

Our Sustainability and Fair Trade Management Report 2008-2009

Pachacuti means world upside-down in the Quechua language and describes our endeavour to redress the inequalities in the global fashion industry through demonstrating that it is possible to run a successful clothing business which benefits the producers and is environmentally sustainable.

Pachacuti was founded in 1992 by Carry Somers, with a vision of using Fair Trade to help traditional artisans in the Andes. Over the past 17 years, Pachacuti has grown to a multi-award winning Fair Trade company operating a retail shop, internet mail order and wholesale business supplying customers around the world.

Pachacuti designs collections of contemporary clothing and accessories which feature traditional skills and locally sourced materials. Pachacuti now provides the primary source of income to around 1200 weavers, embroiders, knitters, and hatters in Ecuador, Peru and Bolivia. Pachacuti comprises of a team of seven people.

Administrative Contact

Cary Somers
19 Dig Street
Ashbourne
Derbyshire
DE6 1GF UK
tel: 01335 345851
www.panamas.co.uk
www.pachacuti.co.uk

Our Journey to Fair Trade Certification

The first lines of cotton clothing carrying the Fairtrade Mark appeared in 2005 and with widespread support by the media and high street shops, achieved sales of £37 million in the UK by 2007. We were not able to participate in this success as our principle materials, alpaca for our knitwear and Paja toquilla (palm Fibre) for our Panama hats, though locally sourced and sustainable resources, are not covered by Fairtrade certification.

The limited scope of certification has actually prevented us from receiving orders from High Street retailers. A major clothing chain wanted to order our Panama hats but when they realised that they did not carry a FT mark they told us to come back to them when we had a Fair Trade label. As a result, we decided to become the first enterprise in the UK to participate in a new worldwide Fair Trade certification system launched by the WFTO.

Our strategic objectives for the next 3 years

1. Develop a fashion forward hat collection to expand market potential.
2. Increase Pachacuti's brand awareness in mainstream markets.
3. Provide more out of season work for our knitters by developing a Spring/Summer alpaca collection
4. Increase exports to 10 additional E.U. countries and the USA
5. Cut our CO2 Footprint by 25%
6. Establish an Apprenticeship program for 30 young women panama hat weavers to preserve traditional skills
7. Reduce the cost of Quality Non Compliance by 90%

The Countries in which we work



	Peru	Bolivia	Ecuador	UK
1. Minimum Wage per month	550 soles	577.5 bolivianos	\$170	£995
2. COFACE Business climate ² Best A 1 2 3 4 B C	B	C	C	A1
3. 2007 CORRUPTION perception INDEX ³ Best 1 – Least 179	72	105	150	12
4. 2008 Education Index HDI ⁴ Best one – Least 176	73	72	84	28
5. Human Development Index Rank Scale ⁴ Best 1 – least 177	87	117	89	16
6. Economic competitiveness ⁵ Best 1– Least 104	65	95	88	14
7.Environmental performance Index Scale ⁶ Best 1 – least 149	60	110	22	14

1. Siesin Columbia University Sustainability Indicators collection
 2. COFACE Country Risk and Economic Studies Department
 3. Transparency international
 4. United Nations UNDP
 5. Legatum prosperity Index
 6. Yale Center for Environmental Law and Policy

FIRST PILOT CERTIFICATION
 ENDORSED BY WFTO MAY 9TH, 2009



Our Fair Trade Principles

1. Transparency and accountability

Fair Trade involves transparent management and commercial relationships based on respect and fairness. In order

to show accountability to our stakeholders, we are publishing this annual report.



Whenever a Pachacuti order arrives, the embroiderers will prioritise it above any other work they may have as Pachacuti pays them more and they enjoy embroidering new designs.

2. Creating opportunities for economically disadvantaged producers

Fair Trade is a strategy for poverty alleviation and sustainable development which creates opportunities for producers who have been economically disadvantaged or marginalized by the conventional trading system.

Almost 20% of our producers now face shrinking local markets due to the rapid westernisation of traditional dress. The opportunities Pachacuti provides to access new markets is extremely important in order to sustain their business and ensure that their traditional skills and cultural textile heritage is not lost. In the village where we make our felt hats, there were 15 different hat makers but the decline in hat wearing amongst indigenous Ecuadorians means that only two now remain.

Careful preplanning and a year-round order plan instigated in September 2007 ensured a 56% increase of panama hat stock levels resulting in over 10,000 Panama hats purchased.

Our embroidery group, La Esperanza, (meaning Hope in Spanish) is particularly vulnerable. Pachacuti has provided a new outlet for their traditional skills through our line of embroidered cotton childrenswear.

• Number of producers with whom Pachacuti works	18 groups
• Numbers of persons dependent on orders from Pachacuti:	1200
• Number of less dependent producers (less than 25% of turnover:	302
• Number of dependent producers (over 25% of turnover)	894

3. Long Term Trade Relations

We have developed long term relationships with our producers based on solidarity, trust and mutual respect. We have been working for more than 10 years with 50% of our producers. All of our producers have been visited at least once during the last two years.

