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STRATEGIC SUPPLIER ENGAGEMENT FOR COMPLIANCE AND SUSTAINABILITY IN THE EU

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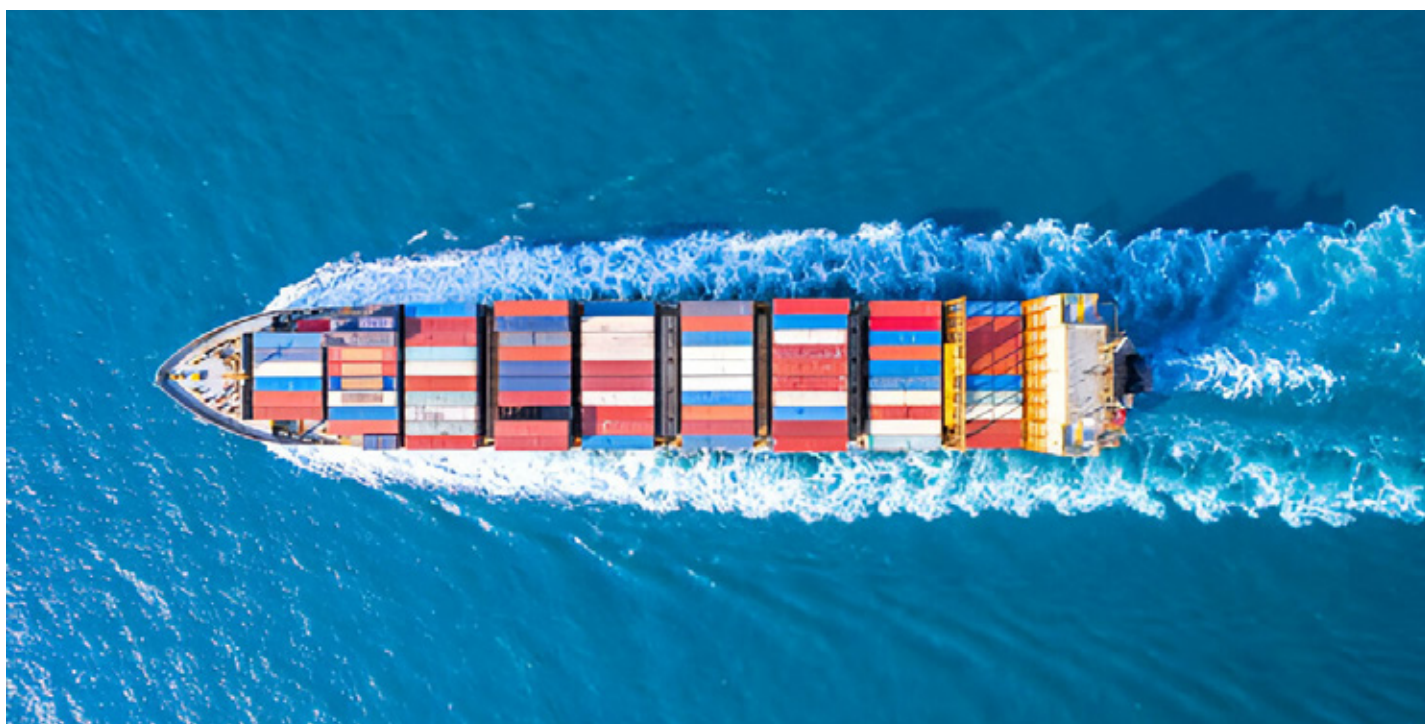
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HOW BETTER SUPPLY CHAIN ENGAGEMENT CAN BOOST SUSTAINABILITY



A wave of due diligence and transparency regulation is sweeping the world, forcing businesses to pay greater attention to the environmental and human rights impacts of their supply chains.

Brands are now engaged in extensive scrutiny of their suppliers, the practices being used and the resulting impacts on the environment and communities. This level of transparency is particularly challenging given the complexity of global supply chains, and may force businesses into difficult conversations with their suppliers.

Traditionally, businesses had simple supply chains that were often local and relatively easy to track. But in the past 70 years, less profitable elements of business have been outsourced to

intermediaries and suppliers, often in countries with weaker laws and regulations.

This model has made managing environmental and social risks much more challenging, as scandals such as the Rana Plaza garment factory collapse in 2013 and the general treatment of third-party suppliers during the Covid-19 pandemic have demonstrated.

At the same time, consumers have shown increasing concern over the environmental and social credentials of the products they buy, further driving companies to improve supply chain transparency and engage more strategically with their suppliers.

