It's all in the garment:
Developing a scalable assurance delivery system for organic cotton

The Organic Cotton Accelerator, 2016
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Executive summary

While the demand for organic cotton grew considerably over the past decades, the assurance delivery system for organic cotton started to show its limitations. Fragmentation of standards, lack of transparency and unclear governance resulted in a poor business case for all supply chain partners and serious integrity issues on the organic origin of certified products in some of its origin countries, like India.

Without collaborative sector action, the organic cotton claim will lose its credibility and the sector will start seeing its buyers moving away to other sustainable fiber alternatives. It is only through increased traceability of products origin, transparency on supply chains and an inclusive governance structure that the organic cotton sector can be a viable sector of choice that benefits all, from grower to consumer.
Rise of the organic cotton movement

In the past decades, demand for sustainable products has risen considerably (Textile Exchange, 2016). Major brands committed publicly to the use of organic cotton for their cotton collections. The movement for organic products has grown from niche to become a more mainstream alternative. After the food sectors, the demand for organic cotton started to rise in the early 2000s, based on the regulations for organic food production outlined by IFOAM. In 2007 a chain of custody standard for organic cotton was introduced by Textile Exchange (TE) to ensure the integrity of organic cotton, followed by the GOTS standard in 2008 adding requirements on chemical use and labor conditions.

1 Any reference to brands in this article can also refer to retailers
2 Textile Exchange was formerly known as Organic Exchange, the Organic Content Standard (OCS) was formerly known as the OE standard: http://textileexchange.org

Three limitations of the organic cotton assurance system

While the demand for organic cotton has been on the rise in past years, the assurance delivery system to assure the integrity and availability of certified organic cotton showed the following limitations:

1. **Low credibility of claims**
   - With different owners and lacking central administration, the Transaction Certificates for organically produced organic cotton at farm level face double selling under both the TE OCS and GOTS standards.
   - Media picked up on the issue of double selling, and brands making claims on the organic origin of their products started to face reputational risks associated related to the integrity of the organic cotton used in their collections.
   - If not addressed properly, reputational risks could drive brands to change their sourcing strategy towards other sustainable fiber alternatives.

2. **Insecurity of supply**
   - Compared to other commodity sectors, supply chains in the apparel industry are longer and more complex. Brands do currently not have direct access to the information on their supply chain, except for first and in some cases second tier suppliers.
   - While most brands do pay a differential for organic products to compensate for the higher production and processing costs, they cannot verify the final destination of this differential. Also, it is unclear whether the differential paid covers the additional costs of all supply chain actors. Being the last one in the supply chain, especially the farmer’s business case for organic cotton is weak (Vollaard & van Monsjou, 2016),
resulting in an outflux of farmers from the organic cotton sector.

- To assure a viable business case for their first tier suppliers, some brands adopted specific sourcing practices for their suppliers of organic cotton. Longer lead times, agreements with suppliers beyond tier 1, a differential for organic and commitments can strengthen the business case for suppliers, but in most cases these interventions have limited or even perverse effects.
- Without supply chain transparency in general, and farmer differential payment in particular, brands will not be able to take action to guarantee security of supply for the future.

3. **Fragmentation of initiatives**

- A critical success factor for assurance delivery for VSS in other commodity sectors is the involvement of the industry through a clear, inclusive governance structure.
- The landscape of the organic cotton sector is fragmented; including national production standards, several chain of custody standards (TE OCS, GOTS, Fairtrade Organic), and industry platforms. There is not one steering organization setting and implementing the sector agenda.

While accounting for the majority of the global sourcing of organic cotton, some major brands are currently not represented in the Boards of GOTS nor TE, as illustrated in Annex 2. With a lack of direct influence on the organic cotton sector, major stakeholders started individual and collective initiatives, increasing the momentum for action in the organic cotton sector but also adding to the fragmentation of investments and efforts limiting the effectiveness of all initiatives.