Regular orders

In 2007-8 our panama hat weavers had regular, monthly orders which ensured a regular, predictable income for the cooperative and allowed them to plan for the future.

Prepayment is always available for all producers.	50% always/ 70% upon request for alpaca
Trade Relationships in years	4 groups /15 years+ 5 groups/7 years +
Frequency of orders to Hat producers	Monthly
Lead Times- Pachacuti vs. Mainstream	4-5 months vs. 1-2 months

4. Paying producers a fair price in return for their work

A fair price in the regional or local context is one that has been agreed through dialogue and participation. Prices are set by exchanging information with our producers in order to achieve transparent and clear pricing structures. Higher wages will help to curb the rural-urban migration which is so prevalent in the Sigis region, with many young women moving to Cuenca to work as domestic helpers.

Panama hats represent over two thirds of our purchases. We choose to work with organisations who support their local community.

Social Premium financed by Panama Hat Production

In 2007-8 sales of our panama hats have helped to support 4 projects for our Panama hat producers:

Weavers' income from panama hats and from agriculture	50%/50%
Difference of fair price over mainstream price	15%
Fair price increase over 4 years to 12/08	70%

1. Construction of a community, co-operative grocery store
2. Support of a group of Alcoholics Anonymous through provision of board and lodging for one year
3. Help poor families to educate their children
4. Financial assistance to elderly weavers whose houses are in need of restoration.



5. Gender Equality in Fair Trade means that women's work is properly valued and rewarded

Pachacuti works principally with organisations of women in rural areas, including single mothers, wives of alcoholics, wives of miners, teenage mothers and other socially, economically and geographically marginalised women.

Through our trade and support for training and social programmes we have helped to increase their self esteem.

2007-8 financial assistance has been provided to the co-operative for pensions and financial support for administration \$160 per month.

In 2007 Pachacuti paid an additional \$1000 to the pensioners, plus all monies received from the sales of our local reward cards to help renovate their houses.

Benefits and Financial assistance to most needy women.

Pension for women not covered by co-op	\$60 month
Financial resources allocated to assist needy woman	\$3000



Our women hat weavers say: "A fundamental aspect of our association is the constant training and collective and individual improvement, above all in the area of personal growth and self-esteem."

6. Fair Trade means a safe and healthy working environment for producers

During our baseline assessment visits in 2008, 8 groups representing 70% of our production were advised on good practice with regard to posture, taking breaks, working in good light, chemical use and storage and use of masks. Two groups are purchasing fire extinguishers and one is purchasing a first aid box.

Over the past three years Pachacuti has provided financial resources to build a shelter for batik workers and a room for mixing dyes (2005 Cascade, Ibarra, Ecuador).

Financial resources allocated to H& S Respirator	\$140
Eye tests and glasses for embroiderers	\$400
Medical tests for knitters in Puno, Peru	\$300
Roll-out of H&S advice with groups and multipliers	70%

7. Capacity building is a means to develop producers' independence and protects local cultural heritage

The skills base of panama hat weavers is in decline causing the whole industry to be in danger of dying out within the next generation unless more young people in rural Ecuador start to learn the trade. We are committed to developing a apprenticeship program to train the new generation of high-quality weavers

We have developed a personalised action plan with each of our producer groups. Due to the marginalised nature of some of our producer organisations, we often have to subsidise their errors as we help them to develop

their capacity. The estimated cost of of noncompliant goods during 2007-8 was £20,000. We aim to reduce this by 90% by 2011.

To accomplish this we are supporting training in design and production skills, and along with our producers, we have analysed the production processes and underlined points of improvement. We have taken on a new employee in Ashbourne with the role of improving compliance.

Assets investment We finance new hat blocks, which is a tool required in order to improve the quality, sizing and standardisation of their products.

Support Development of locally adapted management tools	£1646
Hours of training within producer groups on design, colour theory, quality and new techniques	250
Full day workshops to develop new designs	7
Full day visits to producer groups	18
Professional designer visits to South America	1
Financial resources allocated to assets investments	\$2000

8. Promoting Fair Trade

Pachacuti actively promotes Fair Trade. We participate in the Ashbourne One World Group and Fairtrade Group and work with our local schools organising fair trade fashion events.

Pachacuti is an active participant in the WFTO and attends the UK's WFTO leadership conferences.

We provide work placements for university marketing students from France and Ecuador and design students from the UK with the aim of encouraging a new generation to work more ethically in their future careers. Three students have worked with Pachacuti in 2007-8.

We are a nationally recognised award winning ethical business:

- Winner - The Hat Magazine Hatty Award 2008
- Winner - Re: Fashion Business Award and Re: Fashion People Award 2008
- Winner - Entrepreneur with a Conscience 2008

9. Child Labour

Pachacuti respects the UN Convention on the Rights of the Child, as well as local laws and social norms in order to ensure that the participation of children in production processes of fairly traded articles does not adversely affect their well-being, security, educational

requirements and need for play.

