

Supply Chain Compliance Challenges in the Footwear and Material Sector

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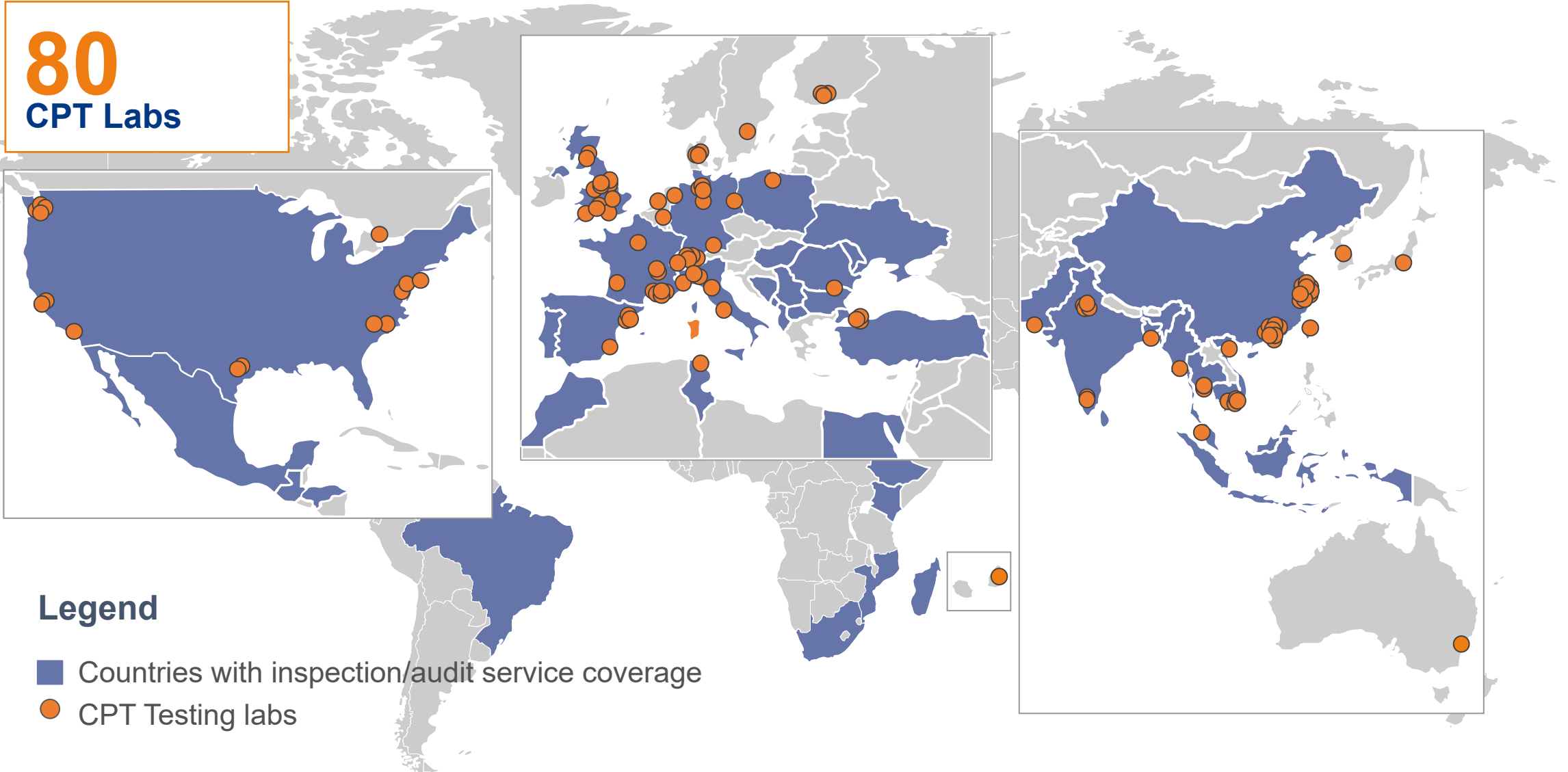
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Compliance Challenges – The Footwear Supply Chain

