

UNECE-UN/CEFACT "Enhancing Transparency and Traceability for Sustainable Value Chains in Garment and Footwear"

UNECE Policy Recommendation on Transparency and Traceability for Sustainable and Circular Garment and Footwear Value Chains

Annotated Outline

Note

Acknowledgements

Foreword

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Annexes

- I. Mapping of supporting policies, regulations and legislation for Policy Recommendation

I. Recommendation n°XX: Enhanced Transparency and Traceability for Sustainable Garment and Footwear Value Chains

A. Introduction

1. Improving transparency and traceability has become a priority for the garment and footwear industry. Consumers, governments and the civil society are demanding responsible business conduct and are calling upon the industry to identify and address actual and potential impacts, in terms of human rights violations, adverse environmental effects, and human health hazards.

1b. By achieving enhanced visibility in value chains, companies are better equipped to manage such impacts, and address financial, operational and reputational risks. Also, more transparent value chains, allow them to more effectively respond to unforeseen disruptions, conform with applicable laws and regulations, ensure product quality and safety, combat counterfeits, and protect cultural and industrial heritage.

1c. On the other side, greater transparency empowers consumers to make better informed consumption choices, as they have more reliable information about the sustainability claims of products and processes. As a result, traceability and transparency have a strong potential to build trust among all industry actors.

2. Both developed countries and developing countries are deeply involved in the global garment and footwear trade and both have a key role in advancing the industry's sustainable production and consumption patterns in line with the 2030 Agenda for Sustainable Development and, particularly, its Goal 12 on Responsible Consumption and Production¹.

3. At the same time, their roles tend to be differentiated. Developed countries tend to operate more in the downstream part of the value chain where there is higher capital investment and more consumer-linked activities (design, branding and retailing, consumption, and product end-of-life activities). Developing and transition countries mainly intervene in the upstream part of the value chain, where there are more labour-intensive activities (farming, harvesting, ginning, spinning, dyeing, weaving, stitching, tanning, cutting and finishing).

3b. Because of their nature and socioeconomic context, it is in these upstream manufacturing activities that most sustainability hotspots are concentrated, and industry actors face most of the challenges in identifying and mitigating them. On the other hand, it is the downstream actors that often set the parameters and the financial incentives for upstream actors. It is, in effect, the design, product specifications, contract clauses related to payment terms, and withdrawal conditions that determine the margin of manoeuvre that upstream actors have for providing decent working conditions and respecting the environment. As a result, effectively addressing risks to responsible business conduct depends on all the links in the value chain, and requires the active and effective engagement of both upstream and downstream actors. The latter, who also make the final decisions about which products are placed on the market, also are expected—and at times, legally required—to identify and mitigate risks that might result in harm to humans or the environment throughout their entire value chain.

¹ Transforming our world: the 2030 Agenda for Sustainable Development
(https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E accessed on 2020-04-22)

4. In this context, downstream actors must increase their knowledge of where fibres, materials and all product parts and components come from, as well as how they are sourced and processed. At the same time, there is clear evidence that their actual capacity to perform and manage activities in support of enhanced traceability and transparency is limited. In order to be effective, optimize scale and create efficiencies, actions to improve traceability and transparency in garment and footwear value chains must be sector-wide and encompass globally scattered actors.

4b. Furthermore, traceability and transparency help in moving away from the linear economic model which takes resources, makes products and disposes of waste (“take-make-waste”), towards the circular economic model that Reduces the new resources used, Reuses products and parts and Recycles waste (the 3Rs model). The final objective being to obtain the maximum value from resources, leveraging zero-waste design, product-life extension, resource efficiency, repairing and remanufacturing services.

The following definitions of key concepts are used in this Policy Recommendation:

Traceability is understood as “the ability to trace the history, application or location of an object” in a supply chain (ISO, 2015). In this context, it is defined as the ability to “identify and trace the history, application, location and distribution of products, parts and materials, to ensure the reliability of sustainability claims, in the areas of human rights, labour (including health and safety), the environment and anti-corruption” (UN Global Compact 2014); and “the process by which enterprises track materials and products and the conditions in which they were produced through the supply chain” (OECD, 2017).

