

Strengthening Integrity in Organic Cotton

Addressing the root causes of integrity
issues in the organic cotton sector

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Acronyms

AB	Accreditation Bodies
CB	Certification Bodies
EC	European Commission
EP&L	Environmental Profit and Loss statements
GOTS	Global Organic Textile Standard
GMO	Genetically Modified Organisms
IFOAM	International Federation of Organic Agriculture Movements
IWA	ISO International Workshop Agreement
NPOP	National Programme for Organic Production
OC	Organic Cotton
OCA	Organic Cotton Accelerator
OCRT	Organic Cotton Round Table
OCS	Organic Content Standard
SC	Scope Certificate
SDG	Sustainable Development Goals
TC	Transaction Certificate
USDA NOP ...	U.S. Department of Agriculture National Organic Program

Cover photo: Bowles Farming Company

History and Executive Summary

History and executive summary

For more than two decades, we've been championing organic cotton. Through our pioneering assurance and standards division, we've invested in solutions and interventions that focus on continuous improvement and activities that strengthen the sector. We're consistently working to build integrity and fight fraud by raising awareness of its symptoms and root causes, as well as providing examples and encouraging best practices. We offer a blueprint for the industry to work in a more collaborative and coordinated way and initiate the change that needs to happen to catalyze collective action against fraud.

We believe that integrity is critically important to the organic cotton supply chain, but equally we recognize that there are difficulties upholding this principle. Challenges in integrity are neither new nor unique to organic cotton, and they often evolve. We believe that putting the toughest possible restrictions in place, and then reviewing them frequently, is vital to preventing fraud, but so is helping others to recognize it, address it, and stop it from happening in the first place. At Textile Exchange, we continue to take a multi-faceted approach to strengthening integrity in organic cotton.

This long-standing focus on improving integrity and standards has allowed us, with the support of our dedicated members—many of whom have taken concrete action individually—to drive positive change. Working with brands, producer groups, certification bodies, advocates and funders, we have committed to collective action. But we know there is more to do.

In 2018, we issued a [members-only report](#) that sought to highlight some of the risks and opportunities that exist throughout the organic cotton supply network, help build integrity and combat fraud. The main purpose was to show our members how they could act to improve integrity.

Since then, we have invested in an interdisciplinary team that meets regularly to discuss and implement recommendations around integrity. And progress has been made: we have opened up discussions within the industry, invested in targeted initiatives to reduce fraud in all its forms, and, where possible, addressed the root causes of issues. Some of this includes:

- Strengthening the Textile Exchange standards to reduce the opportunity for integrity challenges.
- Reporting annual production volume for reconciliation purposes.
- Significant investments in centralizing and digitizing certification data for volume reconciliation and traceability.
- Creation of mechanisms to identify and prevent fraud, with a focus on continuous improvement to auditing requirements to detect supply chain substitutions. In addition, we are instigating or requesting investigations where reports of fraud have been alleged.
- Increasing oversight of Certification Bodies' (CB) activities, by conducting and increasing the number of shadow audits, and banning CBs or traders that are engaged in fraudulent activities.

- Educating stakeholders throughout the supply network regarding:
 - i. Risk—how to identify, mitigate, and prevent fraud.
 - ii. Assessment—how to monitor the marketplace.
 - iii. Compliance—how standards and certification can provide assurance and reduce fraud.
 - iv. Forecasting—educating stakeholders on the concept of “Plan for Planting”, highlighting the importance of building direct relationships with producers and suppliers.

However, as mentioned above, we know more can and needs to be done to improve the integrity of the sector.

We continue to invest in integrity because we trust in the benefits of organic and want to help highlight solutions to sector challenges. We also want to assist our members in navigating the complexity of supply networks and business models, some of which suffer from a lack of transparency, traceability, and the right incentives to promote accountability.

The purpose of this report is to provide more guidance on ways the industry can act to improve integrity. We recommend that brands and supply chain partners proactively adopt an integrity system that tackles fraud by:

- Building compliance through standards and certification.
- Achieving traceability for organic content.
- Improving incentives for supply chain partners.
- Reviewing, improving, and collaborating with others.

Introduction

In 2018, Textile Exchange issued a [members-only report](#) that discussed integrity issues, in an attempt to formally acknowledge the challenges faced in the organic sector. It was released in the hope that by providing greater transparency of the issues concerned, we'd see greater ownership which, in turn, would move the sector towards more constructive dialogues, and solutions.

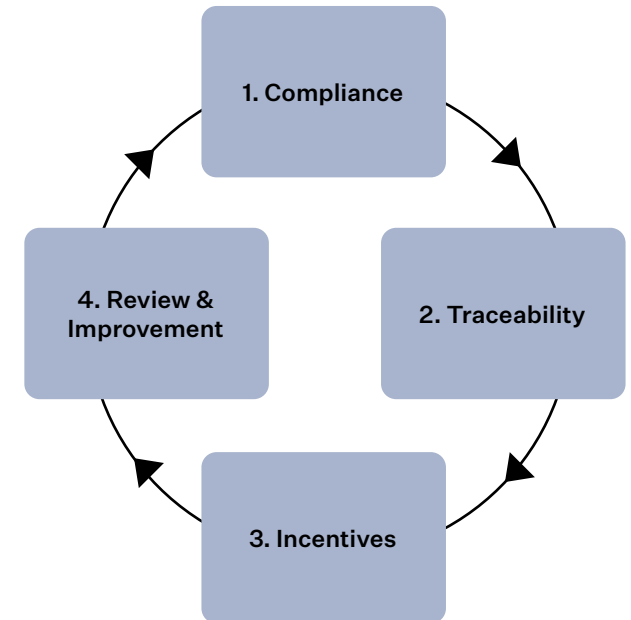
That report drew heavily on the groundwork we had already done, namely by starting conversations through the publication of documents such as our white paper on co-existence with genetically modified organisms (GMOs),¹ and the efforts of the Organic Cotton Round Table (OCRT).² The Organic Cotton Accelerator (OCA)³ and C&A Foundation,⁴ also confronted problems through pilots or small-scale action. The report emphasized that more investment was needed to transform the sector and ensure the consistent delivery of quality organic cotton to consumers.

