



Rebranding for the 21st Century

How Abercrombie & Fitch Can Add Shareholder Value
by Avoiding Social and Environmental Risk in its Fabrics Supply Chain

Overview

2016 marks a time of transition for Abercrombie & Fitch. Since 2011, the overall downward trend of Abercrombie & Fitch's share price has forced the company to reevaluate the core components of its brand image and marketing strategy. The company's overhaul comes at a time when major apparel brands around the world are becoming increasingly aware that their social, environmental and governance performance are vital to ensuring a competitive advantage in today's marketplace.

There is growing recognition that the sourcing of fabrics is an important component in apparel companies' risk management and in attracting today's younger, more environmentally conscious consumers. According to the 2015 Cone Communications/Ebiquity Global CSR Study, which covers nine of the largest countries in the world by GDP, nine out of 10 consumers expect companies to do more than make a profit. Today's consumers expect companies to operate responsibly to address social and environmental issues, with 84 percent of consumers globally saying they seek out responsible products whenever possible.¹

Major brands, including H&M, Zara, Marks & Spencer, Levis & Co, and others,² are leading the way by developing commitments to ensure that the destruction of ancient and endangered forests, as well as human rights abuses, are never found in their supply chains. These companies are working to retain customer trust and loyalty by establishing due diligence measures and purchasing policies which help insure that these risks are eliminated. By failing to address environmental concerns, Abercrombie & Fitch is at risk of lagging behind its competition which can lead to declining brand value and risk for shareholders.

Wood-based fabrics, including rayon, viscose, and modal, are used in over 300 items that Abercrombie & Fitch sells. Some plantations that provide the raw materials for these fabrics have been shown to destroy valuable forests in Indonesia, Canada, South Africa, and elsewhere, and to violate the rights of Indigenous and local communities by stealing the land that communities rely on for farms and other basic necessities. This includes habitat for endangered species such as sunbears, caribou, and clouded leopards. Conflicts in pulpwood plantations have lead to violence and the imprisonment and beating of non-violent community activists.

Abercrombie & Fitch currently does not take the due diligence measures necessary to prevent egregious sources from entering its supply chain. This is not consistent with Abercrombie & Fitch's stated commitment to: "recognize the importance of environmental stewardship, and [understand] the constantly evolving impact that our business and operations have on the communities where we make and sell our products". By operating in a manner that is inconsistent with its values and commitments, Abercrombie & Fitch puts its brands at risk.

As Abercrombie & Fitch recasts its image in the global marketplace, it is an ideal time for Abercrombie & Fitch to take a strong proactive stance on environmental conservation and human rights. One thing is clear: if Abercrombie & Fitch fails to improve its systems and practices and recognize the greenward shift in the marketplace, investors may find themselves associated with continued lagging performance as well as the loss of priceless forest ecosystems and violations of human rights.

The Forest-Fashion Connection

The connection between Abercrombie & Fitch and the forests of Indonesia, Canada, and South Africa may not be visible to the everyday consumer, but it is very real. Rayon, viscose, and modal fabrics are derived from trees, which come from either natural forests or plantations. This wood is processed into pulp, which is then chemically treated to produce filaments. These filaments are then spun into thread and woven into cloth, which is used in the clothing sold by Abercrombie & Fitch and other brands. In many cases pulp, viscose fiber, and the resulting cloth are processed, refined, and sold in different parts of the world, resulting in a complicated and non-transparent supply chain.

While it may be hard to trace where the fabric from a specific t-shirt or skirt may come from, it isn't hard to see the impact on the world's forests. Wood-based fabric production has doubled in the last 10 years.³ Currently, an estimated 120,000,000 trees are cut down annually to make wood-based fabrics, and due to the inefficient process of creating viscose staple fiber, only 1/3 of every one of those trees becomes fabric. About 1/3 of all these trees come from forests that are considered ancient or endangered.⁴ This forest destruction is only expected to worsen, as viscose production is expected to double between 2015-2025.⁵

Pulp and paper plantation expansion is the second largest threat to Indonesia's forests. Indonesia's forest destruction — which totaled over 16 million hectares between 2000 and 2015⁶ — has a huge impact on people and planet. Indonesia's forests are home to priceless biodiversity, including sunbears, hornbills, clouded leopards, and so much more. Expansion currently threatens biodiversity hotspots including the critical Leuser Ecosystem, the last place on Earth where Sumatran orangutans, elephants, tigers, rhinos and sun bears still exist in the same ecosystem. Deforestation also has a huge impact on the climate; forest degradation accounts for between 10 and 15 percent of global human-induced greenhouse gas (GHG) emissions, and the burning of peatland associated with forest clearing accounts for an additional 3 percent of emissions. Finally, 80,000,000 - 95,000,000 people in Indonesia alone can be classified as "forest people", defined as people who "live in and have customary rights to their forests".⁷ These are people who depend on the forest for hunting and gathering, farming and trade. They depend on the water in the rivers for drinking and bathing subsistence and trade, and are left extremely vulnerable when the forest is destroyed.