IMPACT OF EU REGULATIONS ON SUPPLIER ENGAGEMENT



Regulators, particularly within the European Union (EU), are now paying close attention to how companies source their products, demanding physical proof that their products have not contributed to deforestation, child labour or forced labour – or risk facing punitive fines and reputational damage.

“It’s not news that there have been concerns across global value chains, and there have always been campaigns from civil society to act on these issues. But what is changing the

state of play is that governments have realised that by putting regulation in place, companies will act faster and better,” says Michela Mossali, Government Relations Manager at Oritain.

The EU has been a major driver of this regulatory push, with multiple requirements being brought in as part of its Green Deal. These will impact a large number of global businesses operating within the EU market.

New regulations include the **Corporate Sustainability Due Diligence Directive (CSDDD)**, agreed earlier this year, which requires companies to identify potential and real adverse environmental and human rights impacts arising from their own operations, subsidiaries and business relationships.

Under the CSDDD, companies must take measures to prevent or mitigate any potential or actual impacts they identify. Financial penalties for those who fail to comply will be based on a company's turnover, and must be 'effective, proportionate and dissuasive'.

The **Corporate Sustainability Reporting Directive (CSRD)** requires large and listed companies to disclose on more than 1,000 data points across ten topics, including pollution, resource use and biodiversity. Disclosures must cover qualitative and quantitative measures across short, medium and long-term considerations, spanning the entire value chain. The first reports are due in April 2025.

The **EU Deforestation Regulation (EUDR)** establishes mandatory due diligence for all companies involved in importing commodities including palm oil, cattle, wood, coffee, rubber, soy, and some derived products such as chocolate and furniture, into the EU or exported from the EU market.

These products and raw materials must be traced back to their source, and only products that can prove they have not contributed to deforestation since 2020 can be sold. Those that do not comply risk being blocked from the EU market and receiving fines of up to 4% of annual turnover. Large and medium-sized companies have to demonstrate compliance with the EUDR by 30 December 2024, while

micro and small enterprises have until 30 June 2025 to comply.

Crucial for social compliance, the **EU Forced Labour Regulation** will prohibit products made using forced labour from being sold in, or exported from, the EU market. The ban will apply to any product where forced labour is used, whether in whole or in part, at any stage of the product's supply chain. The regulation covers businesses of any size.

This regulation also prevents businesses from re-exporting banned goods to other countries, and instead, they must donate, recycle or destroy them, all at their expense. They may also be fined by regulators.

Linked to these due diligence laws is a **ban on greenwashing** – where companies exaggerate their environmental achievements for commercial advantage – in EU member states from 2026. Companies will no longer be able to make generic environmental claims on products without proof; claim that a product has a neutral, reduced or positive impact on the environment based on the producer offsetting emissions; or use sustainability labels that are not based on approved certification schemes or established by public authorities.

In addition, some European countries have already enacted their own due diligence laws, such as France's Duty of Vigilance law, Norway's Transparency Act and Germany's Act on Corporate Due Diligence Obligations in the Supply Chain.

Across the Atlantic, the US has brought in the Uyghur Forced Labor Prevention Act (UFLPA), which prohibits the importation of goods that have been manufactured wholly or in part with forced labour in identified risk origins.

These regulations are turning companies' traditional methods and processes of dealing with suppliers on their heads. While the disruption underway is significant, forward-thinking

companies can use traceability as an opportunity to improve sustainability practices, build trust, and boost loyalty of customers and consumers.

CURRENT SUPPLY CHAIN CHALLENGES

Managing, monitoring and verifying suppliers to the standard required by regulation is extremely challenging considering the lengthy and complex supply chains that exist today. This complexity makes it risky for brands to engage with suppliers, according to Monica Jonas, Chief Operating Officer and Deputy Chief Executive Officer of Oritain.

“Most companies don’t own their supply chains, and they’re very complex and deep. Brands are often not familiar with how that supply chain works all the way to the farm level,” she says.

The new regulations mean that companies will have to take responsibility for the impacts of businesses outside their direct control. This will require developing new procedures and ways of working, marking a significant shift from the traditional focus on solely their own operations and material interests.

Tracing the origin of raw materials and products in the supply chain can be very challenging, with companies often relying on self-reporting by suppliers.

Dr Kate Jones, Senior Science Advisor at Oritain, says, “If entities can get pennies on the dollar difference by substituting something else with a slightly higher price, and nobody will know the difference, there’s an economic incentive to do it.”