This report will not go into the detail of the challenges faced by the sector that were published in the [first report](#). Rather, it will focus on action: discussing the next steps and areas of focus, as well as where there is potential for organizations to join forces and help to build a culture of integrity within the sector. However, it is worth restating briefly what was included in the initial report.

Challenges remain, as shown by the gap in the volume of organic cotton reported to be used by brands and retailers and our estimates of the volume of organic cotton actually produced. Supply chain actors face supply insecurity, quality, and contamination issues; and most organic cotton farmers don't have access to good-quality non-GMO cotton seeds, don't have secure buyer relations, and often don't receive a price differential that offsets their efforts.⁵ Without fair remuneration across the supply network, there's greater pressure on farmers to increase their yields and reduce their costs, which increases the risk of fraud. This may come through the use of GMO seeds, or the use of pesticides to prevent disease or losses from insect pressure as well. There's also a lack of transparency in most value chains due to fragmented delivery mechanisms. Without better traceability of the supply networks, it is difficult to provide proof of an organic chain of custody, which limits accountability when integrity is called into question.

Our aim throughout this paper is to move the focus from problems to solutions. Primarily, this is by encouraging investment in positive actions and incentives that reduce the risk of fraud as discussed in the 2018 report: that which occurs at the intersection of financial pressure (underinvestment that has led to price pressures), rationalization (the justification of dishonest actions) and opportunity (where loopholes in processes exist).⁶

Figure 1: An emerging integrity system



Introduction

Unfortunately where integrity is concerned, the industry is often divided. Organizations are liable to blame others or otherwise fail to take responsibility when problems are found. Although the focus of this report is on the actions that companies can take, Textile Exchange is advocating for collective action among all stakeholders to support the protection of integrity in organic cotton, by:

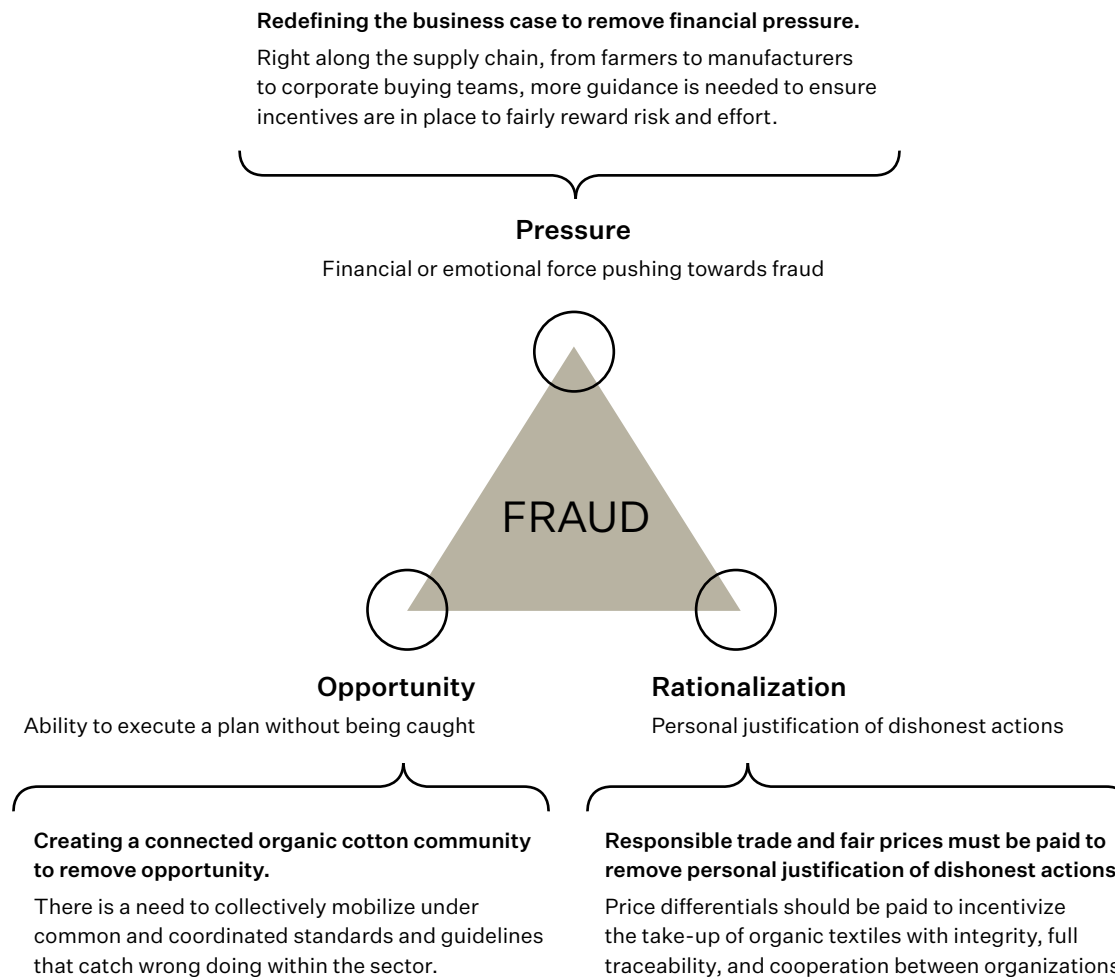
1. Organizing and coordinating action to address root causes and implementation of solutions at scale.
2. Committing, through the adoption of national and voluntary certification systems across the farm and supply chains, to collaborate on volume reconciliation and fraud investigation.