INDONESIA

Grower companies cut down community-owned forests, convert to pulp plantations and processes the trees into dissolving pulp



CHINA

Dissolving Pulp is processed into long viscose fibers, spun into thread, woven into cloth, and sewn into clothing



USA

Products are sold by popular brands including Abercrombie & Fitch

The Worst of the Worst:

Toba Pulp Lestari and the Impact of Wood Based Fabrics on the Pandumaan- Sipituhuta Community

One community that is feeling the immediate impact of irresponsible pulp sourcing is the community of Pandumaan-Sipituhuta in the Lake Toba region of Northern Sumatra, Indonesia. Pandumaan-Sipituhuta is home to 800 indigenous Tano Batak families. Over 60 percent of the families make their livelihood from tapping the resin of the kemenyaan, or benzoin, tree which is a native species that grows in the upland rainforests of the region. Benzoin farmers work in the forest for five days at a time, tapping sap from trees that have been planted in between trees in the natural forest. The sap of the benzoin tree is sold internationally and is used primarily for incense, but also for medicine, varnish and flavoring. This is a lucrative livelihood — one hectare of benzoin forest can produce enough to ensure good educations and health care for a family, including sending their children to college. The forest also provides vital environmental services, including ensuring a sustainable water supply and a healthy watershed, which supports local rice farming. The forest also serves as a source of shelter, medicine and food through hunting and gathering.

The community of Pandumaan-Sipituhuta has managed this forest resource, known locally as *tombak hamijon*, for over 13 generations. Customary rights to this land are communal and are acknowledged by all neighboring communities. Nonetheless, these rights have yet to be recognized or formally acknowledged by the Indonesian government. In 2009⁸, the Minister of Forests, MS Kaban, included this land as part of a concession given to Inti Indorayon Utama, which later changed its name to Toba Pulp Lestari (or TPL). As the forests were cleared, the community found that not only had their land been taken but the key source of their livelihoods — the benzoin trees themselves — were being destroyed and their overall environment was being devastated. As the land was grabbed and natural rainforests

were cleared and converted to industrial pulp plantations, the planting of water-intensive eucalyptus trees was drying up a local river. This meant that communities did not have access to clean water for drinking, bathing and watering their wet rice paddies.

The community has been actively fighting back with every accessible means. From the beginning of TPL's encroachment, the community has complained to the local police about the land-grabbing. In 2012, a multi-stakeholder investigation by the National Forest Council found that 4,100 hectares of community lands and managed forests had already been partially cleared and planted by TPL. The District Head informed the Ministry of Forestry that he believed that the boundaries of the concession should be revised to remove the community-owned land and the local parliament concurred. TPL ignored these recommendations and continued operations to clear-cut and convert the community's forests.

The community has also been actively engaging in protest. After four years of community resistance, which faced intimidation by the police mobile brigade and a number of arrests of community members, the situation in Pandumaan-Sipituhuta escalated dramatically when, in early 2013, TPL employees were discovered cutting down the benzoin trees. Roughly 250 residents came out to protest where the forests were being cleared. They took the chainsaws that the TPL employees were using to clear the forest and brought them back to the village. Toba Pulp Lestari again called in the police mobile brigade, which arrived in the middle of the night and — threatening the community with rifles — searched through the houses of sleeping families. Local people were beaten with truncheons and elderly community members were assaulted. The police



arrested 31 farmers. The police later released 15 of the farmers, with the other 16 remaining in jail for two weeks. Hundreds of people joined in protest outside of the local police station, demanding that the arrested farmers be released. These farmers are still awaiting trial.

Currently, the community of Pandumaan-Sipituhuta and TPL are at a standoff. TPL has said they do not intend to cut down more of the benzoin forest owned by the community — but they have not documented that commitment, and have already established eucalyptus plantations on hundreds of hectares of community lands where the company refuses to respect, and the government refuses to recognize, collective community rights over the area and excise it from TPL's concession. The community is demanding that the government recognize their legal rights to their lands and to their benzoin forests and that TPL excise their lands from the concession.

Pandumaan-Sipituhuta is only one of the many communities who are in conflict with Toba Pulp Lestari (TPL). There are currently over 18 communities who are in conflict with TPL, with well over 3,000 families and 16,000 hectares of forest impacted by TPL's expansion. There have been over 60 arrests as communities have peacefully protested to protect their lands. Despite the ongoing community protests, as well as campaigning on the local, national and international level, TPL and the government have yet to take decisive action to meet community demands and remedy the harms communities have suffered.



