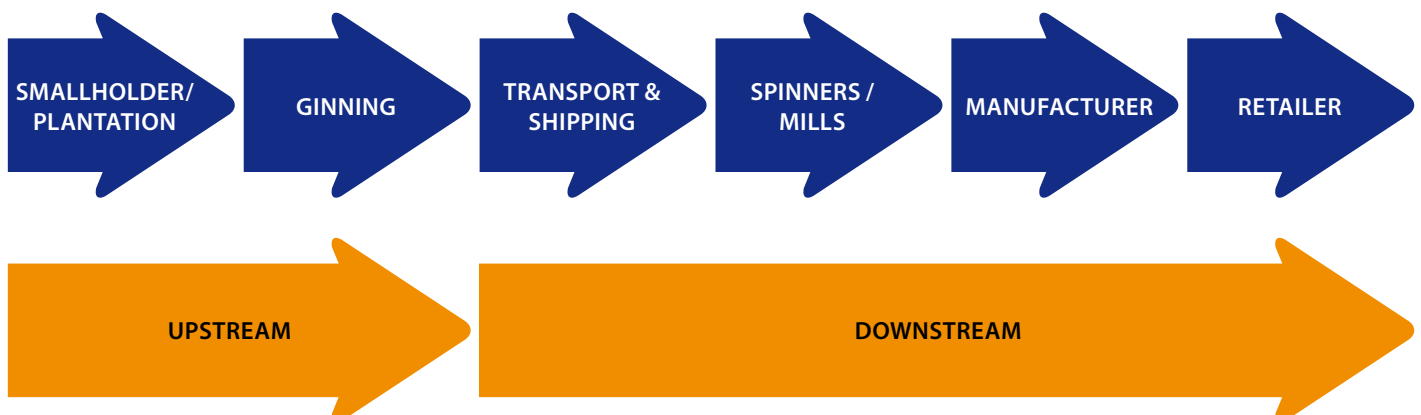
Rabobank aims to positively affect the overall sustainability of the operations of our clients. Our clients in the cotton sector have to

deal with sustainability issues in their business operations. We want to contribute to the realization of a sustainable cotton supply chain by *client assessment* and *client engagement*. The assessment of how our clients deal with material issues will be guided by our Code of Conduct and the Cotton Supply Chain Policy we have drawn up for this specific purpose; the policy is a supplement to the CSR section of our credit manual. It has been designed to support sustainable practices, sustainability being defined in economic, social and ecological terms. The philosophy behind the policy is 'positive engagement' (meaning constructive dialogue) with clients to identify and resolve CSR issues, thus enabling Rabobank Group entities to positively influence clients in CSR issues and avoid any risks to Rabobank. So, the engagement idea is to solve CSR related problems in partnership with the client and to meet challenges for the future. This approach will enable Rabobank to gradually exclude certain undesired operational practices and to motivate clients whenever possible to work towards realizing more sustainable business operations. The cotton policy embraces some binding conditions between the bank and the clients based on material issues we have determined in the cotton sector.

Scope of our Cotton supply chain policy

Our Cotton Supply Chain Policy applies to all commercial banking services such as credit facilities, project finance, advisory services and trade finance provided by Rabobank in the cotton sector. The policy provides conditions for assessing upstream companies (cotton producers and ginners). Downstream companies (e.g. cotton traders, spinners, mills, manufacturers, wholesalers and retailers) will be assessed on how they take their responsibility in the supply chain.

Simplified overview of the cotton supply chain



Material issues

Cotton is produced in different ways and under different circumstances. Rabobank acknowledges that sustainability issues vary accordingly and moreover that regional and local differences can occur, depending on the economic, environmental and social contexts in which cotton is produced. Taking this into account issues generally associated with cotton production, include:

- inappropriate and/or inadequate use of agrochemicals;
- irresponsible use of fresh water;
- pollution of ground- and surface water;
- soil erosion and degradation;
- poor working and labour conditions, including forced-, bonded- and child labour;
- conversion of natural habitats resulting in loss of biodiversity;
- concerns about the economic situation and livelihoods of smallholders.

- protection of preserved areas not to operate in national or international legally-protected or preserved areas and areas containing globally, regionally or nationally significant concentrations of biodiversity values;
- soil management to use practices that maintain and enhance the structure and fertility of the soil and prevent erosion and
- agro chemical use to use, apply and store agrochemicals in a responsible way.
- water management to take adequate measures to safeguard the quality and quantity of ground- and surface water.

Rabobank's 'conditions for investments' for upstream and downstream companies

Our Cotton Supply Chain Policy includes 'conditions for investments' for upstream and downstream companies based on the identified material issues as mentioned above. These conditions relate to (1) legality, (2) human rights, (3) prior consultation, (4) deforestation, (5) protection of preserved areas, (6) soil management, (7) agro chemical use and (8) water management.

Rabobank requests a company with regard to:

- legality to show the legality of its operations and comply with all applicable local, national and international ratified laws and regulations;
- human rights to work in accordance with human rights guidelines as described in the Human Rights policy of the Rabobank Group.¹
- prior consultation to involve affected stakeholders before establishing new operations (process of free, prior, and informed consultation);
- deforestation to refrain from deforestation of primary forest;

¹ The Human Rights Policy is based on the Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, as well as the four fundamental labour norms expressed in the core conventions of the International Labour Organisation (ILO)..

Rabobank believes that downstream companies play an important role in the sustainable cotton supply chain. The extent to which downstream companies can exercise influence on sustainability issues depends among other things on their role and their impact in the supply chain. Therefore, Rabobank recommends companies to have a purchasing policy in place that pays attention to the sustainability issues for cotton production and the conditions for investments as mentioned for the upstream companies.

Monitoring progress in sustainable management

Rabobank is aware that the process of implementing sustainable management standards and practices is challenging and takes time. We accept that some clients are more advanced than others, as long as clients are able to show significant progress in implementing environmentally and socially responsible management practices and responsible purchasing. If we have reason to believe the client does not comply with the abovementioned conditions or shows insufficient progress in integrating sustainability measures in daily operations, we will engage with the client to achieve the desired improvements within an arranged time frame.

Engagement practices to contribute to improvements

There is no single, globally applicable sustainable management solution. As issues can vary widely from one region to another, improvements towards sustainability can vary accordingly. Nonetheless, sustainability principles can be applied across different regions and climates. Rabobank is convinced that a sustainable cotton industry can be achieved through the use of new technologies and

improved management techniques in combination with attention being paid to working and labour conditions. Rabobank chooses therefore to adopt an active and positive engagement approach to contribute to improvements in the sector.

For example, we will encourage upstream companies to be *transparent* on their current production and their plans to increase the production of sustainable produced cotton or downstream companies to be transparent on the current sourcing and plans to increase sourcing of sustainable produced cotton among other things. We will also encourage companies to deploy *good practices* such as - among other things - setting up a track and trace system to identify sustainably sourced cotton, or adopting good agricultural, social and environmental management practices, which enhance biodiversity and soil conservation, the maintenance of water quality, safe and healthy working conditions or providing a remuneration for their employees and small holders appropriate to gain a decent livelihood.

Disclaimer

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