Despite the challenges, we want this report to encourage alignment across the sector and a coming-together of all stakeholders around a shared vision of integrity. We also want to stimulate discussion leading to action and the construction of a robust system of integrity. Part of our wider leadership efforts involve addressing the barriers to growth that exist in the organic cotton sector at both global and regional levels, and this is reflected in the [Organic Cotton Round Table](#), where stakeholders look at the market challenges facing the organic cotton sector, and work together to accelerate action to solve them.

This report will recommend that brands and supply chain partners proactively adopt an integrity system that tackles fraud, by addressing the following:

- Building compliance through standards and certification.
- Achieving traceability for organic content.
- Improving incentives for supply chain partners.
- Reviewing, improving, and collaborating with others.

Figure 2: The Adapted Cressey Fraud Triangle



Proactively Adopt an Integrity System that Tackles Fraud

Proactively adopt an integrity system that tackles fraud

There's an opportunity to be proactive in tackling fraud by adopting an "integrity strategy", or anti-fraud policy, for organic cotton. A good place to start is reviewing your supply networks to see where there are vulnerabilities—places where, due to pressure, fraud could occur. As mentioned above, look for systems and processes where financial pressure (underinvestment that has led to price pressures), rationalization (the justification of dishonest actions) and opportunity (where loopholes in processes exist) intersect.⁷ An anti-fraud strategy can then be drafted to:

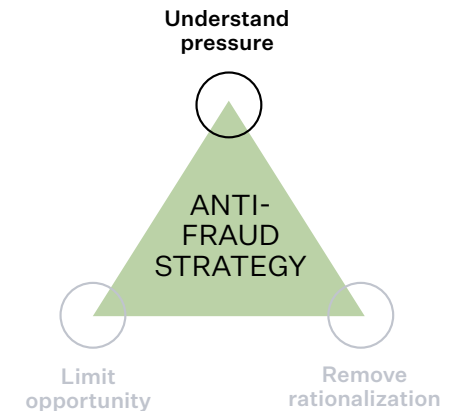
- Address those vulnerabilities, with a focus on implementing controls and processes that allow for (i) detection, (ii) investigation, and (iii) prevention.⁸
- Introduce appropriate standards, certification, and testing, particularly concerning GMOs.
- Ensure you have robust internal systems in place to support, advocate for, and investigate the robustness of organic cotton integrity mechanisms.
- Introduce and embed a transparency and traceability system across your whole supply network.
- Introduce positive incentives and price premiums that reward effort and risk.
- Document what to do when concerns are identified, including ensuring that (i) they are investigated fully and immediately, (ii) evidence is captured, and (iii) claims are corroborated.
- Ensure solutions and learnings are discussed with your supply network so others can benefit from your investment of time and effort.
- Document the ways you will collaborate and share monitoring with trusted partners to provide the right culture and environment for integrity to flourish.

As with any cultural or systems change, it is important to monitor the success of your anti-fraud strategy and how well controls and processes are designed and operating. It's also vital to adapt and improve these regularly to ensure they remain fit for purpose, and address any risks within your supply network. Seek to incorporate learning into your standard operating practice and continuously seek to improve.

What you can do

- Start by reviewing and mapping your supply networks to see where there are vulnerabilities—places where fraud could occur.
- Introduce and embed an anti-fraud and integrity policy.
- Monitor the success of your anti-fraud strategy and adapt and improve it.
- Seek to incorporate learning and a wider policy of continuous improvement.

Figure 3: Breaking the Cressey Fraud Triangle



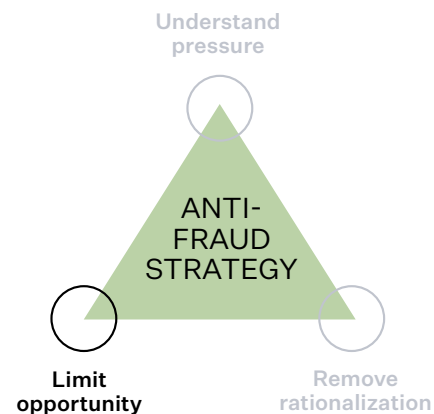
- Map your supply networks to understand where vulnerabilities exist and adopt an integrity system.
- Take a continuous improvement approach.
- Collaborate with others.

1. Building compliance through standards and certification

What is compliance?

Compliance (the act of following defined rules) is a necessary foundation for an honest organic production system and as a result, standards and certification play a significant role in limiting opportunities for fraud, and building confidence and security within organic cotton supply chains. It's well understood that organic agriculture production⁹ prohibits the use of synthetic toxic and persistent pesticides and fertilizers as well as genetically engineered seeds. But organic is not a purity claim: it is a production claim, and therefore it is vital to understand the rules and regulations surrounding organic and how one can gather assurance over the production throughout the entire value chain.

Figure 3: Breaking the Cressey Fraud Triangle



- Building compliance through Standards and Certification.
- Achieving traceability for organic content.
- Collaborate with others.

The role of legislation

Organic is the only agricultural production system focusing on sustainability that has been codified into law. These laws are in place in most regions of the world. These include, for example:

- the European Commission Regulation EC 2018/848,
- India's National Programme for Organic Production (NPOP), and
- the U.S. Department of Agriculture National Organic Program (USDA NOP).