➤ 1990's

- Product compliance to physical performance requirements
- Increased move to sourcing off-shore and growth in China production
- Chemical compliance started to become an interest / requirement in the 1990's (ecolabels, brand RSL's, etc)
- State chemical laws, Prop 65, Japan standards, REACH, etc in the late 1990's

➤ 2010's

- Driving chemical compliance by moving from RSL to MRSL
- Sustainability became more of a concern from the 2010's and grew exponentially through to change to 2020's

➤ 2020's

- Now there a whole list sourcing, regulatory and supply issues that makes compliance (in one form or another) a major task



Compliance Challenges – The Footwear Supply Chain



Deforestation

Compliance Challenges – Deforestation and impact of Livestock

Livestock farming causes 40% of global deforestation



- Agriculture accounts for up to 80% of tropical deforestation – the permanent conversion of forested land to another land use.
- Of that 80%, 40% is directly caused by pasture expansion for beef
- A further 18% is driven by oilseeds including soybean and palm oil, split roughly evenly between them. 80% of soybean produced is fed to livestock as a by-product of oil production and roughly 10% of palm oil – meaning roughly half of oilseed production should be attributed to livestock
- This means that livestock is responsible for at least half of tropical deforestation globally, equivalent to 40% of total global deforestation

2014



Northern Paraguay

2020



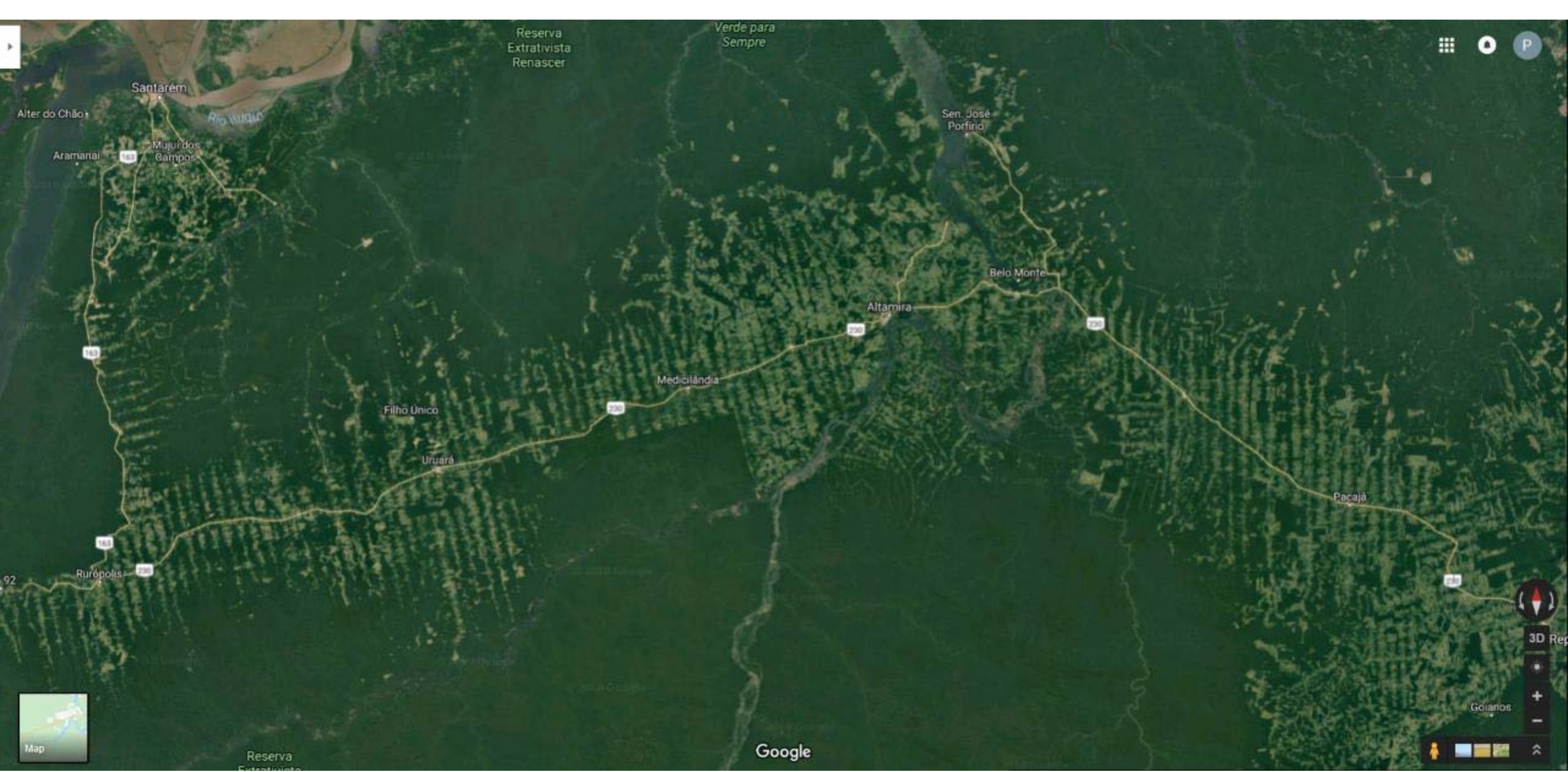
Grey boxes are not soccer fields, but 25 miles x 25 miles

