Reviewing Chain of Custody Models and Risk Controls – A Due Diligence Perspective
This report is based on extensive research produced for Better Cotton by Preferred by Nature in 2021 and 2022. We would like to thank Alicia Raimondi, and Gweneth Langdon and the rest of the Preferred by Nature team for their hard work, deep knowledge of sustainability standards and corporate due diligence systems.

We are also grateful to the Swiss State Secretariat for Economic Affairs SECO and the ISEAL Innovations Fund for supporting this project, and the team at Responsible Sourcing Network for sharing their expertise on due diligence applications in cotton supply chains, and for providing extensive input into the research.

Many stakeholders were interviewed and consulted over the course of this project. These organisations include: Accountability Framework Initiative (AFi), Aluminium Stewardship Initiative, The Copper Mark, Forest Stewardship Council (FSC), Initiative for Responsible Mining Assurance (IRMA), the Organisation for Economic Cooperation and Development (OECD), Rainforest Alliance, Responsible Minerals Initiative, the Roundtable on Sustainable Palm Oil (RSPO), Roundtable on Sustainable Biomaterials (RSB), Sustainable Biomass Program, as well as the many Better Cotton retailer, brands and suppliers who participated in consultation and workshop activities.

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Disclaimer: The views expressed in this report are those of the author(s) and do not necessarily represent those of ISEAL, ISEAL Community Members including Better Cotton, or donor entities to the ISEAL Innovations Fund.

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1. Executive summary

In October 2021, Better Cotton received funding from the Swiss State Secretariat for Economic Affairs SECO through the ISEAL Innovations Fund to explore the various due diligence system controls sustainability systems apply to blended / mixed materials through their Chain of Custody (CoC) systems.

Blending is the act of mixing two products with differing characteristics. With Chain of Custody systems, this blending usually relates to the mixing of certified and non-certified materials, either in a controlled or uncontrolled fashion. Blending comes with inherent risks, as certified product may come in contact with uncertified or conventional material with a higher sustainability risk profile, or issues relating to legality. With the shifting regulatory landscape, and changing stakeholder expectations, sustainability systems are increasingly introducing risk controls on blended products to manage exposure and liability, and to maintain the relevance of their mixed CoC offerings.

The objective of the project was to identify the key controls used by sustainability systems to manage blending / mixing risk in different sectors, the contexts these mechanisms work in, and the pros and cons of use.

The project consisted of the following elements:

1. Two interlocking research projects on controls employed by sustainability systems operating mixed CoC models, with a focus on the implementation of due diligence management systems for mixed supply chains, and the transparency needs of regulated supply chains;

2. A facilitated workshop with other ISEAL members to validate the research and share learnings.

The following key conclusions can be made from the research:

**Chain of Custody**

- Chain of Custody definitions, terminology and implementation differ across normative documents and schemes. The research proposes that while there are many differing CoC models referenced in standards and guidance, there are three broad categories that can be used to categorise all applicable models: segregated, mixed and credits.
- Segregated models can vary dramatically. While some only provide assurances that claimed product was produced by certified producers, others provide assurances as to the origin of materials, be it farm, farm group, or supply chain tier. The tracking of product categories through supply chains, such as those relating to country or risk, can increase the specificity of assured claims linked to segregated CoC systems.
- Mixing in CoC models can either be intentionally tracked at batch level through the supply chain, or lead to sustainability claims being separated from physical product. The tracking
information assured through the mixed CoC system has implications for suppliers to make product level claims, and the ability of schemes to improve traceability and transparency of final claimed product.

Control Mechanisms for mixed CoC models

- Sustainability systems are increasingly introducing a range of risk controls on mixed CoC models, to support corporate due diligence and transparency efforts.
- **Product categories** can be used in mixed CoC systems to track both certified and non-certified materials at country, or country-group level. This requires the consistent segregation, identification, management, and accounting of materials with well-defined product groups at all stages of production, receipt, sale and storage.
- A number of sustainability systems have introduced **scale-up requirements**, that require suppliers to set and report against timebound sustainable sourcing targets. These targets could relate to moving from mixed to segregated CoC models, increasing overall sourcing of certified materials, increasing the percentage of certified product used in mixed CoCs, or increase the minimum threshold of certified materials in a product to use a certification label.
- Supply chain transparency can be promoted through requirements that promote **disclosure of information** between entities with direct business relationships, within supply chains, and/or publicly.

