PSAC’s Committee on Brand’s and Retailors

Recommendations on Policy Making for Traceability

ICAC Plenary Meeting
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Mumbai, India
The current and upcoming regulations on traceability, prohibition of forced labour, and due diligence — amongst others — are now becoming business imperatives. This is a very encouraging time because technology and regulatory forces are creating a convergence of factors that are amplifying the need for this internally within brands and retailers. We support discussions on these matters.

During the last few years, the demand for traceability solutions has come up significantly, and thus the pressure to buy traceable cotton is growing as well.
• **Monopoly of the Large Retailers**
  It may create a situation that is biased toward big brands and retailers that have the resources and funds to adapt to new laws faster. Countries should aim for as many buyers as possible, not just several large retailers. This is another reason to drive traceability.

• **Difficulties in Tracing the Origin of Cotton**
  - As the Committee discussed, there are two types of technologies that are supposed to be able to trace the origin of cotton: DNA mapping and isotopic testing:
    - The first technology makes it possible to map all the cotton producing regions except for a few — Xinjiang, for example (because they could not access the region).
    - Isotopic testing does essentially the same thing, only it’s based on chemical characteristics.
      These tools can help to validate the information brands/retailors collected, but if they don’t have any idea where the cotton came from and how it moved through the supply chain, they still don’t have full traceability. For example, some countries’ governments do not recognise these tests as proof and require all documentation to be presented.
• **Inaccuracies of Risk Mapping Systems**
  - Countries use relationship risk mapping systems for targeting consignments, including systems based on reports from academia and NGOs, as well as private solutions. This system is not always 100% accurate because about 30% of detained shipments aren’t released until later. In some cases, the importer is not informed why the shipment was detained, which makes it difficult for the importer to avoid the same situation from happening again.
  - These risks are usually based on independent investigations and alerts submitted to the government, along with some proprietary mechanism.
  - In many cases, when the consignment is detained by the authorities, the cost of warehousing and delays is paid by the brand or retailer.

• **Not a Level Playing Field**
  - There are brands that are more advanced in terms of access to technological solutions.
CONCERNS

• **Need for Robust Due Diligence**
  - Companies may have to perform a level of due diligence that mitigates human rights violations and environmental impacts, but the intent is for companies to have a robust due diligence approach. This could mean full traceability for some companies depending on their level of risk and industry. While the committee supports these approaches, they do have heavy costs associated with them.

• **Timeframes**
  - Some of regulations are already laws and it is expected that other regulations will be implemented and fully functional within the next two years.

• **Impact of Small and Mid-Size Businesses (SMBs)**
  - There are about 160,000 textiles SMBs in the EU alone; in the developing countries there are even more. Some organisations in certain countries do offer training to their members and their suppliers, and it’s free for the suppliers. However, these are mostly specific to developed nations. If an SMB from a developing nation exports product to a developed nation, it may still come under scrutiny in the future. In this scenario, the SMB from the developing nation does not enjoy any benefit, time lag, facilitation, or the incorporated capacity building.
CONCERNS

- **Associated Costs**
  - This likely will be very expensive to manage, considering the complexity of the supply chain. This may give advantage to large companies and discourage SMBs. SMBs are definitely expected to be impacted because they have fewer resources, and they are and are expected to continue to get hit by shipments being detained as much as large companies are. Even in enforcement, there is no discretion. There is no safe harbour for smaller companies.
  - Even the larger companies purchase from SMBs. Fashion is changing every week and textiles are coming in so many different blends that it is difficult to check the entire chain. The cost of doing it can bring the whole fashion sector to a standstill. The timeline for implementation should be extended to help SMBs catch up.
• **Costs Associated with Implementing a Traceability Solution**
  - Some traceability solutions are trying to make their systems as affordable as possible for all the actors to encourage broader adoption. For example, in some cases under certain traceable solutions, there will be no additional technology costs — but there will be a three-year audit cycle and those costs can’t be avoided; the other cost will be for training staff.
  - Some solutions are/will be free for small to medium farmers. Some also support trainings and knowledge sharing on the production side.
  - However, every traceable solution comes with a cost of its own. For buying or selling their certified cotton on a given platform, a premium needs to be paid — so of course, there is a cost.
  - There are also systems that don’t have audits in place, at least not at the level of cotton producers. In those cases, the additional work falls on brands. It involves a lot of data collection and management, staff time, software, etc., and this should also be taken into account.
Fragmented Industry
One of the challenges of any traceability solution is trying to connect unconnected transactions. When farmers send their cotton to the gin, there is no connection to a brand, or even to a yarn. So there is a need to create these fixed levels of inventory. We have a very fragmented industry and that creates challenges from the traceability point of view.

The need to use a single traceable solution for the entire value chain
It is a challenge to connect all the stakeholders throughout the supply chain and get them to sign up for a single, traceable solution for the cotton bale. The greatest challenge of traceability is when the actual recipient of the material can/is able to self-declare their inventory. As a result, everyone in the cotton value chain needs to be a part of the same traceable solution.
- **Generalised Laws and Regulations**
  Some laws certain some countries — for example, those intended to prevent child labour — are not country- or region- or product-specific. They are generalised by some countries. This also means that regions with no history of complaints regarding child labour may still be subjected to auditing.

- **No Standardisation**
  It is challenging because every country creates its own protocols, which often are different from another country, and thus might require a completely different traceability solution.

- **Difficulty in Creating an Unbroken Chain of Custody**
  It is a challenge to create and maintain an unbroken chain of custody. This has to be fibre-forward. If you start with the product and try to work your way backward, it is very difficult to connect transactions. Given that brands and retailers are the last link in the cotton value chain, they have little to no control regarding traceability.
The idea is to make a recommendation to cotton producers, spinners, weavers, traders, merchants, and every other sector of the cotton value chain — regardless of their country of operation — that they should take this initiative seriously and adopt a traceability approach; we need to share that urgency and educate everyone throughout the supply chain about the urgency caused by regulatory pressure. There should be legal agreements that bind the entire cotton value chain together.

**RECOMMENDATIONS**

**Awareness Amongst All Sectors of the Cotton Value Chain**

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**Consumer Awareness**

Brands have historically struggled to get their consumers to believe that they are doing something sustainable and to spend extra money on such products. There is this intent-to-action gap, which mainly occurs due to mistrust — but traceability can bridge that gap.
### RECOMMENDATIONS

| Compatibility amongst different traceable solutions so they can be used interchangeably. | Standardisation of regulations across national boundaries (unification of compliance requirements will ultimately reduce costs and audit fatigue). | Reducing audit fatigue can help the industry get stronger; this can be achieved with standardisation. | Consideration to cooperating with other jurisdictions on standardisation. | Consideration to provide government support to SMBs to help them with the transition. |
Conclusion

Traceability is necessary and there are a lot of solutions in the world, but we hope that their varying approaches are harmonised to mitigate as much of the impact on the supply chain as possible.