



**6th MEETING OF THE
PSAC BRANDS COMMITTEE
Tuesday, April 2, 2024
8:00 am, Washington DC**

Minutes

The PSAC members who attended the meeting: Christian Schindler, Peter Wakefield, Dimitris Polychronos, Nate Herman, Marc Lewkowitz, Ashley Gill

Observers/Presenters: Lorena Ruiz, Eva Bille

The ICAC Secretariat staff who attended the meeting:
Parkhi Vats, Eric Trachtenberg, Kanwar Usman, Lorena Ruiz

Meeting video: <https://youtu.be/8PNKNC-QPm0>

Presentation by Lorena Ruiz, ICAC: <https://youtu.be/o4cybMwoQ8E>

Presentation by Eva Bille, Hill Knowlton Strategies: <https://youtu.be/dSj4wmVH5js>

The Chair started the meeting and introduced himself, the meeting participants introduced themselves as well.

The Chair reminded about committee's objectives for 2024: We wanted to either prove or disprove, that natural fibers may not enjoy a level playing field against man-made fibers in terms of traceability regulations as well as available solutions, livelihoods involved and other issues. In 2024 we will focus on traceability of natural fibers versus man-made fibers. We'll try to answer questions like: are man-made fibers required to prove sustainability? What are these standards for sustainability? We will talk about traceability solutions, implementation possibilities in natural versus man-made fibers. Can we learn something from man-made fibers that could help us with traceability of cotton fibers? And how do manmade fibers prove traceability?

Presentation by Lorena Ruiz, ICAC

Peter: You mentioned, Lorena, that corn is the is the big competitor crop in Brazil. Is that the same in the USA, or is it different crops that is the main competitor to cotton in the USA?



Lorena: I wouldn't say that it is a competitor in the US or in Mato Grosso region. Cotton is planned as a second crop. Something is planted the first part of the year, then the area can be used for cotton later. It's a potential area that the cotton industry in Brazil can use to increase the production that they currently have. We've seen this at ABRAPA. They're targeting the production for Brazil to be able to produce even more of what they're producing currently. The yields in Mato Grosso are pretty good in comparison with the rest of the world. In the United States the limitation is that most of the area is in Texas, and it's a rainfed condition, so not much of an increase.

Nate: With the move towards increased sustainability, do you see any price premium for cotton that could allay that competition?

Lorena: we've been discussing this question in many panels, including SEEP. What can the cotton industry do to be able to increase the regenerative agriculture practices not only in the countries that we're seeing? There are a lot of investments in some areas that they must perform as a cotton farmers, so is the industry willing to pay? One of the main concerns that we currently have is how feasible it is for farmers to be able to have Regen Ag practices perform in those countries. The SEEP panel produced a report that was released in March 2024, when we put up 25 different regenerative agricultural practices that the different standards recommend to farmers, and we measure them in terms of how feasible it is, the risk associated with these practices, and what are the benefits that the farmers can get if they implement these practices. And the question is still on the table, is the industry going to pay for this?

Christian: What are the production costs on average for cotton? How much can cotton price be competitive with man-made fibers from a production cost perspective?

Lorena: Currently price for polyester is half of the price of cotton, because China has an overcapacity, and most of the production is in China. For us to compete, we would have to see changes in cotton prices. But then, if we do so, the cost of cotton will be lower. Is it going to be feasible for the producers? We already have inflation, the cost of land, the inputs that we're using, so it's a real challenge for the cotton industry. The answer could be also coming from the policies that some governments are implementing, like the EU the United States, but also could come from the consumers. Are consumers going to change the way they buy clothing or home textiles? The United States have started the campaign "The fabric of our lives". If you look at the United States market even though we do not actually have the same pattern in other countries globally, we can see that the share of cotton in the United States has remained stable. And maybe that's because we have put a lot of effort on the promotional campaigns that the Cotton Inc and other organizations have been able to put together.



Parkhi: In the light of the upcoming sustainability and traceability regulation requirements, do you see a major impact on cotton demand, or demand for natural fibers versus manmade fibers? Also, if you have a comment in terms of livelihoods involved in the natural or cotton value chain, versus a man-made fibers value chain?

Lorena: I will go with the second question first. One of the things that we as cotton industry haven't been able to do while this is the best way to promote cotton is to talk about the benefits. How many people are involved, how much employment are we providing, who is involved. Can we shout out about these benefits instead of just focusing on all the environmental impacts, all the water we're consuming. That's the information that we're trying to provide to brands, to retailers, even to the ones creating the policies.

We've been talking about sustainability since 2006 when we created the SEEP panel. But as of today, we're still talking about something that no one really knows what it is. If one cotton is sustainable, does it mean that the other one is not sustainable at all? Africa produces cotton, but the inputs are much lower, meaning that they're not able to get some of these certifications, the same with Latin America. This is true for Mexico, Peru, Paraguay, Colombia and Bolivia; they haven't been able to get the certification because the production is very low, and to get those standards to be part of cotton industry in these countries has been impossible. And, we have the EU regulations that we just saw. It can be tricky if we don't do anything about it to correct the issues that we have with the PEF.