Transparency, relates directly to relevant information been made available to all elements of the value chain in a standardized way, which allows common understanding, accessibility, clarity and comparison (EC, 2017).

Sustainability² In the context of garment and footwear value chains, means that all activities, through out a product’s life cycle take into account their environmental, health, human rights and socio-economic impacts, and their continuous improvement(UNECE, 2018).

Due diligence is understood as “the process through which enterprises can identify, prevent, mitigate and account for how they address their actual and potential adverse impacts” (OECD 2017) as an integral part of business decision-making and risk management systems (OECD, 2011).

5. This Policy Recommendation responds to the increasing demand for policy and legislative action for responsible business conduct along value chains. It seeks to support measurable sustainability efforts and targets to identify, prevent, mitigate and account for

² United Nations, 2015 (A/RES/70/1) Transforming our world: the 2030 Agenda for Sustainable Development, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E (accessed 24-06-2020), where sustainability refers to the ability of an activity to support “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”². This implies that the activity also takes into due account the needs of “People, Planet, Prosperity, Peace and Partnership” as outlined in the United Nations Sustainable Development Goals

adverse impacts on people and the planet by corporations, through their own operations or third-party business relations.

5b. The measures and approaches recommended here are aligned with: the relevant Sustainable Development Goals (SDGs) of the United Nations Agenda for Sustainable Development 2030; the United Nations Guiding Principles on Business and Human Rights³; the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, relevant ILO Conventions and Recommendations, and the ILO Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy; the Paris Agreement on Climate Change; the Convention on Illegal Trade of Endangered Species; the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises⁴, and the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector⁵.

B. Scope

6. This Policy Recommendation is relevant for all countries and companies participating in international value chains for garment and footwear, from raw materials extraction and processing, to consumption and end-of-life activities.

7. Areas where action to advance the transparency and traceability of value chains is needed include:

- Awareness of the indispensable role transparency and traceability play in due diligence, advancing the sustainability and circularity of value chains and, especially, responsible consumption and production;
- Identification, prevention, mitigation and remediation of potential and actual adverse environmental, social and ethical risks to responsible business conduct by actors throughout the entire value chain;
- Incorporation into the analysis supporting risk-based management of value chains, many of which can be measured using traceability and transparency;
- Development, implementation and enforcement of supporting government policy and legislation;
- Incorporation of transparency information into purchasing practices in order to better inform the work of buying and compliance offices;
- Promotion of sustainable consumption encouraging consumers to better understand their role and take action, based on information transparency, during the purchase, re/use and disposal of products in order to reduce potential negative impacts and effects on the environment and society;
- Engagement of enterprises in long-term relationships based, at least in part, on their mutual adherence to sustainable development goals;
- Development of educational materials for enterprises on traceability, transparency, and sustainability.

³ UNHR UN Guiding Principles on Business and Human Rights (https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf accessed on 2020-04-22)

⁴ OECD Guidelines for Multinational Enterprises (www.oecd.org/daf/inv/mne/48004323.pdf accessed on 2020-04-22)

⁵ ILO Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_094386.pdf

- Adoption of a more proactive vision by value-chain leaders and related incentives to encourage continuous improvement in transparency in sector activities;
- Development and promotion of supporting frameworks and guidance on the implementation of traceability and transparency for all stakeholders.

8. The last of the above needs to support the design of traceability and transparency systems for rapid and effective information exchange that better allow value-chain actors to take targeted actions based their goals for supporting sustainable development and related risk-based priorities.

8b. At the same time, such systems need to be underpinned by a set of common, agreed rules which take into account the capacities of all actors involved, and build the trust needed for sharing data. They also need to be practical and allow for the use of appropriate technologies for implementation by facilities of varying sizes and technological capabilities, including farmers and small businesses.

C. Target audience

9. This Recommendation offers a basis for action by both public-sector policy makers and private-sector decision makers who wish to advance due diligence, sustainability, and circularity approaches. The accompanying Guidelines will assist these policy and decision makers in better understanding tracking and tracing while also providing a framework for implementation by all stakeholders in garment and footwear value chains.

