COTTON

Review of the World Situation

2024

Volume 77. Number 2, February

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ABOUT US

International Cotton Advisory Committee

The International Cotton Advisory Committee (ICAC) is an organization of currently 27 member countries that share an interest in cotton and the textile value chain. Formed in 1939, it is the only intergovernmental body for cotton producing, consuming, and trading countries and is one of only seven International Commodity Bodies recognized by the United Nations.

ICAC acts as a catalyst for positive change in the cotton and textile value chain by helping member countries and stakeholders support and improve the global cotton economy. ICAC accomplishes its mission by providing transparency to the world cotton market by serving as a clearinghouse for technical information and analysis on cotton production, consumption, and trade and by serving as a forum for discussing and addressing issues of international significance.

Cotton: Review of the World Situation is published every quarter by the Secretariat of the International Cotton Advisory Committee, 1629 K Street, NW, Suite 702, Washington DC.
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Design: Maria Borisova.
Subscription rate: $245.00 (hard copy)

EU Textile Regulations and Their Impact On Natural Fibers

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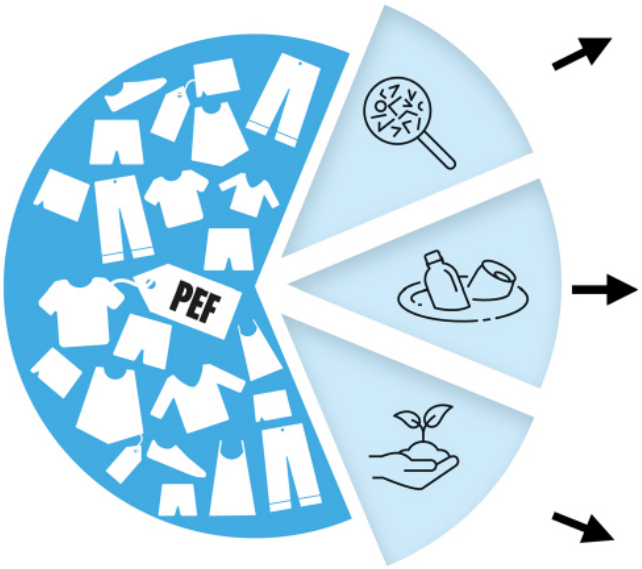
BACKGROUND

The European Green Deal strives to make Europe climate-neutral by 2050 and cut emissions by at least 55% by 2030.[1]
Priorities include protecting biodiversity and ecosystems (1), reducing air, water, and soil pollution (2), moving towards a circular economy (3), and improving waste management (4).[2]
The Circular Economy Action plan was adopted in March 2020 and forms one of the main building blocks of the European Green Deal. The plan aims to reduce pressure on natural resources, achieve climate neutrality by 2050 and halt biodiversity loss.[3]

Half of total greenhouse gas emissions and more than 90% of biodiversity loss and water stress come from resource extraction and processing.[4] Key product value chains have been identified to receive urgent attention, including electronics, batteries and vehicles, packaging, plastics, textiles, construction and buildings, and food, water, and nutrients



TEXTILES

Clothing and textiles make up the fourth highest-pressure category for the use of primary raw materials and water, and fifth highest for GHG emissions. Only 1% of textiles are currently recycled and 60% of textiles consumed in the EU are produced elsewhere. The *EU Strategy for Sustainable and Circular Textiles* aims to put fast fashion out of fashion and boost the market for sustainable and circular textiles. European consumers currently discard 5 million tons of textiles every year (around 12 kg per person) and most clothing items are worn for 7-8 times only. [5, 6]

Among others, the EU Textiles Strategy is supported by:

1. *Eco-design Requirement for Sustainable Products Regulation* – close to final adoption, awaiting final approval from EP and Council of the EU[7]
2. *Empowering Consumers for the Green Transition Directive* – close to final adoption, awaiting final approval from the Council of the EU[8]
3. *Substantiating Green Claims Directive* – ongoing legislative negotiations[9]
4. *Revision of EU rules on textile labelling*[10] – early stages of proposal under public consultation at the European Commission

SUBSTANTIATING GREEN CLAIMS DIRECTIVE

An EC study from 2020 highlighted that 53% of environmental claims made in the EU were vague, misleading, or unfounded and 40% were unsubstantiated.[11] The directive aims to empower consumers to make truly sustainable choices, offer stronger reassurance and offer substantiated claims on environmental credentials of products put on the EU market. As a result, it will benefit businesses making genuine efforts to improve the sustainability of their products.

Ultimately, the proposal aims to establish a

level playing field for the environmental performance of products sold in the EU in the future, ensuring that all claims are reliable and verified.

Different types of claims would need different levels of verification and environmental claims would need certification by officially accredited and independent organisations. In the European Parliament, this directive is

overseen by the committee on the Internal Market and Consumer Protection (IMCO) and the Committee on the Environment, Public Health, and Food Safety (ENVI). A draft report was released on 11 October 2023, and Members of Parliament have tabled 821 amendments to date. The Committee vote is scheduled for mid-February 2024, with the full Parliament vote to happen in March 2024. Following Parliament's vote, political trilogues will take place to agree on the law's final text for adoption.

ENVIRONMENTAL FOOTPRINTING METHODS

The European Commission developed the Product Environmental Footprint (PEF) and Organisation Environmental Footprint methods as a common way of measuring environmental performance.[12] In the case of textiles, the methodology aims to measure and communicate the environmental impact across the whole lifecycle and rely on scientifically sound assessment methods to do so. The PEF for textiles will measure 16 environmental impacts, including climate change, and impacts related to water, air, resources, land use and toxicity.

POSSIBLE PITFALLS

It's clear from the above that the European Commission, Parliament, and Council have the very best intentions in regulating one of the world's polluting industries. Regulators aim to protect our precious resources, maximize circularity, and achieve climate neutrality by 2050. These are very laudable efforts indeed, as the clothing and textile industry has been self-regulating for decades, without achieving climate-positive outcomes.