2014



2020





Reserva Extrativista Renascer
Verde para Sempre

Santarém

Alter do Chão

Aramanã

Muju dos Campos

Sen. José Porfírio

Belo Monte

Altamira

Medicilândia

Filho Único

Ururá

Pacajá

Rurópolis

Reserva Extrativista

Google



3D Rep

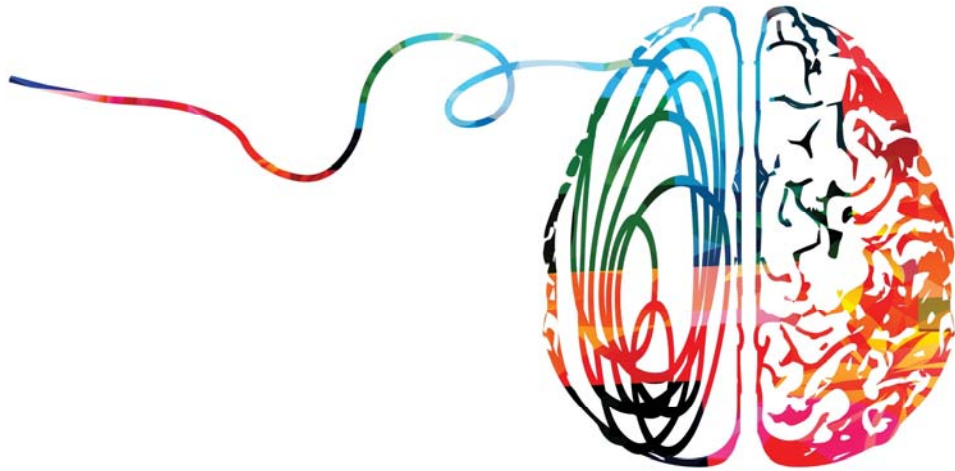


Goianos



Map

Deforestation and impact of Livestock – Challenges

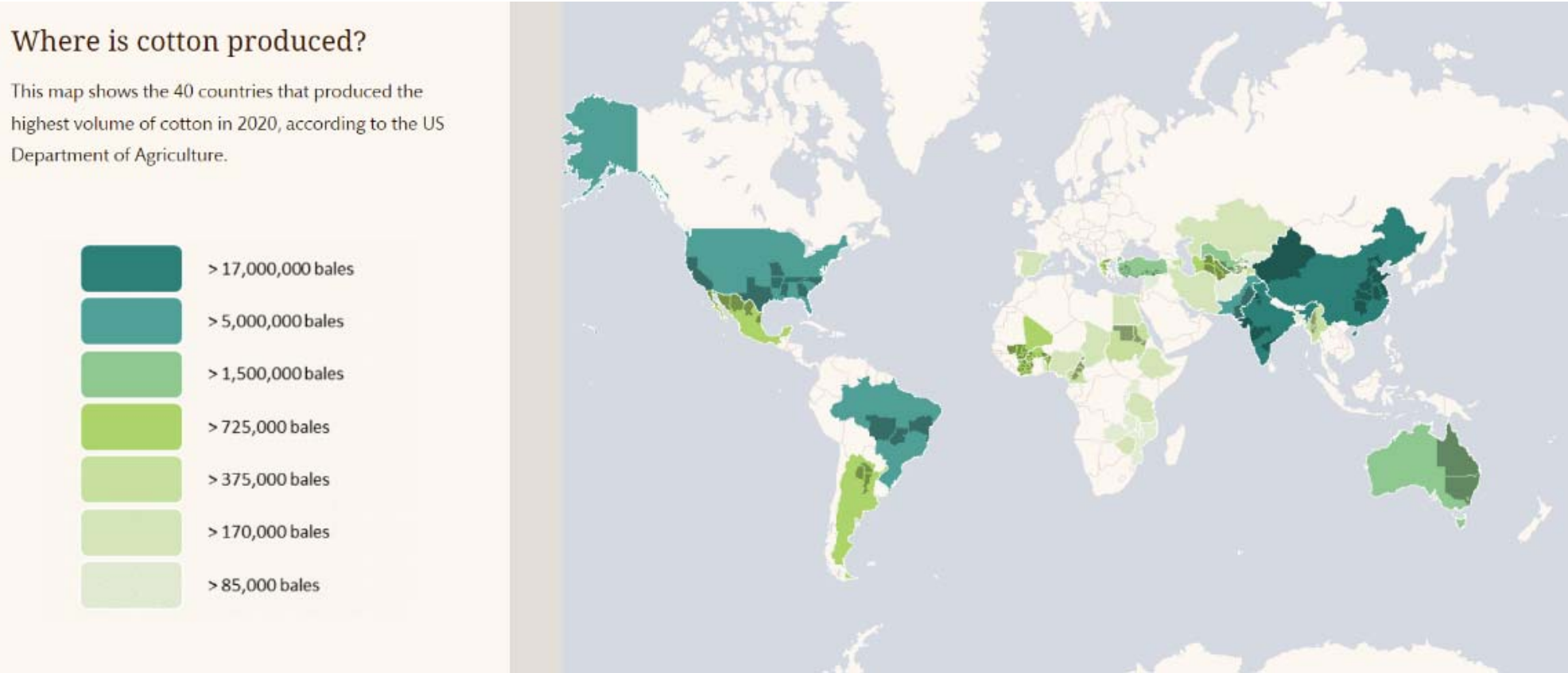


- How do you understand if your leather supply chain has a direct or indirect impact on deforestation?
- How do you increase visibility back to the farm that might be related to deforestation?
- How can you use data to assess risk?

Social Exploitation

Compliance Challenges – Social Exploitation

The Cotton Supply Chain



Compliance Challenges – Social Exploitation

Yarn Ethically & Sustainably Sourced (YESS) Standard

- Created by the Responsible Sourcing Network (RSN)
- Stated objective to drive modern slavery out of cotton production by eliminating the market for cotton produced with forced labor
- The YESS Standard has identified;
 - Nine countries that are high-risk and
 - Five emerging-risk for the presence of modern slavery in cotton production.
- Aims to assist companies in complying with anti-slavery regulations and to give consumers the assurance that brands are working to eliminate forced labor from the cotton industry
- The YESS Standard aims to create a global list of verified spinners and mills, allowing for an established, industry-wide traceability approach



