

Approaches and perspectives for advancing ESG performance in value chains through traceability and transparency



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Regulatory landscape

European Green Deal

Circular Economy Action Plan

Due Diligence Legislation

Corporate Sustainability Reporting
Directive

New Consumer Agenda

Sustainable Products Initiative

Legislative Proposal on Substantiating
Green Claim

Business Scenario

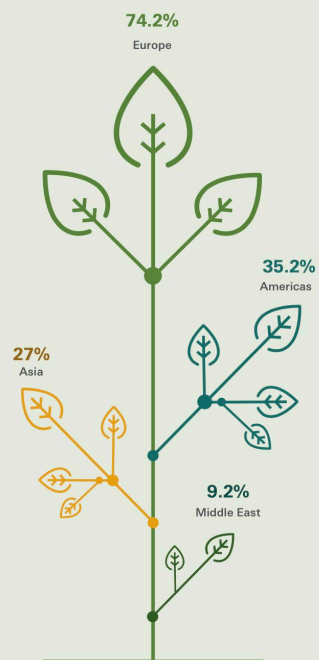


COVID-19 crisis:
disruption of
supply chains

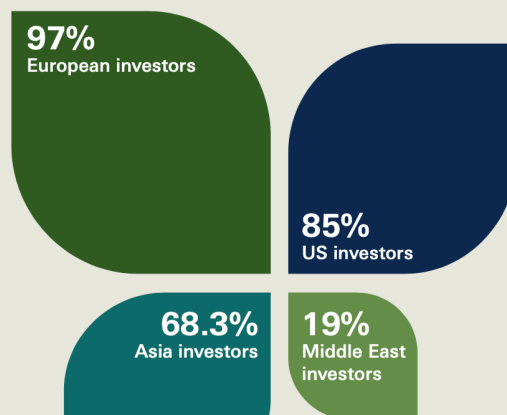
Consumers and investors' attitudes towards sustainability and circularity



74% of European investors integrate company ESG scores into decision making.



68% of global investors plan to increase their climate related investment.



Q: Do you plan to increase your climate related investment? % of total market.

HSBC, 2017

54% consumers wanted to make more sustainable choices at the beginning of COVID 19 pandemic

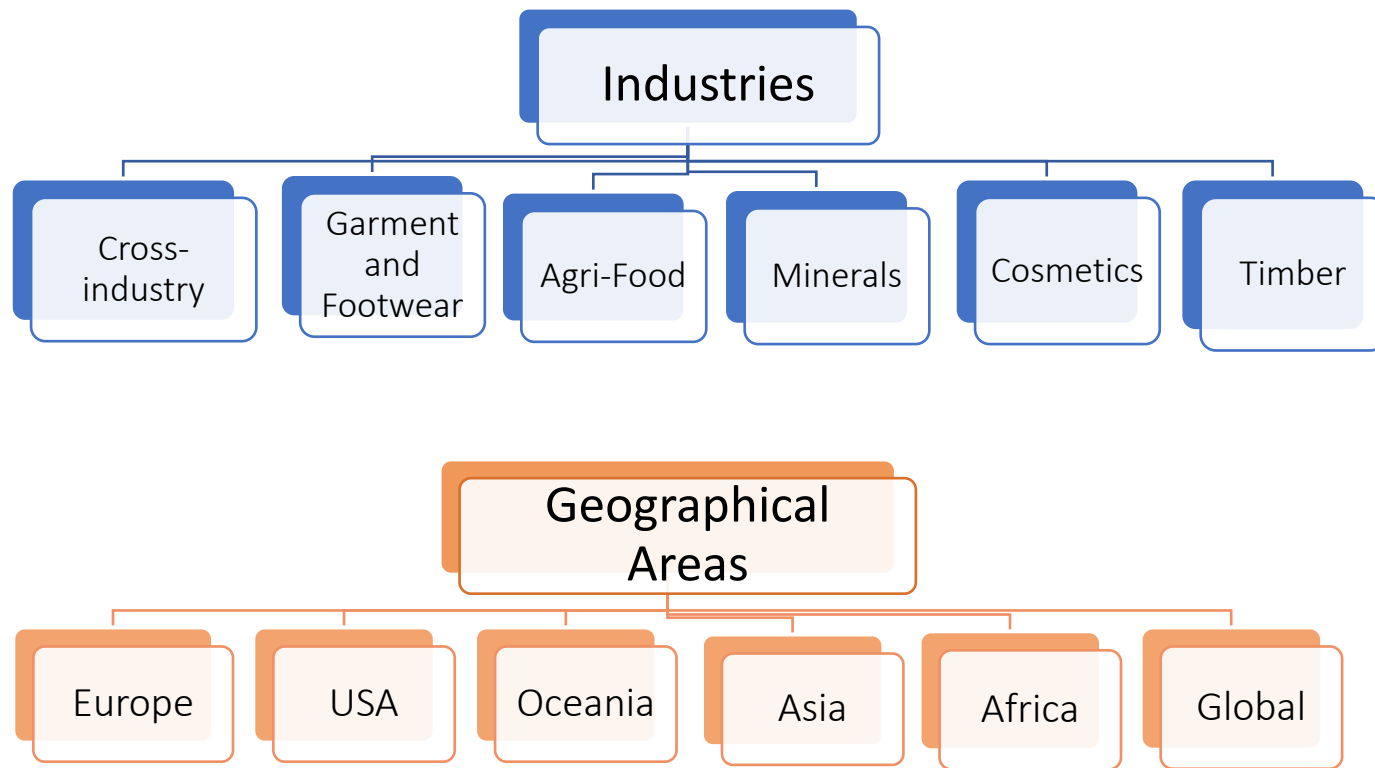
40-60% consumers would pay more for products with better environmental performance