10. The Guidelines also provide some direction on the mapping the sustainability risks and hotspots across all of the activities in a value chain. Understanding risks and risk-mitigation priorities is important for identifying the focus of traceability and transparency systems given that it is usually not possible to develop systems that cover all possible risks.

11. The Recommendation can also serve as a reference for other industry stakeholders in their efforts to support the uptake and implementation of the recommended measures by public-sector policy makers and private-sector decision makers, with regard to traceability and transparency of sustainable value chains. These other stakeholders include:

- Communities at local, regional, or national levels
- Workers and employees, including those working under informal arrangements, and trade unions
- Consumers and end-users of products
- NGOs and local civil society organizations
- Community-based organizations and local human rights defenders
- Industry peers and business associations
- Intergovernmental Organizations
- Investors/shareholders.

D. Purpose and Benefits

12. This Recommendation responds to the call from industry stakeholders for government action in support of:

- Greater awareness by government, industry and the public of the benefits provided by traceability and transparency for due diligence, sustainability and circularity

- A level playing field where industry actors investing and taking action to enhance traceability and transparency in their value chains in support of due diligence and sustainability, will benefit from a competitive advantage;
- More efficient ways to access remedies for workers and consumers, including due to value-chain disruptions;
- A globally recognized and harmonized approach for collecting and exchanging information for traceability and transparency in the sector's value chains;
- The use of identical data definitions and codes to facilitate the exchange of information (semantic interoperability) between IT systems that support traceability and transparency in the sector's value chains;
- The fight against product counterfeiting, fraud and illegal trade in protected species through the identification of origin – which means provenance and location of all products, parts, components, processes and factories – and local content.

13. The final objective of this Recommendation is to establish a mechanism that enables governments, industry partners, consumers and all other relevant stakeholders to take risk informed decisions, overcome information asymmetry, communicate and achieve accountability for sustainability claims that go beyond regulatory compliance, and anchor business models to responsible business conduct.

14. It does so by providing industry and other relevant stakeholders with a set of internationally agreed practices for the harmonized collection and transmission of data for tracking and tracing materials, products and processes across an entire value chain including all involved facilities and intermediaries as well as related information about the sustainability performance of these value-chain participants. This will help to ensure the reliability of sustainability claims in the areas of human rights, labour, the environment, consumer interests and anti-corruption, while also allowing simplification and efficiency in terms of costs and organizational efforts, especially for SMEs and industry actors in less-advanced economies.

E. Challenges

14a. Tracking and tracing in value chains is a multifaceted effort and a challenging task because of the organizational and technological complexities of the business networks in this industry, which makes it often difficult for companies to track a product's history and attributes.

14b. The maintenance of data privacy and security is a critical aspect, of particular concern for brands, traders, and companies in the high-value segment of the market, who often consider information about specialized providers to be an important competitiveness factor. In addition, there are challenges around ensuring that data systems are secure for all users.

14c. The reliability and authenticity of data shared as well as the stringency of controls around the certification of materials, products and production processes, and the proofs of compliance with sustainability requirements, are also important issues. In the context of traceability, models with less stringent controls, for example around the handling of certified and non-certified materials, are certainly less complex and, thus, less expensive.

14e. In addition, there are costs associated with the necessary resources and technologies for the implementation of traceability and transparency systems. Traceability and transparency require substantial investments in systems and technologies aimed at performing various levels of verification of processes, products, parts and components at all stages of the value chain and related data entry and product labelling. In this connection, technological barriers are also a concern. Technological advances such as blockchain and distributed ledger technologies, bar codes and RFID tags offer an opportunity, but mastering these technologies may be difficult, due to geographical and language barriers as well as costs. In addition, coordination between different supply chain actors requires time and willingness on all sides. These costs are a concern for many actors pursuing traceability, and especially for non-vertically integrated companies, brands and SMEs.

14f. Alignment around tools, as proposed in this Recommendation and its accompanying Guidelines, helps to reduce costs to individual actors. When leadership is there and collaboration is widespread, there is greater incentive for actors to work together, which improves results, lowers costs overall – and thus helps to address the above challenges.