It is difficult for regulators, unfamiliar with the complexities of the industry, to grasp the complexities of the current fast fashion textile structures. Nor may they fully appreciate the financial implications for maintaining the status quo, and indeed the pressure to increase production of low-quality textiles with high profit margins.[13]

1. The ***Substantiating Green Claims Directive*** aims to empower well-informed consumers to support a circular economy and ensure a level playing field for the environmental performance of products sold in the EU. However, this outcome will not be delivered via the current pathway. Life Cycle Assessment (LCA)-based accounting tools, such as the PEF, fail to provide a level playing field for textile product categories that include both bio-based and fossil fuel-based raw materials, for two main reasons:
    1) The overriding focus of LCA methodology on accounting for environmental harm and its omission of 'environmental good' practices, such as sequestration of atmospheric carbon into the farming landscape, prevents a level comparison.
    2) The LCA's inclusion of environmental impacts associated with the formation of bio-based materials (i.e. impacts of forming wool and cotton fibres on the farm) and its exclusion of impacts associated with formation of fossil fuels (i.e. formation of oil and natural gas over the eons)

unfairly advantages the latter.[14] [15]

The International Wool Textile Organisation (IWTO) and the Make the Label Count (MTLC) campaign are currently presenting evidence of these issues to EU decision-makers.

2. The ***EU Strategy for Sustainable and Circular Textiles*** aims to put fast fashion out of fashion. The published literature makes clear that the availability of cheap polyester clothing is the primary enabler of fast fashion.[16] However, the PEF methodology will promote polyester clothing as more sustainable than natural fibres due to polyester's stronger performance in physical durability tests.

Consumer research confirms that only about one third of clothing is thrown out because it's physically worn out. The majority of clothing is discarded because the owner no longer likes it, or it no longer fits. These lifetime-reducing factors won't be considered in PEF, due to the methodology's underlying and false premise that lack of physical durability is the dominant reason for clothing reaching end-of-life.

3. Moving towards a circular economy- but overlooking biodegradability: The PEF methodology was developed before the publication of the EU's *Circular Economy Action Plan* (CEAP). As a result, the attribute of biodegradability, which is the final and most vital element of circularity for long-term sustainability, will only minutely influence the PEF score. This means that clothing will not receive a 'better' environmental label even if it is biodegradable. The purchasing choices of well-intended consumers will therefore not be influenced towards clothing made from inherently circular, bio-based raw materials.

4. Improving waste management and addressing the world's overflowing landfills. To align with EU legislation which aims to tackle plastic pollution and reduce waste, the PEF system should include a plastic waste indicator. There is a need to reduce the volume of plastic waste by reducing the demand for this material, and by diverting plastic away from landfill to preferred end-of-life processes, including fibre recycling. Ironically, PEF's focus on producing ever-stronger and more durable products is likely to increase the waste management problem – with even more non-biodegradable clothing ending up

in landfills. Currently, recycling of synthetic fibres is negligible, and end-of-life energy recovery is not sustainable because the incineration of plastic waste releases fossil CO2 to the atmosphere.

THE BUCK STOPS HERE

The current PEF methodology for textiles has been created by industry representatives who have a vested interest in keeping the fast fashion model alive and well for the future. It will not enable the European leaders to achieve the much-anticipated Circular and Sustainable Economy or create a positive role for our textile industry. Natural fibre industries will be at a comparative disadvantage to fossil fuel-based textiles.

Leaders around the world are watching. Consumers are eagerly awaiting the legislation that will solve our textile pollution crisis at all stages of the supply chain. We must take responsibility for this important task ahead and ensure we enable industry to embrace the green transition, based on scientific facts and not commercial vested interests.

Natural fibre representatives have formed a coalition and stand ready to support the Commission in the important task ahead. Coalition members ask legislators to ensure future textile legislation and textile accounting methodology is based on robust science which truly reflects consumer use of clothing.

We invite all those who share our concerns to join *Make the Label Count*, a campaign to ensure a level and fair playing field for all fibres.

https://www.makethelabelcount.org/

Endnotes

1 EU Green Deal objectives Delivering the European Green Deal - European Commission (europa.eu)

2 EU Green Deal Strategy Protecting the environment and oceans with the Green Deal - European Commission (europa.eu)

3 Circular Economy Action Plan Circular economy action plan - European Commission (europa.eu)

4 For a cleaner and more competitive Europe EUR-Lex - 52020DC0098 - EN - EUR-Lex (europa.eu)

5 EU Strategy for Sustainable and Circular Textiles Textiles strategy - European Commission (europa.eu)

6 Sustainable Consumer Behaviour in Purchasing, Using and Disposing of Clothes https://www.mdpi.com/2071-1050/13/15/8333

7 Ecodesign for Sustainable Products Regulation https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/sustainable-products/ecodesign-sustainable-products-regulation_en

8 Empowering Consumers for the Green Transition https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-consumers-in-the-green-transition

9 Substantiating Green Claims https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-substantiating-green-claims

10 Revision of EU rules on textile labelling https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13872-Textile-labelling-rules-revision-_en

11 Green Claims https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1692

12 Environmental Footprint Methods https://green-business.ec.europa.eu/environmental-footprint-methods_en

13 H&M CEO sets target to double retailer's sales by 2030 https://www.businessoffashion.com/news/retail/hm-ceo-sets-target-to-double-retailers-sales-by-2030/

14 Using LCA and Circularity Indicators to Measure the Sustainability of Textiles—Examples of Renewable and Non-Renewable Fibres https://www.mdpi.com/2071-1050/14/24/16683

15 Delivering EU environmental policy through fair comparisons of natural and synthetic fibre textiles in PEF - White Paper https://www.makethelabelcount.org/

16 The Environmental price of fast fashion https://www.nature.com/articles/s43017-020-0039-9).

Shedding Light On Green Lies: EU Action On Environmental Claims

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BACKGROUND

The phenomenon of "greenwashing" was first coined by environmental advocate Jay Westerveld in 1986. This term emerged as a pivotal tool for revealing the deceit of corporations at a time when media outlets such as television, radio, and newspapers were saturated with advertising from those companies. These advertisements frequently boasted about environmental claims that were either overstated or outright fabrications. The term "greenwashing" describes the practice of making misleading or unfounded assertions regarding the environmental benefits of a product, service, or company.