This means that the term 'organic' has greater legal protections (and legal scrutiny) than any other 'green' claim. Companies or consumers purchasing 'organic' should therefore expect a level of veracity within their production that can be evidenced by checking compliance with relevant laws and regulations. At the farm level, national laws and regulations govern organic standards and claims.

The International Federation of Organic Agriculture Movements (IFOAM) independently recognizes the credibility of particular national standards in its 'Family of Standards'.

Certification is the process to ensure a product meets the requirements of a standard. To ensure authenticity, third-party Certification Bodies (CBs) perform audits on the farms to verify that organic producers meet strict national regulations, addressing methods and materials allowed in organic production, and address chain-of-custody¹⁰ through to the finished products if desired. Accreditation

Bodies (ABs), government-run or independent entities, approve and monitor independent CBs, and it is the AB that is responsible for checking that the certification body follows the standard guidelines.

Standards and certification are a fundamental tool in the industry-wide effort to build integrity, as standards seek to set the bar for best practices and utilize an independent verification process to evaluate if these are met. Standards provide the industry with a way to verify sustainability or organic claims from the raw material to the final product and allow mutual understanding of the sustainability attributes of a product between suppliers and buyers, facilitating greater communication and assurance over the integrity of product content and their chain of custody.

The role of voluntary standards

Two additional voluntary standards address the post-harvest tracking and labeling of products containing organic cotton:

1) The [Organic Content Standard \(OCS\)](#) is an international, voluntary standard that sets requirements for third-party certification of certified organic input and chain of custody. The goal of the OCS is to increase organic agriculture production by

- Providing the industry with a tool to verify the organically grown content of the products they purchase.
- Providing companies with a trusted tool to communicate organically grown content claims to the industry.
- Providing organic fiber farmers with broad access to the global organic market for their products.

1. Building compliance through standards and certification

2) The [Global Organic Textile Standard \(GOTS\)](#) is an international, voluntary textile processing standard for organic fibers, including ecological and social criteria, backed up by independent third-party certification of the entire textile supply chain. GOTS certification

- Provides the industry with a tool to verify organic fibers, using ecological and social criteria.
- Provides companies with a trusted tool to communicate during all processing stages, including the ability to make a product claim to consumers.

Both the OCS and GOTS go beyond production laws, by reviewing the chain of custody as organic agricultural products are transformed into textile products. Using these voluntary standards provides a level of independent assurance that verifies best practices are in place in areas such as responsible management of natural resources, interactions within the communities at origin, treatment of workers, as well as traceability mechanisms through related supply chains.

However, given that fraud and integrity challenges often evolve, there's a need for standards also to develop to ensure that they continue to drive positive actions and behaviors relating to integrity and continue to represent best practice requirements.

In its latest revision, the Organic Content Standard (3.0) demonstrated our commitment to improving integrity by including updates that were specifically designed to improve integrity, including:

- GMO testing for organic cotton must occur per our [OCS-103 GMO Screening of Organic Cotton](#). This ensures all reasonable steps have been taken to detect GMOs from textile supply chains.¹¹
- More robust traceability has been introduced between the farm and the first processor. All transaction and source certificates from the first point of entry are now required to provide visibility and prove authentication along the supply chain.
- Certified organizations must now maintain technical specifications for all OCS materials and perform verification of organic inputs. Technical specifications allows the verification to be more precise, verifying a specific fiber quality rather than just 'cotton'.

As of December 1, 2022, the OCS will also make it mandatory that site inputs from the GOTS provide traceability of all transaction certificate data back to the original farm source (e.g. full transaction certificate data including product and input product) and farm input data (e.g. farm capacity). Additionally, to prevent fraud and to provide a double safety net, all first processors (e.g. cotton gins) that ultimately provide GOTS inputs into an OCS product down the supply chain will be certified to the OCS and provide evidence of all inputs from farms. The additional data sharing will enable us to have full traceability of the inputs to the OCS, and allow us to perform more robust volume reconciliation in coordination

with the GOTS. This will also allow us to provide more robust traceability information with standard users as traceability systems like TrackIt (which is mentioned in the next section) come online.

These improvements to the standard have been designed to improve accountability and integrity by removing gaps in the control environment that could compromise organic content. Further improvements will be part of our move to a unified standard system.¹² The updated system aims to increase focus on improving the impacts of our standards in line with Climate+ goals. To learn more, visit: textileexchange.org/standards-transition

What you can do

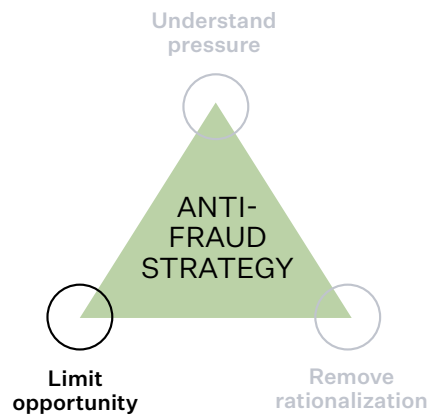
- Across your supply network, introduce appropriate Standards, Certification, and testing, particularly concerning GMOs to provide greater transparency and surety over production claims.
- Brands should also aim for a fully certified supply chain, rather than a partially certified supply chain.

2. Achieving traceability for organic content

What is traceability?

Traceability is the ability to verify the history, location, or application of an item by means of documented recorded identification and chain of custody is the custodial sequence of how the material ownership is changed from one party to another in the supply chain, typically from the raw material production to the final product.^{13 14}

Figure 3: Breaking the Cressey Fraud Triangle



- Building compliance through Standards and Certification.
- Achieving traceability for organic content.
- Collaborate with others.