Traditionally, companies have traced supply chain by proxy rather than capturing data directly from the product itself.

“It’s tracing information about something, rather than the information being linked precisely to a product in a specific aspect of the supply chain,” Jones adds.

She cites the example of organic cotton. Even if a cotton farm in India is organic, it likely has neighbouring farms that use conventional growing techniques. “If they are all deposited at the gin, it doesn’t matter what kind of paper trail, ledger system or blockchain you have. If you don’t have a way to

discriminate and differentiate what that cotton is, you’re basically dealing with a garbage in- garbage out system.”

In addition, the nature of many of the commodities associated with environmental and social problems, such as palm oil and cotton mean that, even if they are sustainably produced, they can easily be mixed or substituted with materials that are not sustainably produced as they are traded along the chain.

According to Jones, many certifications work on the principle of ‘mass balance’, a sourcing method that allows for certified and non-certified ingredients to become mixed during the shipping and manufacturing processes. She points out,

“Mass balance is not a content claim,”

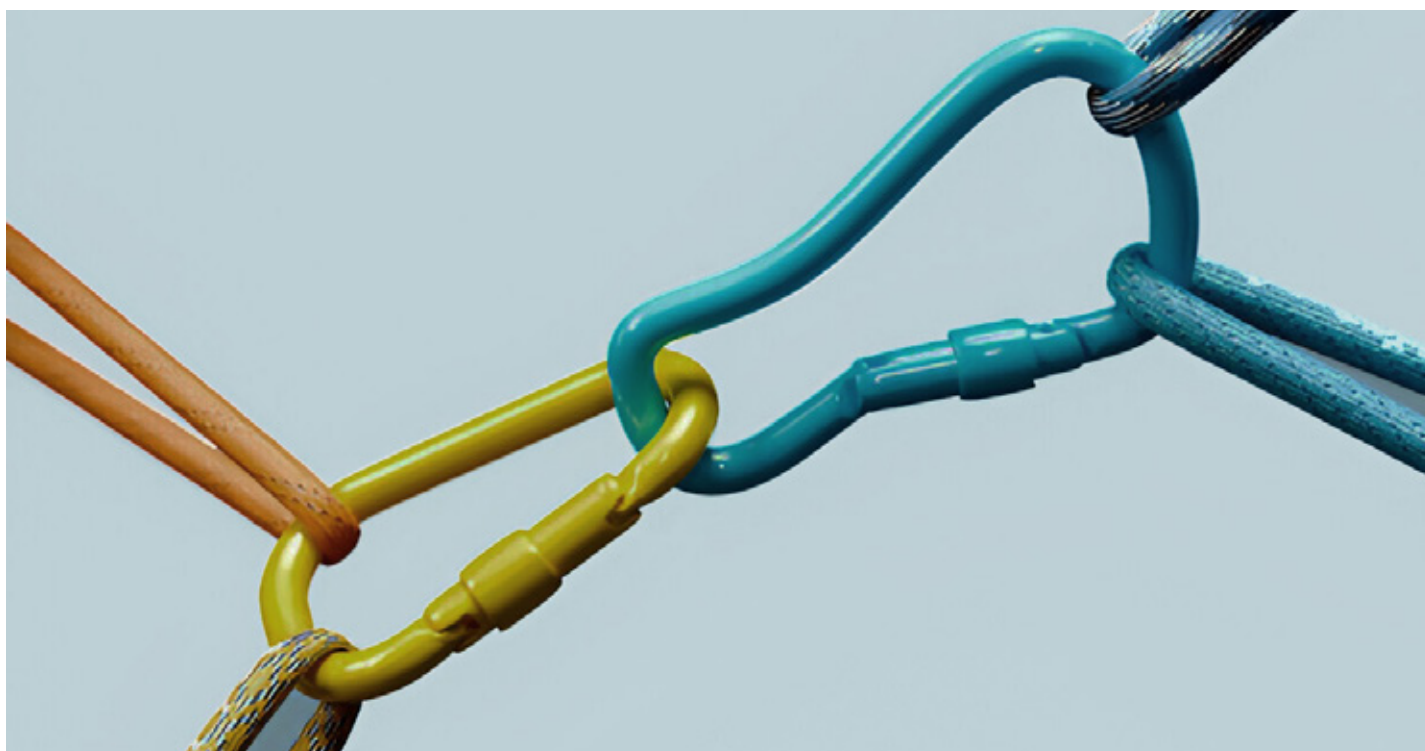
meaning that the integrity of the original material can be easily compromised.