Due Diligence Controls for mixed CoC models

- The majority of systems that have introduced due diligence controls in mixed supply chains have done so in response to increased due diligence legislation, and the intention to either accept non-certified materials as inputs to products that can be labelled, or to ensure that mixed materials met minimum legality requirements under specific legislation.
- Most systems require traceability of mixed products to **country of origin** at a minimum
- The scope of due diligence controls implemented by different sustainability systems vary considerably – some require due diligence on all materials entering a facility, while others specify the commodity/ies that due diligence controls apply to, or only apply requirements to material that will be mixed with certified materials.
- Standards seeking to drive sectoral transformation should explore how due diligence controls can drive changes in the conventional supply chains upstream of their certified members operating mixed CoC models.
- Chain of Custody systems play a major role in supporting synergies between voluntary systems and corporate due diligence efforts. Schemes seeking to drive greater alignment with mandatory due diligence legislation should look at how they can strengthen the application and function of their CoC systems to promote responsible business conduct.
2. Background

Introduction

There is growing demand from key stakeholders (lead companies, finance actors, governments, civil society, and consumers) for suppliers and the companies that source from them to implement due diligence controls on their procured raw materials. Governments and international institutions are mandating action through regulation and introducing material penalties for corporate inaction, driving a push for greater scrutiny and traceability in commodity supply chains entering key import markets, notably the EU and US.

In response, many sustainability systems are reviewing their Chain of Custody (CoC) systems, with the aim of strengthening their offering and adapting to stakeholder needs. For those operating mixed Chain of Custody systems, where certified and non-certified materials can be combined, many sustainability systems are applying an increasing range of risk controls to ensure these mixed products are aligned with legal requirements and have a minimum level of assurance for all components of claimed and/or labelled product.

Better Cotton has responded to this regulatory shift through the launch of the Better Cotton Traceability Programme, and a commitment to its members to adapt its systems, making it possible to trace Better Cotton through apparel and textile supply chains. A key bedrock of this programme is to expand the Better Cotton Chain of Custody, which is currently a hybrid model of product segregation in the first miles between Farm and Gin, and site-level mass balance for the rest of the chain.

An area of exploration and interest for Better Cotton as part of its CoC revision has been how Chain of Custody systems can support corporate due diligence efforts on mixed products, and to learn from the successes of those who are already implementing them. Recognising that this is a topic many in the ISEAL community are currently exploring, Better Cotton applied for and received funding from the Swiss State Secretariat for Economic Affairs SECO via the ISEAL Innovations Fund to conduct desk research, expert interviews, and stakeholder consultation to map the various ways other sustainability systems control mixed products, the contexts these risk controls work in, and pros and cons of use.

For the project, Better Cotton partnered with the Responsible Sourcing Network, scheme owners of the Yarn Ethically & Sustainably Sourced standard, a conformance assessment applied to spinning facilities that utilises the OECD risk-based due diligence approach to identify and eliminate modern slavery from cotton production and apparel supply chains.
**Research objectives**

The objectives of this research were to:

- Analyse various Chain of Custody models employed by voluntary standards systems
- Review the various risk control mechanisms used by ISEAL Community Members and other sustainability systems operating mixed CoC models, with particular focus on transparency measures and due diligence controls
- Examine the contexts due diligence control mechanisms work best in, and the pros and cons of use
- Conduct an online workshop with ISEAL Community Members to validate research
- Develop a draft decision-making framework to guide ISEAL Community Members in designing the right due diligence control mechanisms for their systems

**Research methodology**

The project consisted of a mix of desk-based research and stakeholder consultation and engagement. It was broken down into three distinct activities:

**Externally commissioned research**

Better Cotton commissioned international non-profit Preferred by Nature to conduct two research assignments in 2021 and 2022 as part of this project:

**Research assignment 1: Exploration of CoC models and controls**

The objective of this assignment was to review the Chain of Custody models defined in ISEAL Guidance and the ISO 22095 standard, assess how they are implemented by different sustainability systems, and analyse the additional controls that systems apply to material in mixed CoC models.