After building, through the introduction of standards and certification, a verification framework that ensures compliance, the next stage in developing an integrity system that limits opportunities for fraud is to use a tool that maps your supply partners, their interactions, and risks, to aid transparency and traceability. Asking all of your supply networks to use it for transaction certificates (TC) and scope certificates (SC)¹⁵ is key to success. As part of introducing a new system of traceability, it is also important to investigate concerns around transparency and traceability and ensure that you are mitigating or minimizing all identified risks. Discussing solutions with your supply network and sharing learnings will also benefit others.

There is a lack of transparency along the supply network, with poor links between the farm standard and the textile chain of custody standard, and insufficient physical checks performed as the cotton moves off the farm, from a national organic farming standard, to the factories—the chain of custody standard. Furthermore, certifying bodies continue to work in commercial silos where information isn't shared, which makes it hard to trace a chain of custody and limits incentives among stakeholders to encourage the highlighting of integrity challenges. According to a 2019 [UNECE study](#), only about 34% of the top 100 apparel companies track and trace their value chains, of which half have visibility only up to their immediate suppliers. The ability to map the materials value chain is not only critical for due diligence and ensuring integrity, but essential to tracking progress towards sustainability goals.



2. Achieving traceability for organic content

Capturing both supply chain mapping data (transparency)¹⁶ and operational data (traceability)¹⁷ gives organizations better control and visibility of the data flow within their supply chain. This provides them with greater protection against the risks inherent in supply chains (including relating to fraud) and enables them to make faster and better-informed decisions, improve commercial operations, and demonstrate progress towards sustainability targets, which helps in building consumer confidence.

Textile Exchange's Traceability Tools

Since the original report, Textile Exchange has invested heavily in centralizing and digitizing certification data for volume reconciliation and traceability through our [Trackit system](#), a formative industry-wide program for improved integrity, traceability, and efficiency of sustainable material provenance.¹⁸ The tool builds upon our standards¹⁹ (the value of which is discussed above, in the previous section), using third-party certification data at the site and transaction level to map value chains across regions. The Trackit program, due to be completed in 2022 with a full product launch in 2023, is being developed to support industry traceability and transparency needs. To increase integrity, brands should also apply “forensic authentication” of material as part of their strategy. Over time Trackit will incorporate and align with these technologies but for now, the focus is on electronic versus paper transactions and site verification to help prevent fraud from the start.

The Trackit program offers two traceability paths:

1. Digital Trackit “dTrackit” forms the traceability baseline for the existing certification process of all our standards. Traceability in dTrackit is achieved by centralizing and connecting scope and transaction certification data stored by CBs.

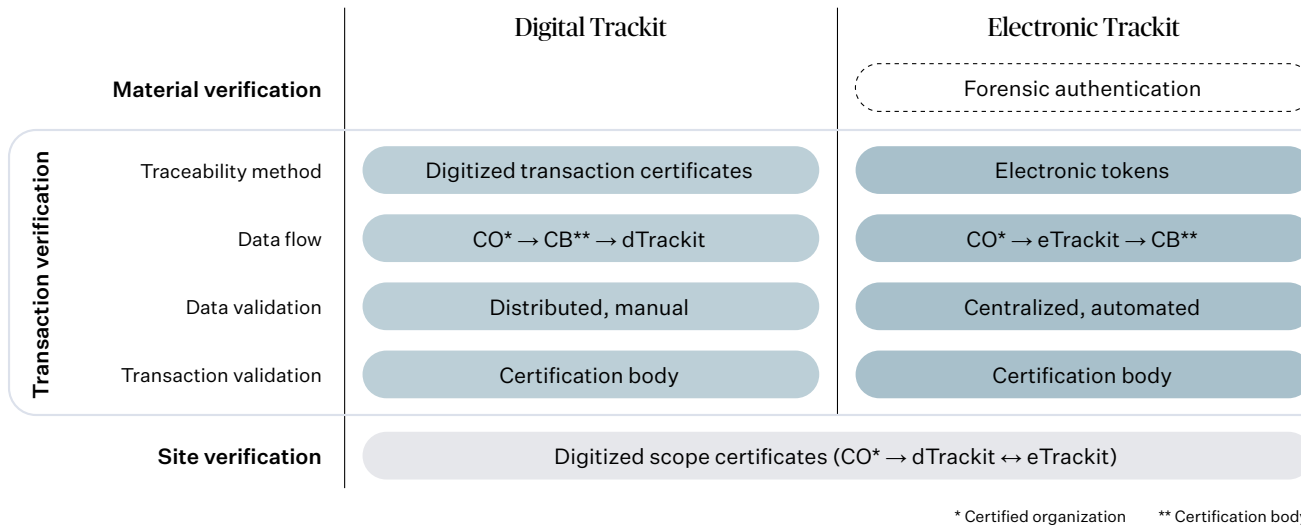
2. Electronic Trackit “eTrackit” is an alternative for companies that want more detailed traceability. It takes the traceability of our standards one step further by tracking the volume of certified material for each product (rather than the entire transaction) entirely online via tokens (e.g., eBanking). Traceability is achieved by tracking these tokens at an article level in a central platform that CBs access for verification and approval. Physical material verification may be integrated and reconciled with data along the chain for additional assurance.

Trackit will be released in multiple phases over the coming months (2022/2023) alongside various standards updates that complement the use and efficiency of the standard schemes involved. We’re currently working on Phase 1 (to be launched by the end of 2022) which focuses mainly on the digitization and verification of the existing scope and transaction certificate process into one system.