F. Recommendation

15. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) of the United Nations Economic Commission for Europe (UNECE), at its twenty seventh session, agreed to recommend that Governments:

- a) Establish harmonized policies and regulations that support the implementation of traceability and transparency, in order to achieve higher environmental and social standards, economic sustainability and circularity in garment and footwear value chains by:
 - i. Encouraging responsible business conduct, which addresses actual and potential adverse impacts resulting from companies' decisions;
 - ii. Better ensuring the reliability of non-financial reporting and sustainability claims about materials, products and processes;
 - iii. Contributing to international policy coherence, thus addressing the challenges, for both producers and consumers, that are created by a proliferation of similar but different policies and regulations, as well as establishing a more level playing field for companies operating in this industry.
- b) Define minimum levels of traceability across garment and footwear value chains, from raw materials sourcing, and the minimum data that needs to be collected in order to show due diligence and transparency in support of claims regarding the origin, quality or other characteristics, and sustainability performance for products, and their parts and components, and processes.
- c) Reduce the implementation burden on business and support SMEs by promoting the use of standards such as the relevant UN/CEFACT e-business standards, or the equivalent and encouraging the use of existing data. For example, requiring the use of these standards for any mandatory reporting requirements linked to traceability results such as showing that materials were legally sourced or no forced labour was used.

- d) Encourage companies' efforts to embrace higher transparency in value-chain operations, for example by disclosing the names and addresses of suppliers' factories, and sharing relevant information with stakeholders who are impacted, or potentially impacted, by enterprise decisions. This should be done in a timely, culturally sensitive and accessible manner, in line with international data protection norms and standards.
- e) Provide economic and fiscal incentives (positive and negative) for establishing and implementing value-chain traceability and transparency systems, especially in support of SMEs small farmers and producers, and other disadvantaged groups such as women, home-based workers and migrant workers;
- f) Provide non-financial incentives, including measures to facilitate access to markets, fast-track processes, public procurement criteria that are green and socially responsible, specialized managerial and workforce training, public visibility, and non-financial reporting requirements.
- g) Support research and development, and identify and scale-up innovative solutions for:
 - i. Tracing and verifying products' authenticity and provenance;
 - ii. Advancing the sustainability and circularity of production processes;
 - iii. Increasing the lifespan of products;
 - iv. Creating more sustainable materials and;
 - v. Recycling garments and textiles.
- h) Provide consumer education in order to:
 - i. allow consumers to make informed choices;
 - ii. ii) create an awareness of the shared responsibility of all stakeholders including both business and consumers in preserving our planet, and;
 - iii. iii) increase the demand for materials, products and processes that are more responsible and sustainable.
- i) Stimulate and support multi-stakeholder, collaborative initiatives that seek to create shared value for all industry actors, benefitting especially SMEs and vulnerable groups in less-advanced economies while, at the same time, addressing garment and footwear value chains' sustainability risks and impacts. Such initiative could include:
 - i. A global, open-source knowledge platform to make guidance available and ensure that industry actors receive appropriate training and information
 - ii. Policy dialogues for the sharing good practices and lessons learned at international, regional and national levels
 - iii. Pilot projects to experiment with innovative approaches and advanced technologies in traceability, including blockchain, artificial intelligence (AI), Internet of things (IoT), and digital markers to ensure an effective connection between digital and physical assets.

G. Conclusion

15a. When deciding upon specific public policy actions to be taken, multi-stakeholder consultations are recommended in order to strike a balance between the different interests at stake, and to identify targeted support for disadvantaged groups in the implementation

processes. Special attention needs to be given to SMEs, small producers, farmers, and other disadvantaged groups including, as appropriate, women, home-based workers and migrant workers, who are often affected by unfair practices in this sector.

16. In order to monitor and keep track of the implementation of this Policy Recommendation, Governments are requested to report on commitments to the recommended measures starting from 2022, and thereafter, every two years. Such pledges are to be expressed in accordance with the annexed Call for Action, which is open to all industry stakeholders and actors embracing transformative change for a responsible and sustainable garment and footwear industry of the future.

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