This trend has escalated alongside the increasing environmental consciousness of consumers. In an era where environmental awareness is of the utmost importance, companies have quickly realized how advantageous it is to be perceived as eco-friendly. Consequently, there has been an influx of "green" product claims, often unsupported by significant environmental action.

In March 2023, the European Union published the report, "Factsheet on European Green Claims."[1] According to the study:

- 53% of green claims on products and services make vague, misleading, or unfounded information, and

1 European Commission. 22 March 2023. Press Corner. Factsheet on European Green Claims. https://ec.europa.eu/commission/presscorner/detail/en/fs_23_1694

- 40% of claims have no supporting evidence whatsoever.

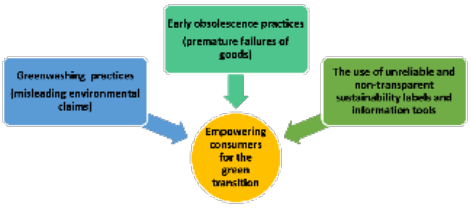
The public is catching on to the misleading claims, because the study also found that consumer trust in green claims is extremely low. Currently, there are about 230 sustainability labels in use in the EU, with vastly different levels of transparency — and half of them lack verification. This lack of transparency and trust not only fails to discourage poor environmental practices, but also undermines firms that try to do better. It also means that many consumers find themselves inadvertently supporting firms that do not reflect their values.

In reaction to greenwashing and growing consumer distrust of green claims, the EU is acting on new legislation to address misleading practices that not only misinform consumers but also hinder or could even set back genuine efforts towards sustainability. These are under the aegis of the New Consumer Agenda the Circular Economy Action Plan, and the European Green Deal and are being implemented with other approved and proposed action on textiles related to corporate due diligence, labeling, product digital passports, and eco-design to reduce environmental impact and maximizing product circularity.

TWO EU MEASURES TO TACKLE GREENWASHING

On January 17, 2024, the European Parliament gave the final green light to a Directive to "Empower Consumers for the Green Transition (ECGT),"[2] by enabling consumers to make better informed choices about sustainability claims and protect consumers against greenwashing, early obsolescence,

and misleading sustainability labels. The law is a response to the increasing demand for authenticity in environmental claims and the need to restore consumer trust in green marketing.



The ECGT may be joined in 2024 by another Green Claims Directive (GCD) that is under discussion within the EU. It will require firms to substantiate any claims regarding the environmental footprint of their products to reduce greenwashing. It prohibits green claims unless companies can provide evidence over the entire lifecycle of their products. Some have noted areas of possible overlap between the ECGT and the GCD.

The overarching goal of these regulatory changes is to ban misleading environmental claims on products, services, and organizations. Businesses in fields with present or forthcoming environmental regulation (including those in financial services) will receive exemptions. Micro-SMEs — defined as companies with fewer than 10 employees and an annual turnover of less than €2 million — would also be exempt from these requirements.

2 European Commission. Proposal for a Directive on empowering consumers for the green transition and annex. https://commission.europa.eu/publications/proposal-directive-empowering-consumers-green-transition-and-annex_en

The EGCT and the proposed GCD are part of the EU's broader strategy to integrate sustainability into its policy framework. They amend existing laws related to consumer protection and environmental standards, introducing stringent measures against false or misleading environmental claims.

EMPOWERING CONSUMERS: LEGAL FRAMEWORK AND PROVISIONS

While the provisions of the GCD are still not finalized, the ECGT requires that any environmental assertion must be substantiated with clear, verifiable, and easily accessible evidence. It also mandates the standardization of criteria for what constitutes a "green" product, ensuring a level playing field for companies making genuine environmental efforts. The use of terms such as "environmentally friendly," "natural," "biodegradable," "climate neutral," or "eco," are banned without evidence, while introducing a total ban on using carbon-offsetting schemes to substantiate the claims.

The decisions made by Member of the European Parliament (MEP) on empowering consumers for the green transition are comprehensive and multifaceted. Here is a simplified summary[3] highlighting the key aspects:

- Durability Guarantees: Mandate disclosure of a product's durability guarantee (or lack thereof) for energy-using goods.
- Software Updates: Require information on free software updates for goods with digital elements, content, and services.
- Repairability Information: Oblige the provision of repairability scores or other relevant repair information for all goods.
- Honest Environmental and Social Claims: Prohibit misleading claims regarding the environmental and social impacts, durability, and reparability of products.
- Future Environmental Performance Claims: Allow claims about future environmental performance only with clear commitments.
- Prohibition of Advertising Common Practice Benefits: Forbid advertising benefits that are considered common practice in the relevant market.
- Product Comparison Transparency: Ensure that product comparisons — including sustainability assessments — disclose the comparison methodology, covered products and suppliers, and information update measures.
- Sustainability Labeling Standards: Ban sustainability labels that aren't based on certified schemes or established by public authorities.
- Generic Environmental Claim Restrictions: Prohibit generic environmental claims unless backed by EU Ecolabel, recognized eco-labelling schemes, or applicable laws.
- Specific Aspect Environmental Claims:

3 Directive of the European Parliament and of the Council. Amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Explanatory memorandum. https://eur-lex.europa.eu/resource.html?uri=cellar:ccf4e0b8-b0cc-11ec-83e1-01aa75ed71a1.0012.02/DOC_1&format=PDF

Ban claims about the overall product when only a specific aspect is environmentally friendly.

- Legal Requirement Presentation: Prohibit the presenting of legal requirements as unique features of a product.
- Early Obsolescence Practices: Ban practices that contribute to the early obsolescence of goods.

POTENTIAL IMPLICATIONS

The environmental implications of this law are profound. It discourages superficial and potentially misleading environmental claims and incentivizes genuinely sustainable practices. This could lead to a reduction in the overall environmental impact of products and services, aligning commercial activities more closely with environmental conservation goals. It also sends a strong message globally, potentially influencing environmental policies beyond the EU.