2. Achieving traceability for organic content

Figure 4: Textile Exchange Trackit Program – Traceability Pathways



Subsequent phases are focused on the evolution of the existing standards process. Risk-based approaches to both on-site audits and transaction certificate reviews are both planned. This allows certification bodies to give more attention to higher areas of risk while hopefully reducing overall costs. Throughout, there will be data sharing, analysis, and increased reporting functions amongst certified stakeholders, other voluntary standards, and other data sources.

Over time, we'll be able to review the quantity and quality of data and benchmark factors between supply chain operators, and therefore spot and investigate errors or fraud early. Following updates to the OCS (as described above), Trackit will also require all backward transaction certificates and farm-level scope certificates so there will be increased confidence in raw material input and content claims, bolstering integrity throughout your supply network.

What you can do

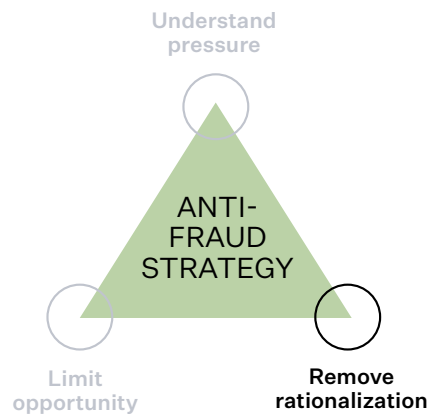
- Brands should have a sourcing and procurement policy that incentivizes transparency.
- Invest in greater traceability by signing up to a transparency and traceability system (such as [Trackit](#))
- Ask your supply network and certifying bodies to use your transparency and traceability system for transaction and scope certificates.
- Brands should also adopt forensic authentication of material as part and parcel of their strategy.
- Investigate concerns around transparency and traceability to ensure risks are mitigated or minimized.
- Discuss solutions and share learnings with your supply network so others can benefit from your investment in time and effort.

3. Improving incentives for supply chain partners

Strengthening supplier relationships

Once an integrity system of compliance and traceability is in place, there is an opportunity to look at the wider incentives and behavioral aspects in place (rationalization) within the sector, and supply networks specifically, to assess whether they strengthen or reduce integrity. A starting point is investing in long-term relationships across your network built on trust, appropriate due diligence, and fair premiums to increase the surety and quality of supply and stabilizes supply and demand challenges.

Figure 3: Breaking the Cressey Fraud Triangle



- Improve incentives for supply chain partners by introducing price premiums that fairly reward effort and risk.

We have advocated, primarily through our [Organic Cotton Round Table](#) (OCRT), for greater organization and collective action by the sector to deal with integrity challenges. We have also driven several initiatives that are seeking to change systems and incentives to address (among other things) fraud or mismanagement. The OCRT believes that investing in appropriate incentives as a group with shared goals is the most efficient way to help the sector grow with transparency and accountability and deal with poor incentives around price.

Price to value

Price has always been a key factor in decision-making and assessment of return on investment. Practices throughout the value chain such as pushing prices down (price squeezing) or the opposite—inflating products with no transparency relating to why and where (up charging)—have been problematic. The current or typical business model or paradigm often focuses on reducing the price at all costs, thereby increasing the risk of cutting corners with product integrity to save money. This price pressure is one of the key tenets, alongside opportunity and rationalization (see figure 2 showing the Cressey Fraud Triangle above) which, if not dealt with appropriately, increases the risk of fraud and undermines integrity. Currently, organic cotton prices are high, resulting in increased production but also an increased incentive to mislabel cotton to achieve higher returns.

Within recent surveys of the Textile Exchange membership and community, the price was identified as the key reason brands and retailers are struggling to scale or increase their use of preferred fibers and materials, including

organic cotton. Challenges around the cost and value of more responsible and preferred fibers and materials have been around since the introduction of organic cotton in 1991. In the last few years, a vital dialogue for integrity has started up. It involves reframing the ‘price’ conversation to one around ‘value’, re-imagining business models to focus on building stronger relationships between stakeholders based on shared values and principles. It also entails focusing on greater supply certainty, and addressing the price paradigm to ensure we build business models that are authentic, fit for purpose, and fairly reward the investment of time and resources while adequately remunerating effort and risk, and tackling inequality in pricing.

To bring this to scale, transparency and traceability are critical. A systemic change within the industry is needed—one that encourages investment in long-term relationships that fairly reward risk relating to production, marketing, finance, law, and human resources; supports the supply chain (and therefore reduces price fluctuations); and delivers on the [Sustainable Development Goals](#) by moving away from the concept of minimizing harm towards a model whereby beneficial impacts are maximized. For this to become a reality, robust due diligence²⁰ that encourages the creation of supply chains where values and principles of integrity are shared is needed, alongside a wider systemic change geared towards designing and promoting products and supply chains that last, and are positive for the environment. A new textile economy should be based on transparent, traceable, and accountable principles that lead to better economic, environmental, and societal outcomes.

3. Improving incentives for supply chain partners

One tool to help organizations make the pivot to new incentives that promote ethical, accountable behavior across the supply network is the Environmental Profit and Loss statement (EP&L), a type of corporate natural capital accounting that encourages all levels of management and investors to seek environmental and social reassurances before deciding where and how much to invest. It helps organizations to take a more holistic approach to their operations throughout the supply chain, from cradle to gate. An EP&L works best when the company has already committed to specific goals around integrity and sustainability as it helps teams to measure how their sourcing and purchasing decisions move them towards these targets. The EP&L helps to reframe the culture and incentivizes individuals looking holistically at financial, environmental, and social impact rather than just price or cost to the business, as is typical of traditional financial profit and loss statements. An EP&L helps reward teams that choose wisely in integrity terms.

