



FINAL

**ICAC Plenary Meeting
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Mumbai, India**

**PSAC's Committee on Merchants and Other Cotton-Related Activities
Recommendations on Policy Making on Traceability**

Concerns and challenges 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 standardise 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 fibres 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 fibres as well.
- Traceability is not only about forced labour, 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 emphasise that not only cotton needs to be traceable but other fibres 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 utilise 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 programme, amongst others. This process adds to cost and audit fatigue.
- **Competition with manmade fibres**
 - The real risk is depending on the assessment of the fibre. If the man-made fibre 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 utilise isotope 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 manmade fibres**
 - Current systems are not designed to compare multiple types of fibres. For example, the cotton sustainability/traceability footprint is not compared to that of polyester or other fibres. Each fibre will need its own LCA but there is no way to compare them across different fibres.
- **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.



- **Fibre-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 fibre-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-labour 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 labour 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.
- Additional costs associated with testing
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

- 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 standardised sustainability measure across the board, it's yet another problem.

Recommendations

- Standardisation at national, and possibly at international, levels — not just on traceability, but also on sustainability.
- Level the playing field for manmade and natural fibres.
- 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 standardised system of bale tagging should be considered by governments.

Conclusions

How we focus on these proposals probably needs to emphasise 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 have to stop trying to outsmart ourselves and come up with a solution that we think will encourage brands to buy, because it comes at a lower cost. Brands understand that they must pay — that there is a cost for traceability and transparency to be implemented in a meaningful way that supports them.