For businesses, this law signifies a shift towards greater accountability. Companies must now ensure that their environmental claims are not only accurate but also substantiated with evidence. This requirement could lead to increased costs associated with obtaining certifications and conducting verifiable tests. However, in the long run, it could benefit businesses by enhancing brand credibility and consumer trust. Companies genuinely committed to sustainability can leverage this to differentiate themselves in the market.

From a consumer perspective, the EGCT offers much-needed protection against misleading green claims. It empowers consumers to make more informed choices, knowing that environmental claims have been rigorously checked. This clarity could lead to a shift in consumer behavior, driving demand for genuinely sustainable products and services. In the long run, this can play a crucial role in steering market trends towards genuine sustainability.

WHAT ABOUT THE VERIFICATION PROCESS?

Environmental claims, especially those related to future environmental performance, must be supported by clear, objective, and verifiable commitments and targets. Importantly, these claims are required to be backed by an independent monitoring system. The verification process is reinforced by established certification schemes such as the Eco-Management and Audit Scheme (EMAS) and the EU Ecolabel, along with international standards developed by the International Organization for Standardization (ISO). These certifications play a crucial role by providing a solid framework for assessing environmental claims, ensuring that products meeting these criteria adhere to strict environmental and sustainability standards.

GREEN CLAIMS: UNLOCKING OPPORTUNITIES

The European Union's discussions on the developing Green Claims Directive (GCD) offer a significant opportunity for companies to align their operations with new regulatory standards. This involves critically evaluating and improving how they substantiate and communicate their environmental efforts. Taking early action to develop or enhance their frameworks for managing environmental claims prepares companies for future regulations and taps into the increasing consumer demand for transparency and authenticity in sustainability practices.

Implementing these frameworks early provides a twofold benefit:

1. It ensures compliance with upcoming regulations, and
2. It addresses stakeholders' concerns about the truthfulness of environmental claims.

This proactive stance can simplify future compliance efforts and bolster trust and credibility with consumers, investors, and business partners — all of whom are paying closer attention to environmental responsibility.

Moreover, creating a comprehensive environmental claims management system can lead to operational efficiencies, spur innovation, and open new market opportunities. By prioritizing sustainability and transparency, companies can set themselves apart, boosting their brand value and fostering customer loyalty. While the GCD may generate compliance costs, it is also an opportunity for forward-thinking businesses to lead in the shift toward a more sustainable future.

CHALLENGES AND NEXT STEPS

The proposed GCD legislation, despite its benefits, faces numerous challenges. A key concern is the additional responsibility it imposes on businesses to adapt to new regulations. There's also the risk of ambiguous interpretations of what qualifies as a misleading claim, which could lead to legal disputes and uncertainties. Critics argue that the law does not address the root causes of environmental degradation, focusing instead on marketing practices. Enforcing this regulation presents a significant obstacle, as monitoring a wide range of environmental claims across various sectors is a daunting task. Additionally, the complexity of global supply chains complicates the enforcement of these regulations internationally, especially in countries with diverse environmental standards.

In the textile industry, the debate over natural versus synthetic fibers goes beyond personal preference, reflecting the legislative environment that influences our path to sustainability. While efforts to combat greenwashing are commendable, there's a risk that they inadvertently favor synthetic fibers

over natural ones. A move towards stronger due diligence laws is necessary, requiring industries to assess and report their environmental and social impacts comprehensively. Current policies often overlook the extensive consequences of synthetic fiber production. To illustrate, in 2023, the demand for textile fibers exceeded 107 million metric tons, with synthetic fibers like polyester, derived from petrochemicals, constituting nearly 71% — a figure that has doubled in the last twenty years, driven by the fast fashion industry's explosive growth. These synthetic fibers pose significant environmental threats, including microplastic pollution and carbon emissions, yet the transparency and accountability in these supply chains are lacking, hindering effective regulation.

The next steps for the EU's legislation to ban misleading green claims involve obtaining the Council's final approval for the GCD, followed by the directive's publication in the Official Journal. Since Directives are implemented by EU Member states, approval by the EU will be followed by a two-year grace period for each country to integrate and implement the directives into their national laws.

With the European Parliament's ratification of the EGCT in January 2024 on empowering consumers and possible approval of the GCD in 2024, the process of removing misleading environmental claims in the EU is underway.

Traceability Is Coming

NATE HERMAN

Chair of the PSAC Brands and Retailers Committee

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Traceability has become the biggest buzzword in the cotton industry. Brands and retailers can't reach their sustainability goals, or support their sustainability claims, unless they can trace their materials back to the source: the cotton farm. Whether they are claiming their garments are made with sustainably grown, organic, regenerative, or recycled cotton, or whether they are claiming they have met certain carbon emission targets, they need to know not only how the cotton was grown (or recycled) but also who grew the cotton or recycled it.

Meanwhile, fast-growing government regulations require brands and retailers to trace their supply chains back to the cotton bale or the cotton field to prove their products weren't made with forced or child labor. Some proposed regulations simply require brands and retailers to publicly disclose their entire supply chain, back to the raw material.

This confluence of events has led to a mad rush by brands and retailers to map and trace their supply chains, and to an explosion of solution providers purporting to help — from managing all the data to risk-mapping and verification testing.

While this level of traceability for the cotton, yarns, fabrics, findings, and trimmings used in every single product seems unreasonable, if not impossible, a quick look at the regulatory environment in the United States, Canada, and Mexico explains why

traceability has moved from a "nice to have" for brands and retailers to an absolute necessity.

The biggest driver by far is the Uyghur Forced Labor Prevention Act (UFLPA). Under UFLPA, any product made in whole or in part in China's Xinjiang Uyghur Autonomous Region (XUAR or Xinjiang) — or has any nexus with Uyghurs, an ethnic Muslim minority people that live in Xinjiang — the law presumes the product is made with forced labor and, therefore, the product can be stopped by Customs at the US border under the US forced labor statute. Why does this matter for our industry? Because 95% of cotton produced in China is grown in Xinjiang … which means 20% of the world's cotton is grown in Xinjiang.