If done well, all these actions ensure we develop the right incentives to encourage honest, ethical, and accountable behavior across the supply network, thereby reducing the potential for the personal rationalization of dishonest actions, and bringing greater surety and quality of supply.

What you can do

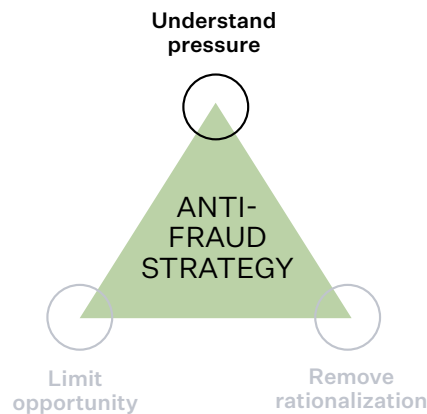
- Combine your efforts within sector-wide initiatives like the [Organic Cotton Round Table](#) (OCRT) – aligning around a vision and agenda that incentivizes actions that promote integrity. Seek a global consensus on the ways to improve integrity by investing jointly in collaborative approaches.
- Invest in new models and at all levels of the supply network, so ensuring that your sustainability work brings about a result with sufficient premiums for living wages and fair profits.
- Invest in a new textile economy, based on transparent, traceable, and accountable principles that lead to better economic, environmental, and societal outcomes.
- Adopt management reporting tools such as Environmental Profit & Loss statements to show the real value of integrity and sustainability and to help get a maximum of internal support for your integrity efforts.



4. Review, improve and collaborate with others

Lastly, by communicating to your stakeholders and working with others, including through the OCRT, on how you are building integrity and implementing anti-fraud measures, as well as by talking about initiatives, you can change perceptions towards fraud amongst those involved with your supply networks. By doing this, you can break the Cressey Fraud Triangle (see figure 3 below) and reduce the risk that fraud will occur.

Figure 3: Breaking the Cressey Fraud Triangle



- Map your supply networks to understand where vulnerabilities exist and adopt an integrity system.
- Take a continuous improvement approach.
- Collaborate with others.

This can be done by:

- Increasing dialogue within the sector, with a focus on continuing to identify and address issues.
- Coordinating practical attempts to detect, investigate, and prevent fraud (e.g., through data sharing and volume reconciliation between programs). It would be particularly helpful if more data on volumes, including at the national farm-level standards, were publicly available. If farm volume capacity were publicly available (currently, only USDA NOP shares this) there could be more validation of starting volumes.
- Increasing transparency around price premiums and accountability for industry players concerning fair pay. This would move the price closer to the value paradigm discussed above.

All these actions will move the sector towards greater integrity.

What you can do

- Communicate to your stakeholders what you are doing to change the perceptions of those involved with your supply networks around opportunities to get away with fraud.
- Increase dialogue with others to continue to identify and address issues.
- Work with others to make more data publicly available, including the national farm-level standards.
- Increase transparency around price premiums and make industry players more accountable for paying fair premiums, right along the supply chain.

Conclusion

Conclusion

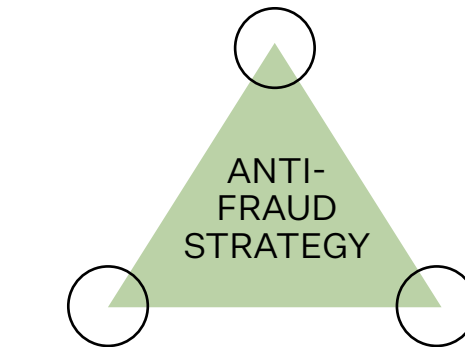
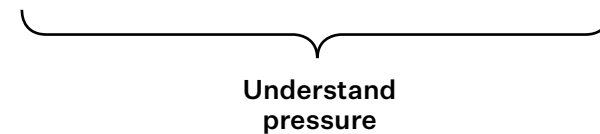
The purpose of this report is to provide more guidance on practical ways that our members can act to improve integrity. This report recommended that brands and supply chain partners, proactively adopt an integrity system that tackles fraud, by:

- Building compliance through standards and certification.
- Achieving traceability for organic content.
- Improving incentives for supply chain partners.
- Reviewing, improving, and collaborating with others.

Once again, it is an opportunity for the sector to come together in a joint agreement to solve problems and move forward. The following page summarizes the areas covered within this report.

Figure 3: Breaking the Cressey Fraud Triangle

- Map your supply networks to understand where vulnerabilities exist and adopt an integrity system.
- Take a continuous improvement approach.
- Collaborate with others.



- Building compliance through Standards and Certification.
- Achieving traceability for organic content.
- Collaborate with others.

- Improve incentives for supply chain partners by introducing price premiums that fairly reward effort and risk.

Conclusion

Adopt an integrity system

- Start by reviewing and mapping your supply networks to see where there are vulnerabilities where fraud could occur.
- Introduce and embed an anti-fraud and integrity policy.
- Monitor the success of your anti-fraud strategy regularly, and see and how well controls and processes are designed and operating.
- Seek to incorporate learning into standard operating practices and continuously seek to learn and improve.

Compliance

- Across your supply network, introduce appropriate standards, certification, and testing, particularly concerning GMOs, to provide greater transparency and surety over production claims.
- Brands should also aim for a fully certified supply chain, rather than a partially certified supply chain.

Transparency and traceability

- Brands should have a sourcing and procurement policy than incentivizes transparency.
- Invest in greater traceability by signing up to a transparency and traceability system (such as Textile Exchange's [Trackit](#))
- Ask your supply network and certifying bodies to use your traceability system for transaction and scope certificates.
- Brands should adopt the forensic authentication of material as part of their strategy.