**Research assignment 2: Due diligence control mechanisms for non-certified sourcing**

The objective of this assignment was to understand the state of play among sustainability systems requiring due diligence controls on mixed products. This included a review of due diligence systems currently in use and of the possible choices and design options for due diligence systems such as determining roles and responsibilities within the system. Research consisted of desk review and stakeholder interviews.
Consultation with commercial stakeholders in the textiles and apparel sector

Over the course of the project, Better Cotton and Preferred by Nature engaged commercial stakeholders in the textiles and apparel sector to better understand the changing information and data requests placed on suppliers by their downstream clients. Consultation activities included:

- Engagement with over 40 retailers, brands and suppliers through interviews and workshops
- Analysis of a survey conducted by Better Cotton in Q4 2021, which was answered by over 1400 suppliers.

Facilitated workshop with other ISEAL Community Members to validate the research and share learnings

Project research and findings on the implementation of due diligence systems were validated through an online workshop held with ISEAL members.

A framing document was shared with attendees in advance of the session. During the session, key research activities and outputs were presented, along with a deep dive on research findings on the following topics:

1. Who should bear responsibility for conducting risk assessments?
2. How can implementing due diligence systems be made feasible for SMEs?
3. How can schemes balance the need to promote continuous improvement with regulatory requirements.

Attendees were split into breakout groups to discuss these topics, before sharing feedback in plenary.
3. Exploration of CoC models

A Chain of Custody (CoC) system is a key element of most sustainability systems. It defines the controls and requirements needed to ensure sustainability information is maintained via the various ownership changes and product processing that happens from origin to market. A CoC system forms the basis for any claims that can be made about the approved or certified product.¹

Various CoC models exist to govern this system of transfer and claim verification. Over the course of the project, normative documents including ISO 22095, guidance material from ISEAL (ISEAL Sustainability Claims Good Practice Guidance (2015); ISEAL Guidance: Chain of custody models and definitions (2016)²), and Chain of Custody standards and guidelines from leading sustainability systems were reviewed. Definitions taken from ISO 22095 and ISEAL guidance dated 2015 - 2016 are found below.

<table>
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<tr>
<td>Identity Preservation</td>
<td>Chain of custody model in which the materials or products originate from a single source and their specified characteristics are maintained throughout the supply chain.</td>
<td>Ensures that certified product from a certified site is kept separate from other sources. If used through the whole supply chain, it allows certified products to be uniquely traced through the production process from a production site and batch (sustainability certificate holder) to the last point of transformation or labelling of a product (or use of a claim).</td>
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<tr>
<td>Segregation</td>
<td>Chain of custody model in which specified characteristics of a material or product are maintained from the initial input to the final output.</td>
<td>Ensures that certified product is kept separate from non-certified sources through each stage of the supply chain, allowing assurance that the ingredients within a particular product originate from certified sources, though it may not be possible to identify which molecule came from which certified source.</td>
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<tr>
<td>Controlled Blending</td>
<td>Chain of custody model in which materials or products with a set of specified characteristics are mixed according to certain criteria with materials or product without that set of characteristics resulting in a known proportion of the specified characteristics in the final output.</td>
<td>Within the ISEAL Chain of Custody Models Guidance, Controlled Blending is noted as being similar in nature to site level mass balance.</td>
</tr>
<tr>
<td>Mass Balance</td>
<td>Chain of custody model in which materials or products with a set of specified characteristics are mixed</td>
<td>Within the ISEAL Claims Good Practice Guide, controlled blending is described as ‘mixing of certified and non-certified volumes is allowed towards the end of the supply chain’</td>
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¹ https://www.isealalliance.org/get-involved/resources/iseal-sustainability-claims-good-practice-guide
Certificate Trading

Chain of custody model in which the administrative record flow is not necessarily connected to the physical flow of material or product throughout the supply chain.

A model where certified material is completely decoupled from sustainability data, and certified and non-certified product flow freely through the supply chain.

Comparing the ISEAL and ISO reference documents highlights that the definitions of the various CoC models are not harmonised, particularly for mixed models. The ISEAL guidance, which was produced between 2015 – 2016 was developed to build consensus among diverse standards systems on credible system design and claims. In comparison, the ISO standard development, which was developed later, was spurred by an effort to align CoC models deployed in the cocoa sector. The definitions are likely intended for different audiences, with different emphasises. For example, ISEAL highlight the role of verification in credible CoC systems, while ISO appears agnostic to this need.