To date, US Customs has detained more than 1,200 cotton apparel shipments into the United States, not only from China but from Vietnam, Cambodia, the Philippines, Sri Lanka, Nicaragua, and other countries. The only way to get those detained shipments released is to prove to US Customs that the cotton, yarn, or fabric, has no nexus with Xinjiang. Brands and retailers must provide to U.S. Customs shipping documents, invoices, purchase orders, bills of lading, production documents, invoices that prove, all the way back to the cotton bale, that your product had no nexus with Xinjiang – i.e., from dirt to shirt. If you don't, you can't get your shipment released. There were more than 100 detentions alone in our industry in the month of December, with the number of detentions growing every month. While other industries have been hit by UFLPA — including solar panels, autos, chemicals, and flooring — so far, cotton is the only material being targeted by US Customs in our industry (note that other materials such as rayon, PVC, chemical dyes, etc., have also been

linked to Xinjiang).

While no other country has gone as far as UFLPA, Mexico and Canada have followed the United States in establishing their own forced labor statutes, allowing Mexican and Canadian Customs to detain shipments they believe are made in whole or in part with forced labor. As of January 1, Canada went one step further, adding products made in whole or in part with child labor to the list of detainable offenses.

Meanwhile, Canada's new "Fighting Against Forced Labour and Child Labour in Supply Chains Act" also requires any company selling into Canada to publicly disclose, annually and in great detail, what the company is doing to prevent forced and child labor in their supply chains, all the way back to the raw material.

Finally, legislation gaining traction in the US states of New York, Washington, and Massachusetts, dubbed the "Fashion Act," would among other things require companies to publicly disclose their entire supply chains, back to the raw material. And California has passed climate reporting legislation that will require companies to report the carbon emissions for their entire supply chain.v

And we haven't even discussed what is happening on the other side of the pond. Traceability is coming — whether we are ready or not.

Private Sector Recommendations for Policy Making On Traceability

PETER WAKEFIELD

Chair of the PSAC

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The cotton and textile value chain recognizes traceability, sustainability, and responsibility for its potential to create a positive impact on people and the planet. We think these processes will provide visibility to not only the climate and environmental aspects of cotton but also to our large and small-holder farmers, and small and mid-size businesses, who work in the entire cotton and textile value chain. This runs from producers to brands and retailers, whose livelihoods are directly impacted by any changes in the industry.

Considering this, the PSAC discussed some current and upcoming traceability regulations and solutions, and we — as a collective voice from the entire cotton and textile value chain — have some comments and recommendations that we urge governments to adopt while formulating traceability policy:

- Traceability and sustainability should go hand in hand. We are unaware of any similar traceability requirements being required of man-made fibers, which could have negative effects on the environment. At the very least, we think that at a minimum, governments should consider subjecting man-made fibers to the same levels of traceability and sustainability standards as natural fibers to level the playing field. In the meantime, cotton fiber should be the 'preferred' fiber as we continue to develop improved traceability systems to im-

prove our sustainability goals.

- Cotton is not just another fiber used in textiles, but a sector that supports the livelihoods of millions of farmers, traders, shipping and warehousing entities, factory workers, and retailers across the globe, and often is the only source of income for many poor households. Cotton is vital to increasing the income of small-scale farmers and downstream stakeholders and is crucial in supporting the economies of many developing nations, for which cotton is one of the most-traded commodities. Cotton is both the most abundantly produced natural fiber and a crop that brings stability and resilience to the economies of many nations. With the new technologies available, such as structured traceability and regenerative farming techniques, cotton can be the engine of economic and environmental transformation, a global sector that can quickly react to and transform the carbon and climate agenda.
- Members of the PSAC understand that no traceability standard is sufficient to provide complete credibility, and as a result, governments should encourage standardizing the processes for rules systems, utilizing validation tools to make the process as simple as possible. The goal is

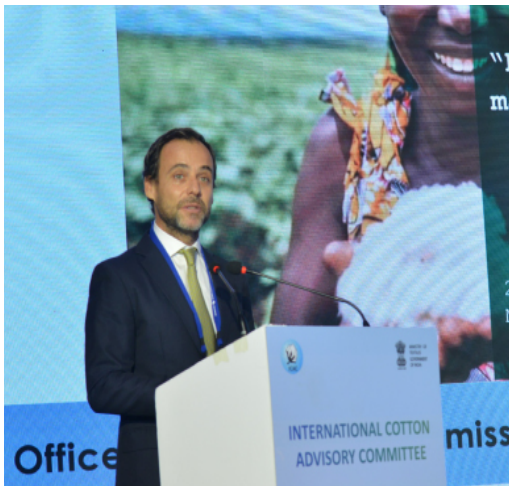
to make things easier for companies and customers to reduce costs and promote wide-scale adoption. A key component of this is the implementation of individual bale identification. Governments should also consider standardizing data capturing models on a 'fiber forward' basis regarding the minimum amounts of data that will be required and used to track transactions. Consideration must also be given to fibers that are blended. This will help in reducing 'audit and reporting fatigue'.

- Special consideration should also be given to small-scale farmers, as well as small and mid-sized textile and retail businesses. It is difficult for them to integrate into a market structure without resources and support, but they are essential elements of the value chain. These moves should not come at the expense of smallholder farmers or small textile and retail businesses, but rather to their benefit. Simply put: the currently available traceability technologies are both expensive and technologically challenging for small holder farmers and smaller industrial units to implement and can eat into their already tight margins.
- Governments should consider working together as much as possible to create a

globally acceptable definition of "sustainable cotton," thus setting specifications/regulations so the private industry can establish and implement tools for their measurement and tracing. Similarly, regulations regarding the import of textile products must be mindful not to create unintended consequences that could harm value chain actors. It must also take recycled cotton into consideration for lifecycle analysis and informing future standards and regulations.