Jones also questions the trust placed in information provided by suppliers. “How often is a supplier going to declare that a commodity isn’t compliant? And what does a company do with that information? If you need to have segregated or specialty materials, it takes money, effort and energy to achieve that.”

Then there is the issue of storing data internally. “Many companies are still using paper-based records and spreadsheets to track and document their supply chains. While these methods have been standard for years, they make it difficult to verify the accuracy of the data they store. Without physical testing or independent verification, it become challenging for brands to ensure that what their suppliers report aligns with reality,” she explains.

“The validation of data,” Jones emphasizes, “is one of the biggest challenges to overcome to achieve sustainability goals.”

SHIFTING FROM 'LEAST COST' TO 'LEAST RISK' FOR LONG-TERM PARTNERSHIPS



Complying with new regulations will mean that companies need to shift their thinking from 'least cost' to 'least risk', according to UBS. In a [recent report](#), the Swiss investment bank outlined how codes of conduct for suppliers are no longer sufficient, and that companies need to develop new systems, technology and collaborations.

According to Monica Jonas, digital products such as supply chain mapping software can help provide initial information and start to build trust between suppliers and brands.

"Ensuring full accountability throughout the entire supply chain is not easy. It's important for retailers and brands to more fully engage with their suppliers, so they can't just rely on

information from those tier ones and tier twos anymore," she says.

This could also involve companies reviewing their own procurement practices and how they impact suppliers in terms of elements such as pricing and delivery timelines.

But to really crack the supply chain challenge and bring insights back to their operations, brands will need to become much closer to their suppliers. As Jonas suggests, "This will help create the strong connection businesses need in order to demonstrate that they can stand behind their sustainability claims."

OVERCOMING SUPPLY CHAIN PROBLEMS WITH STRATEGIC ENGAGEMENT

Overcoming supply chain challenges requires more than just compliance – it demands a strategic approach to supplier engagement that fosters long-term partnerships. When a problem is identified, simply discarding a supplier may seem like the easiest option, but it could be more effective – and more responsible – to work collaboratively to find a solution to the issue.

Strategy 1: Prioritise sustainable sourcing

Sustainable sourcing begins at the raw materials stage,

which accounts for the majority of a product's environmental and ethical impact. For a brand to source responsibly, their suppliers must also source raw materials from sustainable sources. Greater weight must be placed on the selection of raw materials, considering not only their immediate costs but also their long-term sustainability – such as sourcing from regions that employ responsible practices like water conservation and controlled pesticide use.

For example, companies should verify the authenticity of claims made about the origins of their raw materials. Whether it's to confirm that organic cotton is genuinely from the farm it claims to be from or that palm oil has been sourced sustainably, a proactive stance on sourcing can mitigate risks and support the company's broader sustainability goals.

Strategy 2: Leverage data to drive decision-making

Understanding how data is generated – whether through objective methods like scientific analysis or through subjective self-reporting – plays an important role in guiding decisions.

Jonas explains, "The first step is to define the objective data versus the subjective data. How is that information generated?"

If your system is based on subjective data, you're going to get subjective results.

But with objective, verifiable information, brands can make critical decisions that align with their sustainability goals."

Data-driven insights based on risk, country of manufacturer, prevalence and price points can help brands guide their due diligence and verification programmes.

"Testing the origin of products provides brands with vital data to improve their relationship with suppliers and guide critical decisions," she says.

Access to this supplier-level data supports brands in making informed decisions about how to work with their suppliers across their value chains. This data can help brands get to the bottom of where a supply chain process is failing to meet environmental or social standards, whether at the factory level or elsewhere.

Strategy 3: Foster collaborative supplier relationships

Rather than taking a punitive approach when an issue is identified, brands should engage in collaborative problem-solving with their suppliers. A win-win mindset, where both the brand and supplier benefit from the partnership promotes innovation and accountability.

For example, if a brand discovers evidence of child labour within a suppliers' operations, simply terminating the relationship may not resolve the underlying issue. Instead, they could ensure that these workers receive fair wages so that they can afford to send their children to school rather than going to work with them.

Jonas emphasises the importance of working together to identify the cause and developing a remediation plan.

“When our customers encounter an issue, they need to make tough decisions about how to handle it. They need to have a plan in place to help the supplier to remediate and keep testing to ensure ongoing compliance,” she says.