THREE GENERATIONS OF AN INDIGENOUS TANO BATAK FAMILY FROM THE NEAR BY VILLAGE OF NAGAHULAMBO, WHO HAVE ALSO BEEN FIGHTING TOBA PULP LESTARI'S INCURSION INTO THEIR LAND. PHOTO: BRIHANNALA MORGAN / RAN

Avoiding Risk and Adding Value

Some of the world's largest and most recognizable brands have started to lead the way toward a solution. Leading brands, designers, viscose producers, and suppliers are developing and implementing policies that address the impact that their fabric procurement is having on forests and the people who depend on them. These companies represent over 85 billion USD in annual revenue and include Zara-Inditex, H&M, Levi Strauss & Co., Marks & Spencer, Eileen Fisher, Patagonia, PrAna, and many more. These companies have avoided risk to their brand's reputation, as well as ensuring compliance with the growing realm of forest commodity regulatory controls such as the US Lacey Act. They have also benefitted by publicly promoting their environmental commitments, offering a value-added product for consumers who care about environmental issues.

Wood pulp and viscose producers have also started to take this issue seriously and develop policies to address forest destruction and human rights abuses. On February 5th 2013, the largest pulp and paper company in Indonesia, Asia Pulp and Paper, released a strongly-worded policy. On June 3rd 2015, Indonesia's second largest pulp and paper producer, APRIL, followed suit and also released a policy. Policies by producers have gone hand in hand with policies released by viscose manufacturers. The three largest viscose manufacturers — Sateri, Birla, and Lenzing — have all recently released procurement policies focused on eliminating forest destruction and human rights abuses from their supply chain. In March 2016, this was followed by similar commitments from six large Chinese viscose producers.⁹ While these policies are only the beginning, and there is still much work that needs to be done on policy implementation, they serve as a signal that the industry

is becoming aware of risks and that clear environmental and social procurement requirements are having an impact. By failing to act, Abercrombie & Fitch is falling behind the industry's trend towards sustainability.

Recent research has also shown that adopting and implementing robust sourcing policies and procedures can have additional benefits for Abercrombie & Fitch and shareholders, serving to make the company more productive and increase happiness amongst employees. Professor Magali Delmas, an environmental economist at the University of California-Los Angeles, and Sanja Pekovic from France's University Paris-Dauphine found that employees at companies that are considered "green" are measurably more productive, stemming from the employees' appreciation for their workplace.¹⁰ Their research found that the higher-productivity effect stems from increased satisfaction with jobs at companies that are perceived to be environmentally friendly.¹¹ Green companies were also able to attract higher caliber employees, as more business school graduates express an interest in making positive change, in addition to making money.

The actions of both consumer-facing companies and actors throughout the supply chain prove that it is possible for Abercrombie & Fitch to take responsibility for the impact that its fabrics are having on forests and the people who depend on them. By failing to take action, Abercrombie & Fitch is lagging behind its competitors and failing to take advantage of the potential marketing benefits with an increasingly environmentally conscious consumer base.

What Abercrombie & Fitch Can Do?

The Rainforest Action Network urges Abercrombie & Fitch to be proactive and commit to establishing full traceability and eliminating controversial wood-based fabrics, fibers, and suppliers who source from ancient and endangered forests, including areas with high risk of social conflict, by 2017. Specifically, we urge Abercrombie & Fitch to:

- » **ARTICULATE SOCIAL AND ENVIRONMENTAL COMMITMENTS:** Make a public commitment to protect rainforests, peatlands, climate, biodiversity and human and labor rights and to eliminate controversial sources from the company's supply chain. The commitment should identify the Royal Golden Eagle Group, Sateri, and Toba Pulp Lestari and their customers as high risk and controversial sources.
- » **ADOPT A COMPREHENSIVE SOURCING POLICY:** Develop and implement a fabric/forest products sourcing policy that eliminates egregious fiber and companies that contribute to deforestation or forest conversion, expansion on carbon-rich peatlands, failure to address ongoing social conflict, and/or the violation of human and labor rights. This policy should include a commitment to transparency and independent verification and a time-bound implementation plan including public reporting.
- » **DEVELOP A ROBUST TIME-BOUND IMPLEMENTATION PLAN:** Set measureable time-bound performance targets and outline auditing and independent verification measures for implementing the company's responsible forest fabrics policy. This must include transparency requirements for suppliers and clear steps on how the company will publicly report all aspects of progress.
- » **REQUIRE SUPPLIERS TO ELIMINATE SOURCES OF CONTROVERSIAL FIBER:** Develop and implement due diligence procedures, elimination criteria and evidence based verification requirements as part of the time-bound plan, eliminating wood based fabrics, other products and companies who continue to produce controversial fabrics or are associated with egregious practices.
- » **BECOME AN ADVOCATE FOR PROTECTING RAINFORESTS, PEATLANDS, CLIMATE, BIODIVERSITY AND HUMAN AND LABOR RIGHTS:** Work with peers and other stakeholders to advocate for wider actions that address underlying causes of controversial fabric, reduce adverse environmental and social impacts from supply chains, and support enabling laws and regulations in both producer and consumer countries.



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Contact

For more information on the Rainforest Action Network and our ongoing efforts to eliminate rainforest destruction and human rights abuses from the fashion industry, please contact Brihannala Morgan, Senior Campaigner at Rainforest Action Network, at bmorgan@ran.org

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