- Governments should consider providing different — yet fair and firm — timelines for developing and underdeveloped countries to adopt and adapt to the regulations. Special consideration should be given to smallholder farmers and firms seeking to gain the certifications needed to access markets. This is a long-term process. Total industry awareness is vital, and capacity building is critical.
- Governments and international organizations should collaborate to take the initiative by providing funding and resources to launch traceability and sustainability initiatives, and the supply chain must take the lead to implement, sustain, and further develop these initiatives going forward, thereby ensuring that the costs are not borne by the producers.

Producers and Ginners Committee Recommendations On Policy Making for Traceability



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There is no impact or positive change without proper and secure traceability — which is why the cotton industry supports it.

Global cotton production varies significantly, from the most remote and informal areas in the Global South, to the automated big farms in the Global North. In all cases, cotton is the most important natural fiber, contributing to the stability and resilience of the world's rural communities.

Considering its size and global reach, cotton is probably one of the most important and better-organized agriculture and industrial sectors and is better positioned to quickly produce results in the global livelihood and climate agenda. This is our mandat, and this is why the group has decided to work on the traceability topic, as the entire transformation process starts with proper and secure traceability — and no origin should be left behind.

THE MAIN CHALLENGES

1. Most of the current traceability solutions start at the bale (gin) level. It is fundamental to note that complete traceability requires traceability from the farm level.
2. In most of the Global North origins, production tends to happen on commercial farms, formal and well identified — some even already using remote sensing technology — and with their own ginning (or directly

linked to it). For them, traceability solutions can be quickly adopted.

3. In most Global South origins, production tends to happen at the household level and micro farms, some in the most remote and harshest places on earth. In some of these regions, most of the population might not even have an identity card. Production is informal and, in most cases, there are middlemen linking the small farmers to the gins (which are the door to the formal world). In this case, traceability from farm to gin represents a much bigger challenge, particularly in terms of systems and operating requirements (linking the physical to the digital world).

4. Considering the tremendous pressure coming from the end consumers and legislators on traceability, it is fundamental to ensure that solutions, budget, and proper implementation roadmaps give a fair opportunity — a leveled playing field — for all origins to adopt traceability. Otherwise, we face the risk of excluding areas with higher needs, when what the world wants and needs is exactly the opposite.

SPECIFIC CHALLENGES

- Most of the available traceability solutions start at the gin level, and not at the farm level.
- Some of country-specific traceability solutions don´t certify outside their countries of operation.
- Most of the available traceability solutions aren´t effective for — or ready to be adopted in — most of the small-scale farming communities of the Global South.
- There is a lack of a clear definition of traceability, and a set of criteria for each producing origin, that the existing certifications could follow. The result is duplication, entropy, cost increases, and compliance and audit fatigue, which is becoming more and more difficult to manage, particularly for small-scale producers.
- Traceability has and will continue to have a cost, which will tend to be higher for the small-scale origins. It is imperative to ensure budget support, so that all origins are given the same opportunity to adopt it.

SPECIFIC RECOMMENDATIONS

1. Have a common definition of traceability and a set of minimum criteria that will promote collaboration and efficiency, reducing duplication, cost increases, and compliance fatigue.

2. Have a clear and concise bale identification system.

3. Special consideration should be given to small-scale farming origins, where farm-to-gin traceability still requires research and development, allowing for a gradual and realistic implementation road map, including the necessary budget support.

Textiles Committee Recommendations On Policy Making for Traceability

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There are many challenges and concerns regarding both current and upcoming traceability regulations and traceability solutions present in the world. They include:

- Unclear regulations. Many countries are now expanding their regulations to cover traceability, child labor prevention amongst others. However, some of these regulations are not specific, for example: - many child labor prevention acts don't define the age of the child involved, many are not region specific and may subject every region to perform checks.
- May create unintended consequences. If an importer has their shipment detained by a country, they can either challenge this detention or they can choose to re-export or destroy the shipment, this could lead to creation of new "dumping grounds:" of re-exported products which may also include products containing forced labor.
- The issue of recycled cotton. Almost all the traceability solutions don't track recycled cotton.
- Challenges with fragmented supply chains. For full traceability utilizing existing traceability systems, everyone on the cotton value chain needs to volunteer to provide the information at the same traceable solution provider. Which also means that everyone needs to pay membership not just to a traceable solution but to the same traceable solution, or to several solutions. As cotton value chains are spread across nations, this process can be extremely challenging and

costly.

- Access to traceability solutions. Most traceability solution providers are also certification bodies for Identity programs and their traceability programs are linked to their production certificates. That means a producer is forced to employ a specific production certification program to take part in their traceability program.
- Audit fatigue and compliance issues. Multiple audits don't just create audit fatigue but also increase the cost of production tremendously. Further, there will be a huge price difference and compliant companies will have a disadvantage compared to non-compliant companies. It is also a challenge to manage all the compliances for different retailers.

- Even after employing a traceable solution, the supply chain participants may still need third-party auditing.
- The upcoming regulations require many audits which is difficult as it seems impossible to audit every shipment and every movement virtually.
- Some of the new legislation requires third-party verification, so the retailer and brand audits may not be accepted, yet individual Retailor or Brand legal compliance departments require only their bespoke systems and will not always accept independent third-party verification.

- The gap between the developed and developing countries. The developed and developing countries are going through a different set of problems; the timeline is different for them. So, we need to see what is more important in different countries and how it needs to be taken care of.
- Long term process. The sustainability reporting does require an overhaul of the way that a company conducts its business practices. The recommendation is for companies to get started now and start looking at how they make these decisions, understanding what type of risk they touch upon within their supply chain — not only within their company but within their impactful business partners, so that does affect factories throughout the supply chain. It is intended to be a robust, meaningful, customized due-diligence program that reflects that specific corporation and its business. This process is costly and may require longer than the current expected time frames.
- Intent to action gap. For example, if 70% of consumers say they would prefer to buy a sustainable product, but only 20% actually do — that is called "intent to action" gap. It happens because consumers do not believe what brands tell them. Green marketing guidelines that are coming up in different countries are putting increased pressure on brands but over time it will lead to more credibility for consumers.
- Unclear data points within the industry. The textile and apparel industry is almost unique because of the style/color/size dated definitions and almost unique in how complex their data models are; every manufacturer has their own way of identifying the

articles, so it's a huge melting pot of specific data points.