- Investigate concerns around transparency and traceability to ensure risks are mitigated or minimized.
- Discuss solutions and share learnings with your supply network so others can benefit from your investment.

Incentives and fair premiums

- Combine efforts within sector-wide initiatives like the [Organic Cotton Round Table](#) (OCRT) – aligning around a one-sector vision and agenda that incentivizes actions that promote integrity. Seek to form a global consensus on ways to improve integrity by investing jointly in collaborative approaches that improve the sector.
- Invest in new models and at all levels of the supply network to ensure your sustainability efforts deliver sufficient premiums for living wages and fair profits.
- Invest in a new textile economy, based on transparent, traceable, and accountable principles that lead to better economic, environmental, and societal outcomes.
- Adopt management reporting tools such as Environmental Profit & Loss statements to show the real value of integrity and sustainability and help achieve internal buy-in for integrity efforts.

Review, improve, and collaborate

- Communicate to your stakeholders and supply network what you are doing to build integrity and implement an anti-fraud strategy. By talking about initiatives, you change the perceptions of those involved with your supply networks concerning the opportunity to get away with fraud. By doing so, you can break the Cressey Fraud Triangle (see figure 3 above) and reduce the risk that fraud will occur.

- Increase dialogue with others to continue to identify and address issues.
- Work with others to make more data publicly available, including the national farm-level standards.
- Increase transparency around price premiums and seek accountability for industry players to pay fair premiums, right along the supply chain.

Textile Exchange has always advocated for greater organization and collective action by the sector to deal with integrity challenges. We believe that investing in appropriate incentives as a group, united by shared goals, is the quickest way to help the sector become more transparent and accountable. We would like to invite you to join us in this aim in the following ways:

- Sign up to be part of the [Organic Cotton Round Table](#).
- Sign up for updates from [Textile Exchange](#).
- For more information, please contact: communications@textileexchange.org

References

Endnotes

- 1 Textile Exchange. (2016). GMO Contamination in Organic Cotton – Taking Steps to Build a Resilient Future. Textile Exchange.
- 2 More information can be found here: <http://textileexchange.org/organic-cotton-round-table/>
- 3 More information can be found here: <http://www.organiccottonaccelerator.org>
- 4 The C&A Foundation (renamed as Laudes Foundation) has been catalytic in its support and funding of organizations or initiatives such as Textile Exchange, OCA, Cotton Connect, and the Organic & Fair Cotton Secretariat.
- 5 Availability of non-GMO seed, insecure buyer relationships and premiums remains an issue that is covered in more detail in the Organic Cotton Market Report 2021: <https://textileexchange.org/organic-cotton-market-report>
- 6 Cressey, D. R. (1973). Other People's Money. Montclair: Patterson Smith.
- 7 Cressey, D. R. (1973). Other People's Money. Montclair: Patterson Smith.
- 8 If useful, the transformational integrity report from 2018 and other sections of this report have specific recommendations to help: <https://textileexchange.org/integrity-report/>
- 9 IFOAM International defines as: "A production system that sustains the health of soils, ecosystems and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. Organic agriculture combines tradition, innovation and science to benefit the shared environment and promote fair relationships and a good quality of life for all involved."
- 10 Chain of Custody is a system to document and verify the path taken by a defined input material through all stages of transfer and production, to the final product.
- 11 Both OCS and GOTs now require mandatory seed cotton testing for GMO presence using the ISO IWA 32 protocol at all OCS / GOTs certified gins and supply chains. This guidance and adoption is building trust within organic cotton and provides Buyers, Brands, Retailers, and Customers with greater assurance of GMO- free (cotton) organic product.
- 12 Textile Exchange is committed to building credible, internationally recognized standards that include evaluation systems as well as assurance and monitoring. In July 2021, Textile Exchange began a comprehensive revision of its standards framework with the intent to embed its Climate+ strategy into a more unified standard system across its eight standards.
- 13 ISEAL: https://www.isealalliance.org/sites/default/files/resource/2017-11/ISEAL_Chain_of_Custody_Models_Guidance_September_2016.pdf
- 14 BSR: <https://www.bsr.org/en/our-insights/report-view/a-guide-to-traceability-a-practical-approach-to-advance-sustainability-in-g>
- 15 A "transaction" certificate (TC) lists the actual certified products and shipment details and a "scope" certificate (SC) identifies which products the company is certified to the respective standard.
- 16 Supply chain transparency captures the extent to which chain of custody and product traceability information is readily available to end-users and other companies in the supply chain.
- 17 Traceability is the ability to verify the history, location, and processing step of fibers and materials in a supply chain by means of recorded identification.
- 18 Provenance is the ability to trace the origin of the asset and identify how it has been altered or transformed throughout its lifecycle.
- 19 Standards provide the industry with a way to verify sustainability claims of a product. In general, there are three levels of verification:

Site level: Verifies that the processes carried out at site conform to operational and/or sustainability criteria defined by the standard.

Transaction level: Verifies that the products and quantity exchanged along the value chain is within the certified scope of each site and reconciles to inventory.

Physical material level: Authenticates the presence of certified material in a product.

Credible traceability requires the interplay of verification at site, transaction, and physical material levels. What is traced, how it is traced and the assurance levels depend on the chain of custody and requirements of the standard.
- 20 Helpful guidance can be found in the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. The [OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#) helps enterprises implement the due diligence recommendations contained in the OECD Guidelines for Multinational Enterprises along the garment and footwear supply chain in order to avoid and address the potential negative impacts of their activities and supply chains.