Brands that view their suppliers as partners are more likely to develop a sustainable and resilient supply chain.

Strategy 4: Address supplier fatigue with consistency and transparency

Suppliers are often burdened with overlapping demands from multiple brands asking for similar sustainability and compliance requirements, each in their own way, creating extra work for suppliers who have to manage different processes and expectations for each brand they work with.

Addressing this supplier fatigue requires brands to participate in multi-stakeholder initiatives and sharing resources to reduce redundancies and lessen the workload on suppliers.

“In the cotton space, many of the suppliers that we work with find it crucial to stand behind their product. We facilitate this by acting as an independent entity in data sharing, helping suppliers meet the requirements of several brands through consistent and transparent processes,” notes Jonas.

Strategy 5: Take a proactive approach to risk management

A strategic approach to supplier engagement involves not only setting standards but also continuously monitoring and testing to identify non-compliance. This can help brands stay ahead of enforcement actions and demonstrate their commitment to ethical sourcing.

“Brands need to prepare for the future with clarity,” Jonas advises. “You don’t want to be in a position whereby you have some general assumptions about what you’re doing and then have to walk it back.”

The worst thing is letting a product make it all the way through the supply chain only to discover issues at the end.

You should make commitments on the things that you have strong evidence and objective data for.”

Verifying supply chain data and conducting forensic testing at the material level can help identify non-compliant materials and mitigate potential revenue loss. Oritain’s clients are utilizing data obtained through origin verification in their supply chain to not only mitigate regulatory risk but to test the different stages of their traceability program.

Proactively engaging with suppliers to identify risks early on – whether through regular audits, testing or other means – allows brands to address issues before they escalate.



BUILDING SUSTAINABILITY THROUGH SCIENCE

Oritain's approach involves testing samples provided by customers to verify their claimed origins or to assess potential for non-compliance sourcing. The data generated from these tests is then shared with customers, enabling them to make informed decisions about their suppliers.

Oritain has developed a database of different products and different regions using chemical profiles, which it can then match to results of tests it has carried out on product or commodity samples. It is important to test a product throughout the supply chain, since fraudulent or high-risk materials could be introduced at any point when they travel between countries and factories.

“Consistent testing gives companies the tools to really understand who the good players are in the ecosystem.”

We can work with them to build a feedback loop through our testing frameworks to drive towards substantiated product origin, and compliance with regulations,” says Jonas.

Oritain's methods can underpin other tools used by companies. For example, though its tests cannot prove that a material is regenerative or organic, since those credentials come from practices used rather than features that are chemically discernible in a plant, they can verify that a material has come from a specific region or farm, and that it has not been adulterated.

Independent verifiers can check specific practices used on site, while blockchain and digital ledgers can ensure the information is captured and connected in a sophisticated manner.

For industry leaders like Silver Fern Farms and Cone Denim, origin testing has become a critical component of their

sustainability strategies. One of Oritain's founding clients, Silver Fern Farms, New Zealand's leading processor and exporter of lamb, beef and venison, found that as consumers became more aware of their products, concerns arose regarding the integrity of their supply chain due to an increase in counterfeit behaviour.

Nicola Johnston, Silver Fern Farms' General Manager of Growth, explains: “Working with Oritain to have that validation and scientific authentication of origin is a really important assurance that we can provide our customers. Consumers increasingly want to see ethical and sustainable food and farming systems, and the company needs to keep pace with those expectations.” The company has an annual programme in place with Oritain where its supply chains are tested and audited.

US-based denim producer Cone Denim is another client that sees value in origin testing. Steve Maggard, the firm's President, says, “We are really focused right now on sustainability and traceability as something that our customers and consumers value greatly.”

He met Oritain at a textile show, just at the point when traceability of raw materials was becoming more important to customers.

“I was very excited to find out that there was a company or a service that we could partner with that could document the origin of our cotton.”

For Maggard, being able to prove the origin of the company's cotton has additional benefits, such as proving that a particular region's economy is being supported.

ORIGIN TESTING FOR RISK MITIGATION AND MANAGEMENT



Oritain's origin testing helps brands overcome many of the challenges associated with traditional methods of traceability. Robust testing of the origin of commodities as diverse as cotton, coffee and beef can be achieved using 'fingerprints' derived from the chemical compositions of plants and animals.

These compounds vary naturally throughout the environment and are driven by factors that are specific and unique to individual locations, including soil composition, precipitation, temperature and altitude.