Compounding the lack of harmonisation at reference document level is that each scheme makes their own choices on CoC model naming and design. For example, Rainforest Alliance call their CoC models ‘traceability types’, and Cotton made in Africa call their segregated CoC model “Hard Identity Preserved”, when the identity being preserved is to the gin level, but not necessarily to a particular farm or set of farms.

The implication of this finding is that while there are many differing CoC models referenced in standards and guidance, there is blurring in categories and distinctions depending on definitions and source. For the purpose of this research project, the various CoC models were grouped into three categories, described below. Only models within the first two categories were reviewed in this research, given the research focus on physical CoC systems.

**Segregated**

Require the physical and / or temporal segregation and unique identification of like products from non-like products. The categories of like and non-like products can be based on origin (geography, certified origin, reclaimed / recycled collection point, etc.), physical characteristics (species, type of product, other visual identifier), or quality (grade of product, from special production process, etc). In a segregated model, like products are not mixed with other non-like products and are kept separate throughout the supply chain. However, products of like qualities within a defined category may be mixed.

CoC models included in this category: Identity Preservation (and any variations thereof); Segregation
Mixed

Allow for the mixing of like materials with non-like materials that is then intentionally tracked at batch-level for the remainder of the supply chain (a CoC model called Controlled Blending), or lead to the flow of sustainability claims being separated from the flow of physical product (a CoC model termed mass balance). In all mixed CoC models, there is a minimum requirement that volume claims made by companies mixing like and non-like materials do not exceed the amount of that claimed material purchased. Controlled blending occurs at batch level, while mass balance (MB) applications may be applied at batch, site, company group, or country-level (or any combination of these elements).

Even within controlled blending, there is potential for variation – for continuous unbroken production lines, rolling averages can be used to calculate the percentage of certified material used within a given production period (as opposed to a percentage claim being applied to a discreet production batch).

CoC models included in this category: Known-percentage blending, controlled blending (batch percentage and rolling average percentage), batch-level mass balance, site-level mass balance, group-level mass balance, company-level mass balance, country-level mass balance (also known as country-level accounting / origin matching) and variations / hybrids thereof.

Credit trading

Allows for the trading of “credits” or “certificates” that represent materials purchased and processed at a particular supply chain entity. Most often the trading bypasses supply chain organisations and happens with an entity downstream in the supply chain, and the credits or certificates purchased have no correlation to actual material purchased. Trading CoC models were not analysed as part of this research, as their purchase and sale has no relation to the flow of physical product through supply chains.
A visual representation of the proposed categories of Chain of Custody models can be found in Figure 1. The diagram contains 4 columns – the first relates to the CoC category, as described previously in this section. The second relates to the likelihood that certified material is physically present within a given material. Segregated models, assuming they are being implemented as intended and with adequate levels of assurance, have the highest likelihood of physical presence. The certainty of physical presence in mixed models varies, depending on whether the mixing is controlled, as in known % blending, controlled blending, and some iterations of batch level mass balance, or uncontrolled, as with other iterations of batch-level, site, company and country level mass balance.

The third column details the various CoC models encountered through this research and situates them according to the relative certainty that physical material is present. An arrow is used in the segregated group to demonstrate that the increasing use of product categories within segregated models can blur the line between identity preservation and bulk segregation. Finally, the fourth column relates to the transfer of claims. Within segregated models, the reporting and transfer of claims matches the physical flow of certified material with matching characteristics, dependent on the
product categories deployed. For mixed, claims can either be allocated proportionately (as is the case in controlled blending / mixing), where percentage claims are allocated to all material resulting from the blended batch. Claims can also be allocated in a non-proportional manner − as is the case where mixing is not controlled. These claims do not necessarily match the flow of physical certified materials and rely on volume reconciliation at varying spatial scales to ensure that the volume of outputs within the system does not exceed the volume of inputs.