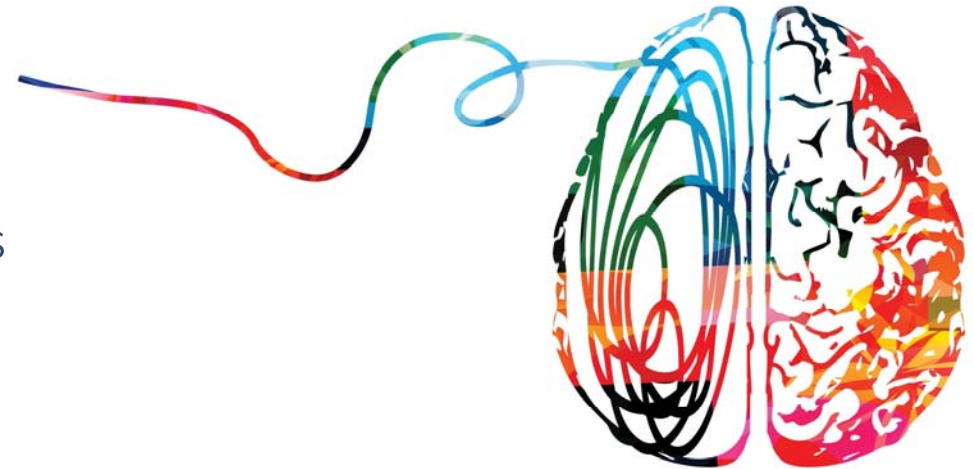
Compliance Challenges – Social Exploitation

Uyghur Forced Labor Prevention Act (UFLPA)

- The UFLPA requires organisations to demonstrate goods were not made with forced labor
- The UFLPA Implementation Guidance includes the types of documentation and information that will be considered as evidence that goods were not made with forced labor.
- Included within this is ‘**Supply chain tracing**’ which should include a detailed description of the supply chain and chain of custody from the raw material to the imported good, including a list of suppliers associated with each step of the production process
- In addition to Supply Chain Tracing, supporting information can include **transactional and shipment documents** such as purchase orders, invoices, packing lists, payment records, shipping records, bills of materials, certificates of origin, seller and buyer’s inventory records, and import and export records.
- Please note: The process of gathering and interpreting multiple different supporting information identified above can be time consuming, challenging and quickly becomes out of date

Social Exploitation – Challenges

- How do you understand if your supply chain has a direct or indirect impact on social exploitation?
- How do you provide the necessary evidence (e.g. UFLPA) as every time an item is bought or sold it generates a transactional receipt, and this happens at EVERY stage of the supply chain on a CONTINUOUS basis
- How do you demonstrate to your consumers that you are sourcing ethically?



Legislative Compliance

Compliance Challenges – Legislative Compliance

Due Diligence Bills and Legislation are on the increase



- New York Bill
- Washington Bill
- EU new legislation: Proposal for a Directive on Corporate Sustainability Due Diligence

Legislative Compliance – State and International Supply Chain Legislation

Similarities

- Initially focused on larger businesses (>\$100M/yr or €150M turnover)
- Must show some level of due diligence in regards sustainability issues caused within their supply
- Must know at least 50% of their supply chain across all tiers
- Identify risks within their supply chains and have plans / policies to mitigate risk
- Significant fines e.g. 2% of revenue / proportional to level of damage caused
- Designed to create a collective sustainability due diligence duty to address damaging human rights violations and environmental impacts of fashion and retail brands