Our producer groups all believe that it is important to pass traditional skills onto their children, who are keen to learn this essential part of their cultural heritage.

However, the high quality of Pachacuti's

products means that children do not participate in the production process.

Child labour issues	0
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10 Environment: Our environmental statement

We integrate environmental concerns into our production process and business operations with the aim of reducing and preventing pollution, emissions, waste and harmful chemicals. We are committed to using locally-sourced, sustainable raw materials in our supply chain. We aim to be a sustainable business by finding environmentally-friendly means to continuously improve our performance. During 2008 we put into place an environmental management system according to EU EMAS Regulations. Our environmental management system is operated by the management and staff.

Direct environmental aspects

Pachacuti has identified the direct and indirect environmental aspects of our business activities by reviewing environmental legislation, Eco-mapping of our premises, analysing material flows and speaking with all stakeholders.

The direct environmental aspects over which we have significant management control include the following; energy usage, CO₂ emissions from travel and shipping, water usage, waste generation, and use of packaging materials.

Environmental objectives

Our most significant environmental issue is the use of airfreight for bringing our products into the UK. We aim to lower our CO₂ emissions by shipping 25% of goods within next 3 years.

In April 2009 we switched our supplier of electricity to 100% renewable and are looking for new "greener" suppliers for our gas and telephone.

Pachacuti has instituted a comprehensive recycling program at our premises and we reuse and recycle at least 95% of all packaging used in our business. We currently use cardboard which contains an average 59% recycled content and during the coming year we will source 100% recycled material.

We have installed compact fluorescent lighting throughout our offices, warehouse and shop.

ENVIRONMENTAL INDICATORS

PERIOD 2007-2008

CO₂ calculations -DEFRA and ADEME

Energy Usage per Annum	CO₂: 12.55 T.
Electricity	20,472 KWh
Gas	8442 KWh
Emissions:	CO₂: 14.3 T.
Travel: Land/Train/Air	16100/2764/81078 km
Air Freight	CO₂: 40.6 T.
Ecuador/Peru/Bolivia	1733/1273/20 KG
Total CO₂ emissions	67.45 tonnes
Water	6.6 cubic meters
Household waste	676 kg
Use of packaging material	882 kg
Legal requirement "duty of care"	100%
Recycling of packaging	95%

Promoting Environmental Awareness is an important part of our business relations with our suppliers and customers.

During our baseline assessments, we gave presentations to our fair trade producers to convey the importance of environmental sustainability and then conducted environmental inspections of our producer groups premises to identify potential areas of concern. i.e, electrical and water usage and recycling of waste materials, health and safety.

2009 we will produce a garment care leaflet to accompany all clothing which will advise consumers how they can minimise their own impact through the washing, drying and disposal of clothing.

Indirect environmental aspects

Indirect aspects of significance which we have identified include delivery of our products, producer activities and product life cycle including customer care of the product.

Product Life cycle

Pachacuti promotes the idea of slow fashion through a product's design, production and consumption. Our PR strategy 2009-11 will publicize slow fashion – garments of high quality, sustainable, long-lasting, encompassing cultural values – as an antithesis to disposable fast fashion which has dominated the mass-market.

Our Product Design

Pachacuti makes a life cycle assessment

of new products at the design stage. High environmental impact occurs during the consumer phase of a garment's life cycle, with only low impact occurring during production and disposal. Approximately 2/3 of our clothing and accessories are made from alpaca which has a low impact during consumer use as it repels stains and odours and rarely needs washing. Moreover, as alpaca stays looking like new for years (estimated 10 year life cycle) it reduces the frequency of purchase of replacement garments. All of our products are 100% biodegradable or recyclable.

Minimising CO₂ emissions through local supply chains.

Over 90% of our raw materials are sourced within country, thus contributing to the local economy and reducing CO₂ emissions. As far as possible, we

verify the sustainability and ethical policy of the suppliers of our raw materials.

Biodiversity and Buttons: 100% of our Ecuadorian clothing has tagua nut buttons. Tagua nut buttons are an important means of rainforest conservation as the nuts can be sustainably harvested and areas with tagua trees are not deforested.

Environmentally responsible production methods in our supply chains

Dyes: We are committed to using AZO free dyes in our clothing range as required by Directive (2002/61/EC) of the European Union.

Our largest Panama Hat producer groups have a purification system to filter out the chemicals used in the bleaching process and re-use the water.

VALIDATED INFORMATION

Date April 7th, 2009

Dr. B. KÜHNEMAN

Environmental verifier DE-V-0103

Scope: G46.4.2

Wholesale of clothing and footwear



STATEMENT OF THE EXTERNAL AUDITOR

The undersigned attests that the organisation is in compliance with the requirements of the following standard WFTO SFTMS draft 2 March 2009 and that the published information is reliable and truthful.

Date April 7th, 2009 **Dr. B. KÜHNEMAN**