61% consumers do not understand environmental claims

44% consumers do not trust environmental claims

EC, 2020

Mapping of +100 policies, regulations and guidelines on traceability and transparency



Enhancing Traceability and Transparency of Sustainable and Circular Value Chains in the Garment and Footwear Sector

Mapping of policies, regulations and guidelines for traceability and transparency of value chains

The context

Traceability and transparency of value chains are a key driver of sustainable production and consumption, promoter of human rights and decent work, and vehicle for health and well-being for all. In fact, the implementation of traceability and transparency systems can efficiently address information asymmetry, thus enhancing accountability and trust.

In order to devise supporting measures and approaches, an analysis of national, European and international policies, regulations, guidelines and initiatives was carried out, providing an overview of the existing frameworks to advance traceability, transparency, sustainability and circularity in value chains, with a focus on the garment and footwear industry.

The aim was to identify relevant measures adopted for different industries, to gain an insight on the relevance and impact of such measures for an integrated and coherent approach. This also allowed to highlight specific gaps in the garment and footwear sector where a collaborative effort from all stakeholders is needed.

The result is a mapping that shows what governments and international organizations have already done in different industries and presents a backdrop for actions required for the development and scaling up of an enabling infrastructure to advance traceability and transparency in the garment and footwear sector, while promoting responsible management in global value chains.

This mapping is conducted in the context of the UNECE – UN/CEFACT project for “Enhancing traceability and transparency of sustainable value chains in the garment and footwear sectors”, which aims at supporting the industry’s contribution to achieving the Sustainable Development Goals (SDGs) of the UN 2030 Agenda, particularly those related to inclusive and sustainable economic growth and decent work (SDG8), resilient and sustainable infrastructures, industrialization and innovation (SDG9) and sustainable consumption and production patterns (SDG12).

Methodology and research process

The approach for assessing the measures to be adopted by policy makers and industry players to advance transparency and traceability in the garment and footwear industry, and included in the UNECE Recommendation N°46, draws upon an in-depth analysis of a wide array of existing instruments from countries and organizations worldwide.

In particular, the desk review has covered instruments from several geographical areas, binding and non-binding, garment and footwear-specific, and with a broader scope. It looks at different documents including legislation, regulations, working documents, guidelines and multi-stakeholder initiatives.

The instruments analyzed and included in the mapping, are grouped according to the following criteria:

- Industrial sector (agri-food, fishery, garment and footwear, mining, timber, cross-industry)
- geographical scope (national, sub-regional/regional, global)
- chronological order

For each instrument, the mapping provides a short description, an overview of the specific provisions related to traceability and transparency, the source and other relevant information, such as the type of instrument, when it was enacted and when it came into effect, as well as enforcement conditions and related sanctions.

Key findings

The mapping outlines that the policy and regulatory framework is fast changing, particularly at the European level, since governments and institutions are increasingly recognizing, across diverse sectors, the fundamental role of traceability and transparency to accelerate the transition towards circularity and to improve consumer and business for more responsible consumption and production choices. The analysis emphasizes the following key aspects:

- ➔ **Legislation on traceability and transparency:** On one side the existence of comprehensive and strict mandatory legislation covering traceability for food products and animal welfare in several countries (among others: Chinese Food Safety Law, 2015; US Food Safety Modernization Act, 2011; Japanese Beef Traceability Act, 2003; EU Regulation 178/2002), and on the other side the lack of specific requirements concerning products, processes and organizations’ traceability in garment and footwear value chains. However European institutions are starting to develop measures to strengthen supply chain traceability aiming at creating sustainable value chains, resulting in building practices and improving transparency of garment and footwear production, processes and organizations globally (among others: Chemical Strategy for Sustainability, 2020; EU Circular Economy Action Plan, 2020; EF Regulation on the EU Flagship Initiative on the Green Sector, 2019; Commission Staff Working Document on Sustainable Green Value Chains through EU Development Action, 2017).
- ➔ **Due diligence:** The existence of several international guidelines (among others: OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, 2018), national legislation and legislative proposals that require mandatory transparency or mandatory due diligence in order to encourage enterprises to take responsibility towards the respect of human rights and the environment throughout their supply chains and international operations (among others: Canadian Modern Slavery Act, 2020; Dutch Child Labor-Free Sourcing Law, 2019; Australian Modern Slavery Act, 2018; French Duty of Vigilance Law, 2017; US Trade and Accountability and Enforcement Act, 2016; UK Modern Slavery Act, 2015; EU Directive on Non-Financial Information, 2014; California Transparency in Supply Chains, 2010). Harmonized policies at European and international level are needed in order to create a level playing field on enterprise across jurisdictions and to secure a remedy for victims of human rights and environmental violations (among others: EU The Directive Legislation by 2021; EU Conclusions on Global Value Chains, 2016; EU Conclusions on Business and Human Rights, 2016).
- ➔ **Sustainability claims:** Another positive trend in the steps European institutions are taking to substantiate sustainability claims to provide consumers with their traceability, one is to standardize and validate information engineering processes and supporting enterprises to make responsible consumption and production choices (among others: New Consumer Agenda, 2021; EU Initiative on substantiating green claims, 2020; EU Circular Economy Action Plan, 2020; EF on the EU Flagship Initiative on the Green Sector, 2017). In order to achieve this objective, key actions to consider resulting from the analysis are, among others, the following: the adoption of a standard methodology to assess the impact of companies on the environment; the development of clear guidelines and standards on sustainability claims and the introduction of a stronger monitoring and enforcement system to tackle misleading claims (EF Regulation Towards a more Sustainable Single Market for Business and Consumers, 2020; European Green Deal, 2019).
- ➔ **Circularity:** The commitment, particularly at the European level, to put in place legislative and non-legislative measures related to traceability and transparency for the transition to a circular economy (among others: Chemical Strategy for Sustainability, 2020; EU Circular Economy Action Plan, 2020). In order to contribute to the circularity of products placed on the EU market, the European Union is putting in place a EU Strategy on waste with specific measures on traceability and transparency, for tackling the presence of hazardous chemicals and empowering consumers and public bodies by disclosing trustworthy and relevant information about products at the point of sale.
- ➔ **Digitalization:** The key role of digitalization to track the journey of products and processes and make the resulting data securely accessible (EU Circular Economy Action Plan, 2020; Digital Strategy, 2020). Advanced technologies and digital solutions such as blockchain, product passports, and DNA markers can support traceability systems in the exchange of data between stakeholders allowing information to travel with products and materials across a value chain to improve transparency for consumers.
- ➔ **Incentives:** The majority of laws do not take account incentives for companies that are instead fundamental to increase the adoption of traceability systems considering also the costs associated with their development. Therefore, the desk research points out to the need to provide financial and non-financial support for enterprises and especially SMEs and micro enterprises. Public procurement could be used for the promotion of a responsible garment and footwear industry with the inclusion of green and social criteria into public purchasing policies as currently provided by legislation in several countries such as United States, South Africa, Australia, Canada and Europe (among others: EU Directives 2004/18/EC and 2004/17/EC). The implementation of Extended Producer Responsibility Schemes could represent another powerful incentive (United Arab Emirates Law, 2020; France Anti-Waste Law, 2020) together with the establishment of financial tools for fair and sustainable garment and footwear products (EF Regulation on the EU Flagship Initiative on the Green Sector, 2017).
- ➔ **Informal actors, women and other vulnerable groups:** The lack of inclusion of informal actors, women, homeworkers and other vulnerable groups in the traceability and due diligence processes. Therefore there is a need to establish social and economic protection policies and legislation to support these actors and to ensure an inclusive growth of accountability systems, including participation of their representatives, reliable data also through leveraging digital technologies, greater transparency and accountability (OECD, 2019; Joint Staff Working Document on Gender Equality and Women’s Empowerment, 2018; Commission Staff Working Document on Sustainable Green Value Chains through EU Development Action, 2017).

These key findings lead to advocate for a coherent policy and regulatory framework on traceability and transparency in the garment and footwear sector considering their enabling role for sustainability and circularity in value chains.

Key actions from institutions and governments

Common definitions of ESG factors and risks

Processes and strategies to identify, assess and mitigate risks

Mandatory collection and disclosure of a variety of data

Indicators, methods and standards

Engagement with relevant stakeholders

Accountability for businesses

Responsible production and practices

Education and awareness campaigns

Key actions from businesses

Policies taking ESG risks into account

ESG risks in the risk framework

KPIs to be monitored

Methodologies to test resilience to ESG risks

ESG risk-related goals

New business models and sustainable practices

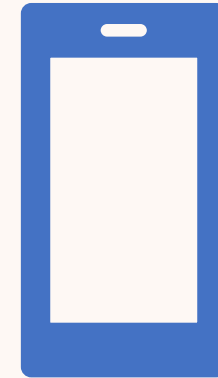
Sustainability related data sharing with all relevant stakeholders

Sustainability standards

Enablers of ESG traceability and transparency



Information Exchange
Standards



Digital Tracking
Technologies

Common set of
performance
criteria



for sustainability
data of products,
processes and
facilities

Role of standards



Blockchain for sustainability and circularity



Advance the reliability of supply chain data and claims



Visibility both in upstream and downstream activities



Support companies in removing harm to people and the planet

ESG performance through traceability and transparency: fast-forwarding its evolution