It is also worth noting that some standards and guidelines that fall under scheme CoC systems that are meant to be implemented by supply chain entities do not contain CoC models, but alternatively outline requirements for due diligence on conventional and / or certified inputs. Examples of these standards are FSC’s Controlled Wood Standard, the Responsible Minerals Initiative recognised due diligence standards, and the Responsible Sourcing Network’s YESS Standard. These controls are discussed in the section of this report focused on due diligence controls.

The following section outlines the key features and requirements of segregated and mixed CoC models.

Attributes of the different CoC Models

All CoC models have a different purpose and with their design include different attributes and capabilities for preserving origin level data (certification, geography etc) and passing it along the supply chain through financial transactions and the physical transfer of materials. The more a model is able to verify, control and monitor this type of information transfer, the more likely the final product contains product matching categories deployed in the system.

It is worth noting that not all CoC models were designed with the objective of providing product level assurance, especially if the primary aim was to encourage the uptake more sustainable practices and increase the volume of claimed material on the market. Better Cotton’s current Chain of Custody model³, which operates segregation between farm and gin, and subsequently site-level mass balance for the rest of the chain, was designed with these aims in mind, and has allowed the system to successfully scale to cover over 20% of global cotton production, and over 10% of consumption by Better Cotton Retailer and Brand members. However, the system does not provide assurances that the cotton in a given end product is in fact physically Better Cotton, or was produced in a more sustainable or responsible manner.

It is therefore unsurprising that mixed CoC models like mass balance can come under criticism for allowing unwanted materials to enter finished products that hold certified claims − they were designed with this allowance. Not all mixed CoC models allow for a completely open system for mixing conventional materials within claimed products. Within some sectors, it is common for systems to require control mechanisms on the allowances for mixing that improve traceability and / or transparency of the final claimed product.

The next section of the report provides an overview of the various control mechanisms identified through our research, and the pros and cons of application in CoC systems.
4. Overview of controls used in mixed CoC models

Origin matching and country-level accounting

Where full product level traceability back to origin is not feasible in supply chains, CoC systems can alternatively be designed to provide country level information to those at the end of the chain. Segregated CoC models can deliver on this need, and at times, mixed CoC models can as well, where there are controls in place to segregate, maintain identification and / or manage and account for materials on a country level (or group of similar risk profiles). However, to ensure that this information along with product is passed throughout the supply chain, our research found that a few things be in place:

- Definition of product groups – such as countries or group of countries with like characteristics (e.g., risk).
- Segregation of materials by product group – to properly manage the application of claims to physical materials of the same product group, segregation of stock by that product group will be required.
- Tracking of transactions and accounting per product group (e.g., country) – digital accounting / tracking platforms need to collect and manage the collection and transfer of this information within transactions between suppliers. One way to manage such accounting systems is like a bank account, where there would be an account per country (or per group), and deposits are made for the volume of material received from that country.
- Application of the same controls on uncertified materials – In all mixed CoC models, it is important to identify if the country or product group level information is being tracked for certified content only, or if it is for all material in the product. If the intention is to pass along this level of information on all materials within the final product, then the control mechanisms design would also need to be applied and managed for conventional inputs.

Such product category accounting systems can be applied to mixed CoC models, regardless of whether they are controlled or uncontrolled, though implementation becomes administratively burdensome for supply chain operators as it requires the segregation of product groups at the facility.
Scale-up requirements

Scale-up requirements are a control placed on all sourcing site or enterprise wide that can require a certificate holder to:

- Move from a less stringent CoC model (trading or mixed) to a more stringent CoC model
- Source an increasing amount of a specified material within a timeline (e.g., increased volume of certified materials to eventually achieve 100% enterprise-wide)
- Increase the minimum % of certified materials used in intermediary products under mixed CoC models
- Increasing the minimum threshold of certified materials in an end product to qualify for labels

Many schemes have employed scale-up requirements when updating their standards and systems over time. This is also common for companies to do independently within their own sustainability strategies and goals. Where schemes require scale-up by suppliers, our research found schemes encounter a dilemma when companies do not quite meet their sourcing targets. This can be compounded when there are mitigating external factors, such as a lack of availability of certified product in certain geographies or regions. In these situations, schemes can either provide leniency, or penalise companies, which does little to further the mission of the scheme.