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### Root causes of the failing assurance system

Voluntary Sustainability Standards (VSS) are a powerful instrument to move a sector towards sustainability (AidEnvironment, NewForesight & IIED, 2015). By defining sustainability, translating the definition to production requirements and offering companies that comply with these requirements a competitive advantage they have proven to be effective in other commodity sectors like coffee, cocoa, palm oil and soy. To assess compliance with VSS requirements a reliable traceability system is key and thus one of the elements of a VSS system.

While the layout of the assurance system for organic cotton does show similarities to the assurance delivery systems for these other commodities - see Annex 1 - there are some significant differences:

1. Unlike any other VSS, the production standard and chain of custody standard for organic cotton are not owned by one organization. While the production standard is a national standard owned by the government, the chain of custody standard is international and owned by a member organization – see box 1. Certification data on the organic production of cotton generally enters the chain of custody through a Transaction Certificate at the first step of the supply chain (ginner).

   Besides a multitude of national standards for organic cotton, there are different chain of custody standards for organic cotton at international level: the Organic Content Standard (OCS, owned by TE) and the GOTS processing standard. Both standards do rely on similar certification procedures (use of Scope Certificates (SC))

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6 Besides being a powerful instrument we recognize that VSS also have limitations in moving a sector towards sustainability.
and Transaction Certificates (TC)) but are managed by different standard owners and tracked by two different systems that do not communicate with one another.

3. There is not one traceability system from product to production, nor is there one traceability system uniting both chain of custody standards. Stakeholders depend on certification bodies\(^7\) (CBs) to provide them with information on certification at production and chain of custody level. These snapshots do not give the holistic overview that is required to ensure the integrity of certified organic cotton.

\(^7\) An organization accredited by a recognized accrediting body for its competence to audit and issue certification confirming that an organization meets the requirements of a standard.

### From organic growth to growth of organic

As the organic cotton sector grew considerably over the past decades, the limitations of the organically grown assurance system for organic cotton started to show its limitations. To face these challenges related to integrity, stagnating supply and fragmentation of initiatives, the sector needs to embrace three main interventions:

1. **Develop and implement one central traceability system: from product to production.**

   To assure the integrity of organic cotton and allow for a prosperous business case for organic farmers, one central traceability system is needed to trace the garment back to the farm. The system should allow for:

   - Direct access to certification and impact data for standard owners and supply chain partners (within legal privacy limitations of the standard).
   - Traceability for brands and their supply chain partners on the origin of their products and differential payment throughout the chain.

2. **Enable sector transparency and dialogue.**

   Sector transparency is crucial to allow for the industry to understand the effects of their sourcing practices and take responsibility in addressing the challenges suppliers are facing. While a traceability system is the first step to make information on certification and value chains directly accessible to buyers, an IT system can only be the start of a continuous dialogue between sector stakeholders. Whether it is at brand level, through the standard owners or in an industry-driven initiative like the Organic Cotton Accelerator\(^8\) (OCA), the sector needs to offer the platform for discussion and mutual understanding among value chain stakeholders.

\(^8\) OCA is a multi-stakeholder initiative that aims to create a prosperous organic cotton sector which benefits all, from farmer to consumer. Founding partners are C&A, H&M, Inditex, Tchibo, Eileen Fisher, C&A Foundation, Kering, Textile Exchange and CottonConnect.
3. **Offer an inclusive governance structure**

Sustainable sector transformation with the help of a VSS can only occur if demand of a sustainable option is continuous and reaches critical mass. In this regard, industry involvement is key to safeguard the added value of the VSS and drive demand. Contrary to other VSS systems, the sector’s governance structure of the organic cotton standards, both TE OCS and GOTS, does not strongly involve their main buyers – see Annex 2. An Organic Cotton Roundtable was installed in 2012, it does not fulfil the role of nor have a similar mandate to roundtables in other sectors (like the Roundtable on Sustainable Palm Oil).