RECOMMENDATIONS

The PSAC Committee on Textiles recommends that governments should consider:

- Giving special consideration to small-scale farmers and small and mid-size businesses.
- Recognizing some solution providers as a part of a larger due-diligence system that companies need to implement.
- Standardizing audits so that the process is as simple as possible, making things easier for companies and customers.
- Subjecting man-made fibers to the same levels of traceability and sustainability standards.
- Creating a globally acceptable definition of sustainable cotton and how we can measure and trace the same.
- Standardization in data capture modals – in terms of what minimum amounts of data are required and will be used to track transactions.
- Provide different timelines for developing and underdeveloped countries.

Merchants Committee Recommendations On Policy Making for Traceability

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CONCERNS REGARDING TRACEABILITY REGULATIONS AND TRACEABILITY SOLUTIONS

Complexity of the industry requires creative solutions. One of the biggest challenges is that the cotton industry has a very complex data model, so there is a need to find ways to standardize data models regardless of the exact technical solution used. Not all cotton is the same, and one cannot simply apply the same process to different regions and categories because local practices may vary. There cannot be a single global solution; it just isn't practical. There must be flexibility in the framework that allows for creative solutions suited to different regions.

No one traceable solution is sufficient to prove complete traceability. It is often the case that a government or a regulatory body is not convinced when a single traceable solution is being employed by the merchant, and thus there is a need to either employ more than one traceable solution or provide additional documentation. This leads to additional costs and auditing. For example, some governments are going back to the bale with the assumption that this is the closest point to the farm. One way to trace could be by providing Permanent Bale IDs (PBIs). However, even with PBIs, it's still not possible to prove that the yarn is made from that

bale. That's why governments often require additional documentation. While it doesn't prove that cotton was being used in the fabric or in the final product, the assumption is made that nobody would spend money to purchase PBIs if they weren't planning to use them. However, this is often not sufficient to prove that any particular cotton was used in the final product — and in some cases, governments have come to the same conclusion. Therefore, while the PBI could be the base for traceability, a merchant may need more than that as proof.

Timeframes. While governments do give indications, some regulations are also retrospective measures, and they go into effect the day they are announced. In such situations, everything that's already moving through the supply chain is subject to those measures, so there is not really an opportunity to prepare. Warnings are not enough and that would leave no time for the cotton value chain to adopt the changes.

The same rules for competing fibers. If regulators and the industry require cotton farmers and the cotton supply chain to be transparent, visible, and traceable, we need the same rules for other fibers too. When we talk about taking cotton back to a farm, we must also talk about taking polyester back to the oil. If that is what the cotton industry is going to be required to do, the same standard needs to apply this to manmade fibers as well. Traceability is not only about forced labor, but also about sustainability and climate change. Traceability will also make it possible in the future for the producers and sellers to show calculations of what the climate impacts are. As a result, it is important to emphasize that not only cotton needs to be traceable but other fibers as well, and their implications for climate change need to be transparent.

Difficulty in auditing regions where traceability is not a legal requirement. It should be noted that the cotton value chain is spread across national boundaries, and while some governments require traceability, others don't. It is very difficult to audit regions where government regulations do not legally require the producer to adopt traceability. This creates a region-wide restriction.

Difficulty in pinning down origins of cotton, especially with blends. In cases of blended garments or cotton with multiple origins, the buyer needs to prove that all the cotton sources in the blend are traceable and prepare documentation for all the origins. This process is difficult, time consuming, and costly. Some traceable solutions only trace blends from the point they enter the system, not before, and as a result, they may not provide a clear picture — and that means the buyer may need to also utilize a different traceable solution to get the full picture. This further adds to cost and audit fatigue.

Reliability of information. From a merchant's point of view, traceability from a farmer is relatively easy because the bale can be tracked to the spinning mill — but it gets complicated at the spinning and beyond. The only choice is to take the spinner's word about exactly where each bale went. This often requires comprehensive auditing and monitoring both on- and off-site. The supply

chain could be subject to third-party audits, providing documentation for all traceable transactions, and screening of suppliers before accepting them to the program, among others. This process adds to cost and audit fatigue.

Competition with manmade fibers. The real risk is depending on the assessment of the fiber. If the man-made fiber looks like it is more sustainable and easier to trace, cotton will lose market share. Regarding competition with synthetics, on the traceability level, cotton is severely disadvantaged because the cotton supply chain is much more complex. For example, there are technical limitations to isotope testing, not to mention that it is extremely expensive. That's why it can't be an across-the-board technology. Price is an issue and if retailers are forced to utilize isotype testing due to regulations, who's absorbing those additional costs? That is a threat to cotton consumption and market share.

Lack of comparisons for natural and man-made fibers. Current systems are not designed to compare multiple types of fibers. For example, the cotton sustainability/traceability footprint is not compared to that of polyester or other fibers. Each fiber will need its own LCA but there is no way to compare them across different fibers.

Complexity of documentation. We should have a unified definition for what is required for traceability throughout the supply chain.

The movement of cotton and cotton products through the textile chain is already full of documentation requirements that could serve as a base for traceability. However, as there is no unified definition for what is required for traceability throughout the supply chain, there is no common set of documents that provide proof of the origins. This is a problem and a hugely complex issue — providing documentation alone is not the answer.

Fiber-forward approach. There is a need to build demand from the brand side, so it filters down through the supply chain; that is one way to drive sustainability adoption and participation from the grower side. The biggest challenge in the textile and apparel industry is creating a connection between transactions that happen within the supply chain but are inherently disconnected. Trying to connect the dots after something happens is impossible, so programs should be built around the fiber-forward concept.

Cascading responsibilities. If the regulations do not specify that the cotton value chain needs to share this responsibility — or which section is responsible for what — certain sections of the cotton value chain may pass along the requirements to other sectors of the value chain.