Disclosure measures

Transparency can have many varying definitions. In this report, we are using the term transparency measures as controls that require the sharing and/or disclosure of information between entities with a direct business relationship, within a supply chain or publicly. These transparency measures can include reporting requirements (either publicly or to the scheme owner) on business ownership, suppliers, and geographic sourcing areas, and additional reporting on progress in meeting the commitments, targets and goals set out in corporate policies.

Many lead companies already use their Codes of Conduct and other sourcing requirements to require their suppliers to disclose such information to meet import and regulatory requirements. Within the apparel and textiles sector, those seeking to bring product into key import markets like the US and EU are increasingly required to collect and evidence the full chain of custody for cotton-containing products, to demonstrate that it does not originate from high-risk contexts.

Schemes exploring the introduction of transparency requirements, document and data sharing should consider:

- how the information being requested can be standardised;
- the minimum information points required;
- and the data governance implications of requiring data sharing of commercially sensitive information, be it within a supply chain vertical or between a certificate holder and scheme.
Due diligence is an iterative process consisting of multiple steps through which companies identify and manage the risks and outcomes of their operations and extended supply chains. There are various approaches to due diligence, both of a voluntary nature (OECD Guidelines, UN Guiding Principles on Business and Human Rights) and increasingly mandatory due diligence legislation. Each piece of legislation has its own distinct issue, sectoral and geographical focus and application, and while all require operators to conduct risk assessments on their supply chains, the extent of due diligence required on upstream suppliers beyond tier 1, the required documentation, and the consequences of inaction vary legislation by legislation. It is little wonder that both companies and existing voluntary standards, whose systems and tools are used across global supply chains, can find it daunting to develop a holistic approach in this rapidly shifting and complex space.

ISEAL has been looking into the role that sustainability systems can play at different stages of the due diligence process, and has developed resources available for ISEAL Community Members here (login required). Rather than duplicating this material in this report, readers are recommended to review the ISEAL guidance to better understand the relation and interplay between due diligence laws and regulation and voluntary sustainability systems.

Within its guidance, ISEAL highlights traceability and CoC (also referred to as a systems’ 'supply chain coverage') as key system elements that support synergies with corporate due diligence obligations. This is because a fundamental component of corporate due diligence is gathering information on upstream supply chains to inform risk identification and quantification – an activity that is only possible with a degree of supply chain traceability and control.

To further the ISEAL community’s understanding of how sustainability systems with mixed CoC models can support corporate due diligence efforts, Better Cotton commissioned Preferred by Nature as part of this project to develop:

- A landscape review of due diligence systems used by sustainability systems to control conventional / non-certified material inputs
- A draft decision-making framework that guides sustainability system practitioners on the possible design options for due diligence controls. Alongside design considerations, the draft was intended to help scheme owners determine the responsibilities for actions within the due diligence system (e.g. risk assessments)
Landscape review of due diligence controls in mixed CoC models

A total of 21 due diligence systems were mapped as part of this research. Systems mapped as part of the research are found in the Annex. The majority of systems reviewed operated in the forestry and mining sectors, notable as sectors that have been more tightly controlled through regulation like the European Timber Regulation, and import restrictions such as the Lacey Act.

The review included desk-based assessments of system documentation and was supplemented through interviews with a sample of schemes mapped. The review covered the following dimensions:

- The purpose of the due diligence requirements, and why due diligence was needed
- The mechanism(s) by which controls are applied
- The level of traceability required to implement due diligence requirements
- The nodes in the supply chain where the controls are applied
- The scope of the controls
- How risk was identified, allocated, quantified and mitigated (where applicable)
- The scope of any exclusion criteria used (if applicable)
- The level of assurance, role of verification, and implications for claims (if applicable)
- Transparency requirements relating to the due diligence system.

While the landscape review identified some broad trends, it also highlighted the sheer variety of ways due diligence controls can be introduced into CoC and related systems. Broad trends and convergence around common practice identified through the mapping were that:

1. The majority of systems were designed in response to increasing due diligence legislation and intended to either accept non-certified materials as inputs in products that could then be labelled, or to ensure that mixed materials met minimum legality requirements under specific legislation.

2. Most systems required traceability of mixed products to country of origin at a minimum, and sometimes further to region or production unit where risk designations were inconsistent throughout the country.