It is only through successful and timely implementation of these three interventions that an assurance delivery system can be developed that allows for future growth of the sector. Although these interventions will enable sector stakeholders to tackle the limitations of the current assurance delivery system, they will continue to face the challenges inherent to the disconnect between a national production standard for organic and a multitude of global chain of custody standards, characteristic to the use of “organic” claims in any food or fiber sector. A challenge that can only be faced through a professional, united organic cotton sector.

A satisfying solution can only come from a strategic integration of organic cotton sector initiatives to come to one vision for the sector to work towards, each acting from own role and mandate. Acting as one sustainable cotton initiative, organic cotton can valorize its status as ‘golden standard’ and together with the other sustainable cotton initiatives (BCI, Fairtrade, Cotton Made in Africa) contribute to the transition towards sustainability of the cotton sector as a whole.
Annex 1: Roles and functions in an assurance delivery system

Effective assurance delivery systems in other commodity sectors consist of three main elements, illustrated in the figure below\(^2\). It is only when all elements function that a Voluntary Sustainability Standard can add value at consumer level and ensure a growing movement towards increased sector sustainability.

\(^1\) Overview created by NewForesight based on experiences in the coffee, cocoa, palm oil and soy sectors

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**Assurance Delivery System - General Layout**

Experiences in other commodity sectors hold valuable lessons learned for setting up the organizational structure of an assurance delivery system. The following success factors showed to be critical to ensure the success of VSS in other sectors:

- The independence of the key stakeholders with clear distinctions between the governance structure (secretariat and board) and the assurance delivery system (accreditation and certification bodies)\(^2\)
- Industry involvement in the governance structure through representation in a General Assembly and Board to assure the Voluntary Sustainability Standard offers the added value to secure its demand and challenges faced by end buyers and their suppliers are addressed\(^3\)

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\(^2\) Illustrated by the separation of the platform and assurance services of the 4C Association in the coffee sector

\(^3\) Best practices include the industry representation in the governance structures of the Roundtable on Sustainable Palm Oil (RSPO) and the Roundtable on Responsible Soy (RTRS)

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Annex 2: Governance structures Textile Exchange and GOTS

Our Vision: We envision a global textile industry that protects and restores the environment and enhances lives.

Mission: Textile Exchange inspires and equips people to accelerate sustainable practices in the textile value chain. We focus on minimizing the harmful impacts of the global textile industry and maximizing its positive effects.

Governance structure:

Brands & Retailers:
- Pye U.S.
- NIKE
- VF Corporation
- Eileen Fisher
- Ecocentric Brands
- Under the Canopy
- Target
- Patagonia

Suppliers:
- Lenzing

Certification Bodies:
- ICEA
- Control Union

Our Vision: Our vision is that organic textiles will become a significant part of everyday life, enhancing people’s lives and the environment.

Mission: Our mission is the development, implementation, verification, protection and promotion of the Global Organic Textile Standard (GOTS). This standard stipulates requirements throughout the supply chain for both ecology and labour conditions in textile and apparel manufacturing using organically produced raw materials.

Governance structure:

- Organic Trade Association
- International Association Natural Textile Industry
- Japan Organic Cotton Association
- Soil Association
- Social Experts
- GOTS Director Standards Development

Advisory Council International Working Group (IWG) — decisive committee for all relevant organizational, structural and political issues of the Global Organic Textile Standard

- International Association Natural Textile Industry
- Japan Organic Cotton Association
- Organic Trade Association
- Soil Association

Management of the IWG

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References


About OCA

The Organic Cotton Accelerator (OCA) is a multistakeholder initiative, focused on creating a prosperous organic cotton sector which benefits everyone—from farmer to consumer.

This is one of a series of papers that explain the challenges the organic cotton sector is currently facing, and the proposed solutions that OCA and its partners are working on to come to structural sector change.

www.organiccottonaccelerator.org