Jonas believes that origin testing is the most effective way for companies to understand how well their suppliers are doing. "Companies need to really understand their suppliers' practices, not just be an innocent bystander. Consistent testing throughout the supply chain helps companies ensure that they're mitigating risk."

Michela Mossali concurs: "We have very proactive clients that spend a lot of time going out in the field to select farmers and cooperatives to source from. But because the supply chain is so complex, there have been instances where, when we tested the product, it wasn't what they thought."

Testing a physical product helps companies mitigate risk by verifying what they believe to be true,

but it is also important in helping communicate the steps the company has taken to verify claims, Mossali adds.

The science is not new – it has been used in criminal forensics for decades – but the application for product supply chains has emerged only over the past ten years or so. The wave of regulation on traceability and disclosure is now driving rapid uptake by business.

Oritain's process applies forensic science techniques to measure the range and quantity of origin-related factors in biological products through the analysis of trace elements and stable isotopes.

This origin fingerprint provides product-based verification of traceability throughout the supply chain –

in the case of cotton garments, from manufacturers or retail, all the way to the farm where the cotton was grown. The methodology is extremely resilient to tampering and difficult to recreate.

Dr Kate Jones explains: "We're tapping into the inherent traceability of the product itself, using the code that Mother Nature has imbibed. We're using that chemistry and that analytical and forensic science as a way to verify the product itself through the value chain."

This technology empowers individual players in the supply chain to provide scrutiny, authenticity and connectivity, making it a critical component of any company's sustainability strategy.

BROADENING THE SCOPE OF ORIGIN TRACING TECHNOLOGY

Though currently employed largely in the cotton and food sectors, Jonas foresees use of Oritain's technology expanding to other materials in the apparel sector, such as wool and leather. "This is one of the few methods that can objectively test for traceability – we don't see that need diminishing. The science can be applied in many different areas, because nature provided all the traceability data we ever need," she says.

"We're building products that allow brands and suppliers to communicate, creating a connection point where they can see what's happening at the supplier level. If they're playing in the same sandbox, they're more likely to partner together and use that technology for good."

While the initial focus has been on disclosure, some legislation now requires companies to prove what they have disclosed. Regulations will continue to evolve. Businesses need to think about what they will do with the information they get from testing and traceability in general.

"Businesses need to be wary that they don't just walk into a position of risk and non-compliance through trying to say the right things, rather than doing the right things," Jonas says. "They can use traceability as a tool to provide an outcome around where they source from. I would encourage more businesses to think that way – traceability itself is not the goal, it's a tool to get you on a journey."

KEY TAKEAWAYS:

- A global wave of sustainability regulation is disrupting the traditional relationship between brands and suppliers. Compliance will involve brands needing to unravel highly complex supply chains and develop new procedures and ways of working.
- Verifying the origin of raw materials and products in the supply chain can be very challenging, with companies often relying on self-reporting by suppliers. Retailers and brands need to more fully engage with their suppliers all the way to the farm, rather than just rely on information from the tier one or two suppliers.
- Oritain's origin testing can verify the origin of commodities using 'fingerprints' derived from the chemical compositions of plants and animals. This helps brands overcome many of the challenges associated with traditional methods of traceability. On the flip side, it gives supply chain players the ability to provide scrutiny, authenticity and connectivity.
- If testing reveals an issue, brands need to work with suppliers to identify the cause. They should have a plan in place to help the supplier to remediate, and keep testing to check compliance.
- To avoid supplier fatigue, brands should work together with their suppliers to streamline requirements and ensure that compliance efforts are mutually beneficial. Transparency and consistency are key.
- Regulations will continue to evolve. Businesses need to think what outcome they are seeking from testing and traceability, rather than doing it as an end in itself.

ABOUT ORITAIN

Oritain is a global leader in forensic traceability of product origin. Leading brands in industries as diverse as fashion and cotton, coffee, horticulture, meat, dairy, and more, trust Oritain to help them achieve regulatory compliance, mitigate the risk of product fraud, and protect brand reputation through proving the provenance of their products. By providing science-based verification of origin, Oritain supports brands in meeting their ESG commitments—ensuring raw materials do not originate from areas associated with deforestation or other environmental abuses, and providing quantifiable origin data to support measuring operational impact. The unique Oritain methodology combines forensic science and data to analyze environmental factors and create a unique origin fingerprint which can be used to audit products throughout the supply chain to differentiate the legitimate from the fraudulent. The analysis is robust, accurate and highly resistant to being tampered with, replicated or destroyed.

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