3. Risk identification is commonly the responsibility of the company implementing the due diligence system.

4. Systems do not explicitly have risk controls to specifically address substitution in mixed CoC models, beyond volume reconciliation requirements.

5. Schemes tend to require transparency of a company’s due diligence system, though the level of disclosure varied considerably.

The research also found the following areas of divergence:
1. While most systems required the implementation of due diligence at all nodes in the supply chain, some identified ‘chokepoints’ or differing levels of due diligence depending on the place in the supply chain. The chokepoint approach was usually taken by schemes aligned to the OECD Due Diligence approach.

2. The scope of due diligence systems varied considerably – some required due diligence when sourcing a given commodity, while others only required due diligence on non-certified materials that would be mixed with certified materials.

3. Differing levels of assurance were deployed between systems, some without any monitoring of due diligence activities, while others required third party assurance of the entity implementing the due diligence activities.

The landscape reviewed proved an invaluable exercise in identifying the various decision areas schemes navigated when initially designing their due diligence requirements. The following section outlines the key design factors outlined in the draft framework, and serves as a companion to the tool.
6. Key decision areas for due diligence system design

Scope: materials

The first decision area schemes need to address relates to the intended scope of the proposed due diligence system. Schemes can look to control varying amounts and profiles of material entering certified sites as follows:

1. Everything (regardless of the commodity or certification status or material) entering the certified site: while this approach is consistent with the UNGP and OECD approaches to due diligence, this broad scope can make implementation challenging for suppliers, particularly if the supplier is sourcing multiple commodities, and the sustainability issues, and associated risk criteria differ between these commodities.

2. Product-specific: this approach provides a minimum level of assurance that due diligence has been applied to all materials included in a product. This approach would be compatible with segregated and mixed CoC models, where the certified material is mixed with another material within a product (e.g. the blending of viscose and cotton in textile production).

3. Commodity-specific: this approach provides a minimum level of assurance that due diligence has been applied to a given commodity (whether certified or uncertified) within a product. Compatible with mixed CoC models, this approach can target ‘chokepoints’ in the supply chain, reducing the need for the whole chain to conduct due diligence.

4. Reclaimed / recycled: Set to be increasingly relevant as we move towards a circular economy, due diligence systems can be designed to maintain proper classification of materials, and tracking of the point of reclamation of recycled materials as they flow through supply chains.

Scope: risk types

While OECD Due Diligence Guidance requires enterprises to identify and assess actual and adverse impacts associated with their operations, products and services, many of the mandatory instruments being introduced by governments are focused on certain pre-defined risk types. Schemes introducing due diligence requirements need to consider whether the scope of the system should focus on:
1. A single risk type, most suited to sectors where there is a key and prevalent risk, allowing more targeted activities by suppliers; or

2. Multiple sustainability risks – an approach that would support broader corporate responsibility trends, yet can also grow complex for suppliers to implement.

It is important to note that the scope of the due diligence controls in place has implications for claims and communications with stakeholders. Where the scope of the due diligence system is limited either in terms of materials covered within a given product, or the risks covered within the system, these limitations should be made clear to stakeholders to avoid confusion and manage expectations.

Roles and responsibilities: information sharing by suppliers

The greater the willingness of suppliers to share information and disclose on their sourcing practices, the more targeted due diligence systems and approaches can be. Where supply chain transparency is common practice, schemes can consider how due diligence systems can make use of the information already shared within the sector.

Where sectors are opaque, or the levels of disclosure and supply chain trust are low, our research found that mainstreaming due diligence requirements into the system may be challenging.

Roles and responsibilities: targeted chokepoint interventions

The OECD Due Diligence Guidance describes chokepoints as control points in supply chains that are:

- key points of transformation in the supply chain where traceability or chain of custody information may be aggregated or lost;
- points in the supply chain with relatively few enterprises that process or handle a majority of inputs
- the greatest point of leverage of enterprises towards the end of a supply chain
- points where schemes and audit programmes already exist to leverage these systems and avoid duplication

Targeting due diligence requirements at chokepoints in the supply chain reduces the overall due diligence burden on the supply chain, assuming there is sufficient traceability upstream to the chokepoint. In the cotton supply chain, commonly referenced chokepoints are spinners and fabric mills. In the extractives space, smelters are the key chokepoint at which many schemes apply due diligence controls.