Unclear rules of risk mapping. Certain forced-labor prevention requirements won't be based on geographical areas. For example, they may be based on public submission to the government, a database of industry-specific forced labor risks, and other types of intelligence.

Costs. No matter which platform is used, traceable cotton will be costlier than other cotton. Even now, the industry is facing issues because some buyers are not willing to pay the premium for a particular certified cotton while spinners are happy to use

it. Traceability will obviously result in some additional costs — and how will the industry ensure that there is demand for such cotton? The industry also anticipates losing some volume because spinners would not want to pay a premium if they are not getting compensated themselves. Third-party audits for suppliers to ensure traceability must be paid by the suppliers, over and above all the other costs. Isotope testing is very expensive. Furthermore, it takes months to get the test results, and thus the subsequent incurred costs are much higher. Finally, if all products require isotope testing, the implication is that it's a highly problematic supply chain.

Developed vs developing/least developed nations. Part of the problem is that countries like the USA and Australia have done a very good job providing very detailed information already, and that has trained retailers and brands expect the same level from every cotton growing country —but that's simply not feasible.

Timeframes. Most traceable solutions are not yet fully functional; some do not provide farm-level traceability at all, while some that do won't be able to provide it until 2030. Traceability regulations for certain countries are already in place, and the cotton value chain is already subject to them. Some countries may adopt similar systems by next year. The timeframes between complying with traceability regulations and current availability of traceability solutions don't align.

CHALLENGES REGARDING TRACEABILITY REGULATIONS AND TRACEABILITY SOLUTIONS:

- Certain traceability solutions only go back to the group level/region level/nation level information with respect to cotton production and do not include information on individual farmers, which may not be sufficient according to some countries' traceability regulations.
- Some traceability solutions do not provide 100% traceability, such as in the cases of blends like double-knit fabric, woven fabric, multiple-yarn fabric, blended cotton that comes from different regions, and risk factors like wastage, amongst others.
- Strict timelines to make a complete transition.
- Certain retailers may cascade the requirements down to other sectors of the value chain.
- Every sector in the supply chain reports that it has no clarity about what happened in the previous sector — or what will happen at the next. Businesses in each sector know what happens at their own facilities, but that information is not necessarily shared with others.
- Many developing countries have cotton supply chains that are subdivided into many more sections — for example, the presence of middlemen and the fact that cotton does not go from farmers to ginners directly (in some places, it goes through the market first). This makes traceability more complex for some regions than others.

- The biggest issue is that the challenges for buyers and growers are very different, making it very difficult to have a system works for everyone.
- Who is going to pay for this? And if there is no market premium, how will these systems be sustained?
- The bigger issue is that we may look at traceability — to the region and to the farm — and end up with the same discussion: What, exactly, is sustainable cotton? How is sustainability measured so cotton can be approved? If there is no standardized sustainability measure across the board, it's yet another problem.

RECOMMENDATIONS FROM THE PSAC MERCHANTS COMMITTEE:

- Standardization at national, and possibly at international, levels — not just on traceability, but also on sustainability.
- Level the playing field for manmade and natural fibers.
- Most traceability systems are developed for certified farms — so there should be guidance on how to become a certified farm. Therefore, there is a need to unify the global industry and ensure there are ways for different farmers in different countries to participate.
- A clear definition of the ultimate level of granularity needed to achieve traceability. It probably needs to be on the national level because countries will set their own sustainability goals and define things differently. But if regulations require identifying the source at the farm level, it is going to impose impractical requirements on the industry.

- The issues of costs will be manageable for most of the world's cotton farms and the participants of the cotton value chain — but smallholder farmers may be the ones who suffer the most. And if retailers and brands are not going to pay for the additional costs, someone is. And, sadly, it likely will be farmers.
- The issue of developing a standardized system of bale tagging should be considered by governments.

CONCLUSION

How we focus on these proposals probably needs to emphasize simplification. We need to find practical, simplified messaging strategies about the impacts of implementing traceability requirements. The supply chain intentionally ends up making things more complicated because each sector is trying to find opportunities to leverage value and provide what they think is the preferred solution for brands and retailers. But that does not help brands and retailers; we must stop trying to outsmart ourselves and come up with a solution that we think will encourage

Brands Committee Recommendations On Policy Making for Traceability

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The current and upcoming regulations on traceability, prohibition of forced labor, and due diligence 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 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.

There are, however, several concerning issues that have not yet been addressed:

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 — and 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. DNA mapping 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 recognize these tests as proof and require that all documentation 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 prevent 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 retailor.

Not a level playing field. There are brands that are more advanced in terms of access to technological solutions.

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 high costs associated with them.

Timeframes. Some of the 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 textile

SMBs in the EU alone; in the developing countries there are even more. Some organizations 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.

Associated costs. This likely will be very expensive to manage, considering the complexity of the supply chain. This may give an advantage to large companies. SMBs are expected to be impacted because they have fewer resources, and they 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 harbor for smaller companies, but 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 imple-

mentation 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 training 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 considered.

With those concerns in mind, the industry must face and overcome a number of challenges:

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 self-declare their inventory. As a result, everyone in the cotton value chain needs to be a part of the same traceable solution.

Generalized laws and regulations. Some laws in certain countries — for example, those intended to prevent child labor — are not country- or region- or product-specific. They are generalized by some countries. This also means that regions with no history of complaints regarding child labor may still be subjected to auditing.

Lack of standardization. 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 must be fiber-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 retailors are the last link in the cotton value chain, they have little to no control regarding traceability.

THE PSAC COMMITTEE ON BRANDS AND RETAILERS MAKES THE FOLLOWING RECOMMENDATIONS:

- Ensure there is compatibility amongst different traceable solutions so they can be used interchangeably.
- Standardize regulations across national boundaries (unification of compliance requirements will ultimately reduce costs and audit fatigue).
- Reduce audit fatigue to help the industry get stronger; this can be achieved with standardization.
- Increase 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.
- Increase awareness among all sectors of the cotton value chain. 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.
- Consideration to cooperating with other jurisdictions on standardization.
- 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 harmonized to mitigate as much of the impact on the supply chain as possible.

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