Mapping Your Supply Chain

Traceability to slaughterhouse

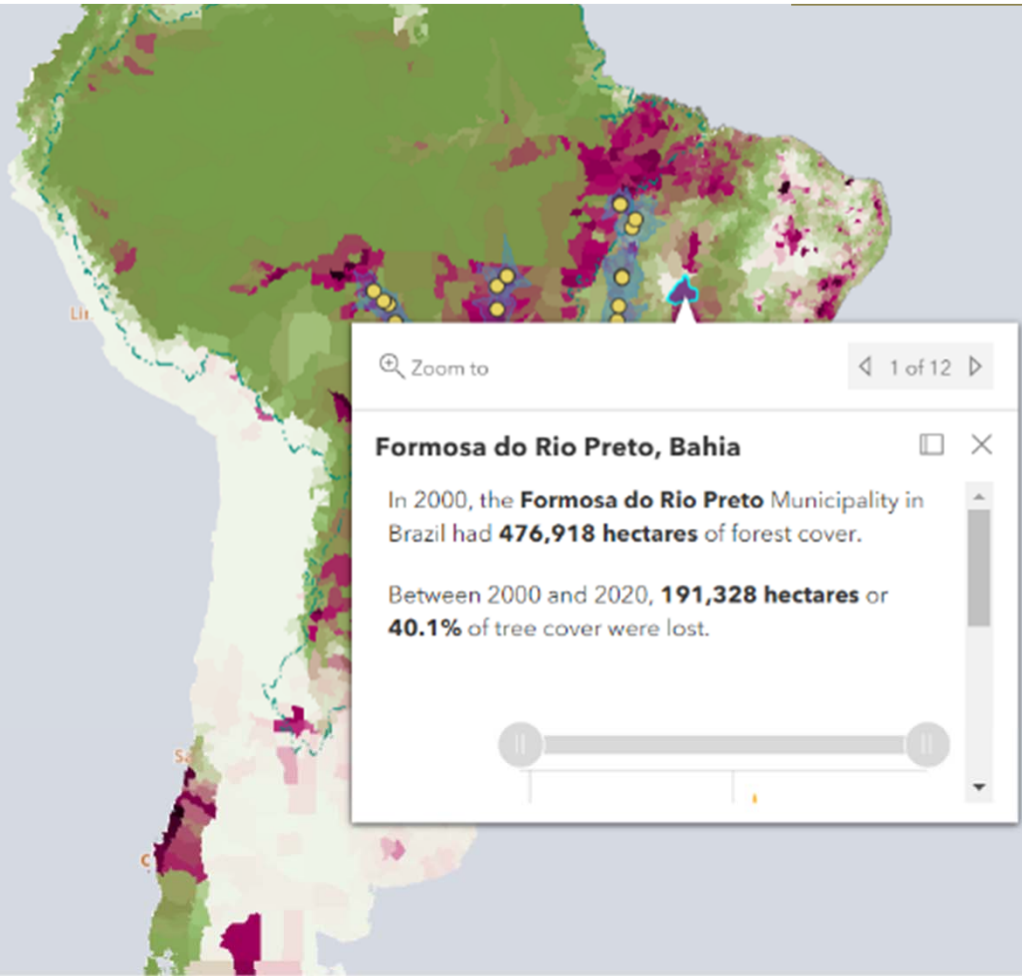
Supply Chains

This map shows the total supply chain of the leather suppliers to your company.

- Your **Tier 1** manufacturers are shown in **blue**
- Tanneries in **turquoise**
- Traders in **green**
- Slaughterhouses in **yellow**
- Farms in **orange**
- Chemistry suppliers in **purple**



Using data to assess risk



Why You Should Map Your Supply Chain

- It is essential for business credibility
- This need for supply chain traceability and transparency is driven by environmental, social and governance issues affecting supply chains including;
 - Deforestation
 - Pollution
 - Animal Welfare
 - Worker Safety
 - Social Exploitation
 - Geopolitical Issues
 - Chemical Contamination
 - Legislative Compliance
- There is a significant trend towards changing laws and policies which will make it mandatory

Traceability can form the basis of strategic response to managing risk within supply chains

Solutions not just testing.

Testing for life.

Let's find your solution.



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