If a sector lacks natural supply chain chokepoints, it is likely that the scheme will need to require all entities in the chain to conduct some form of due diligence. This compounding of efforts can lead to
challenges, particularly where there is variability in how entities in the supply chain identify and assess risks.

**Roles and responsibilities: risk assessment and identification**

Risk assessments are a foundational component of due diligence efforts, as they support enterprises to identify where material risks are most likely to be present and most significant in their supply chains, allowing prioritised action. Our research found that the decision of who – the scheme owner or company – was made responsible for risk identification and quantification in the due diligence system had major implications for overall system design and effectiveness.

Our mapping found that most due diligence frameworks and regulations require companies to themselves assess risk, leading to variability in quality of the risk assessment, especially where the risk assessment is broad in scope, covering multiple risk types or a large supply base. Leaving risk assessments to companies also results in duplication of efforts across the industry, and could represent a potential conflict of interest.

For scheme owners seeking to conduct the risk assessment themselves, they should be conscious that they requires significant human and financial resources, especially when the assessment undergoes stakeholder consultation processes, as best practice recommends. This resource demand is compounded when assessments are done at a more granular level beyond country-level.

**Feasibility for SMEs**

Introducing and mandating due diligence in a sustainability system means asking companies to allocate more resources into maintaining compliance. It also requires expertise, which SMEs may not have in-house. It’s therefore very important for schemes to assess the feasibility of introducing these controls in participating supply chains.

Controls can be made easier for SMEs by providing extensive guidance, resources, and tools to support corporate due diligence efforts. The availability of relevant data and supply chain information is important to consider – as is whether the system should be phased in to allow suppliers time to adjust before requirements become mandatory, particularly given challenges SMEs face around material traceability.
7. Conclusion

This research project set out to review the risk controls being deployed in mixed CoC systems, with a focus on due diligence systems. While the landscape of systems reviewed was diverse, with stakeholders and certified entities across geographies, we found that many sustainability systems are already implementing some sort of risk control on conventional / uncertified materials, particularly those linked to forestry and minerals – supply chains that have become more heavily regulated in recent years. Given the heightened focus on ESG and sustainability, and the rise of sector agnostic mandatory due diligence requirements, it is fair to anticipate that this is a trend that will continue to grow in new commodities, sectors and regions in the coming years.

While only a limited project, our research unearthed a range of approaches deployed by schemes to control risk in mixed CoC systems, shaped by the environment in which the scheme operated and the willingness of suppliers and operators to follow due diligence and risk control requirements. Some of the key distinctions related to who was responsible for conducting risk assessments, the level of monitoring that due diligence processes were followed as intended, and that due diligence outcomes were realised. Our review also highlighted a number of risk controls schemes have deployed outside of due diligence efforts, including the application of product categories in traceability systems, scale-up requirements and disclosure expectations. These controls all serve a similar outcome – supporting certified members to scale their sourcing of certified materials, enable more robust claims, and to promote transparency in sectors that have until now been opaque, restricting transparency and traceability efforts.

In addition to the above, the research found a myriad of definitions for CoC models, with inconsistency in terminology and definitions between ISEAL, Afi and ISO materials. While the three categories proposed in this research report likely mask the marked differences between individual CoC models, they serve to bridge these diverse definitions, and provide those entering this space a departure point from which they can situate their scheme and its specific CoC model.

To improve the tensions inherent in competing definitions and terminology, this report proposes that ISEAL revises its 2015 CoC guidance, adapting definitions, models and terminology to the 2020 ISO content where appropriate. While adapting this guidance, we recommend that ISEAL explores how it can simplify the CoC landscape, following a CoC categorisation approach as proposed in this report.
Annex 1: Organisations consulted for this research

- Accountability Framework Initiative
- Aluminium Stewardship Initiative
- Copper Mark
- Forest Stewardship Council (FSC)
- GoodWeave International
- High Carbon Stock Approach
- ISEAL
- Organisation for Economic Cooperation and Development
- Sustainable Biomass Programme
- Programme for the Endorsement of Forest Certification (PEFC)
- Rainforest Alliance
- Responsible Sourcing Network
- Roundtable for Sustainable Biomaterials
- Roundtable for Sustainable Palm Oil