

White Paper on the Definition and Application of Commercial Compliance Executive Summary

On September 16th, 13 associations including the members of the STAR Network of Regional Producer Associations supported by GIZ FABRIC plus partners, the International Apparel Federation and Better Buying Institute together published the **White Paper on the Definition and Implementation of Commercial Compliance**. This document illustrates the key results of their **Sustainable Terms of Trade Initiative (STTI)** which is a manufacturer driven initiative that focuses on creating fairer purchasing practices in the textile and garment industry.

Context

Due to fierce competition, the pressure on manufacturers has long been enormous. Manufacturers are expected to reduce costs while increasing services. This was already the case before the COVID-19 pandemic, but during the pandemic, the unhealthy buyer-supplier relationship was taken to a new level and became more visible. A lot of trust in buyer's ability and/or willingness to enact good purchasing practices was lost. The discussion around purchasing practises has been growing among manufacturers and among brands and retailers. To create a more balanced commercial relation between a buyer and its suppliers, it is necessary that manufacturers contribute an equal part to the discussion of what constitutes better purchasing practices and how these can be achieved.

Approach

STTI has taken a phased approach: **The first phase** has centred on creating a space for manufacturers and their associations to exchange their experiences and wishes and starting to make recommendations of how, from a manufacturer's perspective, purchasing practices should be improved. Through five thematic working groups challenges and needs covering key topics such as delivery conditions, planning and information exchange, etc. have been identified. **The second phase** will be dedicated to actions within the supply chain to improve purchasing practices based on the findings from phase one.

Results

Commercial Compliance: STTI developed a concept for commercial compliance in the thematic working groups and defines it as: "a common understanding of purchasing practices that do not cause obvious and avoidable harm to manufacturers". A major focus of the initiative in phase 1 has been the conversation among manufacturers/associations about those purchasing practices that, in their experience, are harming them and thus blocking the manufacturers' ability to meet their own and their buyers' objectives for sustainable business.

Three categories of findings: Three important lists have been formulated in phase one: The **'Key Recommendations** on purchasing practises' can be considered as central elements of terms of trade that manufacturers wish to do business under. Therefore, they form the foundation of 'commercial compliance'. The **'Further Recommendations'** are manufacturers' recommendations for further improvements to purchasing practices that are important to the creation of a healthier buyer-supplier dynamic, but that aren't considered key recommendations. Finally, **'Research suggestions'** are topics and potential solutions for improved purchasing practices that require further legal and technical research before concrete measures can be planned.

Next steps

Structural dialogue: The roll-out of the principle of commercial compliance for improved purchasing practices requires a structural discussion. The dialogues will involve manufacturers and buyers on both national and international level as well as engaging the multi-stakeholder initiatives (MSIs) to incorporate commercial compliance into existing tools or initiatives.

Supplier contract and transparency: A supplier contract will be drafted, and a system will be developed to improve global transparency on the improvement of purchasing practices.

Research: Both internal and external research will be conducted to further define the STTI's principle of commercial compliance and to aid its application.