Marc: Lorena, I think your focus on talking about cotton and the benefits around the impact of cotton production and employment is really critical. It's impossible for cotton to compete. The involved human cost is just not circumventable by increasing yield. It doesn't matter what our yield will be, we can never increase it enough. And one of the fundamental factors of increasing yield is that marketing is going to leverage that for their benefit and not for the growers' benefit. Yield does not help a grower, because if production increases, it's seen as a marketing weakness, and then everybody wants to lower prices and give it away. That's just how the fundamental capitalist system functions in the way we trade cotton. The ability for us to talk about cotton and responsibility, and hopefully having support from legislation, to be more responsible regarding the consumption practices of humanity is going to be key and critical; and working in conjunction with climate change issues and those kinds of factors is going to be more important than anything we can do to increase yields. Another factor is when seed breeders are focusing solely on yields, we give up quality, and giving up quality doesn't help the cotton industry either. I think we need to acknowledge and understand that cotton, as a percentage of global fiber relative to population growth, is going to continue to shrink. We don't have a chance of eating away at the share. Just because we have a finite amount of land, we have a finite amount of capability of increasing cotton production. Even if we can increase yields, the increase is going to be relatively small, and then trying to leverage regenerative practices on top of cotton, ultimately, is going to end up excluding the growers that need the



most help. Because if we set a benchmark for Regenerative practices that is going to exclude the most vulnerable cotton growers who won't be able to do so, because they don't have the resources, education, or government support. These are the biggest challenges that the cotton industry faces. You won't have that in polyester production, because it's funded by big money. They don't have weaknesses in the same way a grower has. This is the social good aspect of cotton production. And as Lorena pointed out in the chart, the growth of the developing nations' population is only going to increase.

Lorena: The textile fiber demand is going to keep growing. I agree with you on your point on yields. But the question is, can we increase production from what we had in 2010-11, or is that our max that we can produce? Of course, if we have increased production, the prices are going to drop. Also, remember that the cotton production is concentrated in just a few countries. Whatever those countries do, it is going to affect the rest of the countries producing cotton. But they are not big, and they are price takers. They are not setting the price for the United States or Brazil or India. If a policy affecting production is implemented in India, we're going to see a huge fluctuation in the supply, but also the prices that we're going to have. I think that one of the links that we are always missing is this committee, the brands and retailers. What do they want? What do they need? How can we work together with them? Is that a cotton promotion campaign that we can put together? At the Bremen cotton conference, the representative of Hugo Boss was talking about the importance of cotton for the brand. Can it be done with the rest of brands and retailers? Can we understand what are the main issues behind it? Can we work together to put up a campaign that is going to show the benefits of a cotton? This needs to be done with brands to have more impact, not with researchers.

Marc: It's a good point. The problem is in the middle section between the brand and the grower. The sellers within the supply chain ask if they can get a lower price, and it's either "No you can't", or "yes you can". And if somebody is going to give a discount so they have their business going, that ultimately always comes out of the pocket of the person next down the supply chain, and it ends up coming out of the grower's pocket. And that's why we continue to see the challenges within the marketplace. The biggest fundamental challenge in the cotton textile place is price volatility. It is the most difficult thing for brands retailers, because if they don't have a dependable price point, then they're constantly trying to determine, does this product continue? Can we afford it based on that arbitrary price point we've set or not? If there's a continuity in price, they could just say, "this product is selling well, we just replace an order". Everything our system is designed to do is increase volatility, because everybody's trying to take their larger chunk out of it and outsmart somebody for their own benefit, without consideration of anybody else in the supply chain. And I don't know how to fix it.

Lorena: In 2010-11 the price was high. Cotton prices can be very high, if they continuously remain high, it's okay. The big changes are what worries us. In the past two, three years, we see



that price volatility is again increasing, because of the shocks that we have with the pandemic and other events.

The Chair thanked Lorena and gave the floor to Eric Trachtenberg.

Eric thanked Lorena and announced the ICAC 82nd Plenary Meeting which is planned for 30 September – 3 October in Tashkent, Uzbekistan. The Chair mentioned that the events of IAF and ITMF taking place in Uzbekistan as well. Eric added that World Cotton Day and WCRC-8 are also planned for October. Christian added that textile exhibition will take place in Uzbekistan as well.

Presentation by Eva Bille, Hill Knowlton Strategies

Eric: I want to thank Eva for the presentation and to let everybody know that we've been working closely with Eva and the IWTO, and basically, we have two tracks. One track is to encourage PSAC members to comment, but because ICAC also reports to the EU as a member government, we have another track where we're engaging with them directly. I would also like to ask you not to mention ICAC when commenting, so please feel free to comment on your own behalf.

Peter: It seems like the PEF is really the big elephant in the room for man-made fibers. Is it realistic that we can get changes within such a short time frame?

Eva: I think it is realistic because it has been so controversial already. The fact that it was the path was included in the draft of the "green claims" regulation, and then it was withdrawn. So, something happened there. I know many organizations were active, but there's already an understanding that this is a very complex field. I think it is realistic at least to talk to the Commission about not making the PEF the baseline for everything. I think they will listen to that. How realistic is it to get the PEF because the deadline is 28th of April, how realistic is it to get technical amendments to the category rules themselves? Try to get as many comments in as possible on the scientific validity of the PEF itself, but also on how usable it is. Because if it's just a guideline that's out there, then that's fine, but if it becomes basis for legislation, then that's really important.

Usman: The first question: the textile sector is about SMEs, there are few big integrated units, but mostly it is fragmented between spinning, weaving, processing and stitching, and then it is going to the brands and retailers. They are buying the fabric from the local market, and they produce some goods, and then they export. In this case, how do you see that cotton would be that much effective, especially in context of the SMEs? The second question: someone is producing goods and exporting them to the EU. The more regulations there are, the more



difficult it becomes. But there is a very big market of textiles within their own country. If you sell to India or China or internally, there are no worries about the legislation. Previously, about 20 years ago, the developing economies were using 14 million tons of cotton, and now they have reduced to 9 million tons of cotton. With the more regulation the EU and the US would be bringing in, would they switch and produce man-made products for the needs of the US and the EU and start consuming cotton themselves?

Eva: The European Commission or the European Union can only really regulate their own market. But that's one of the big controversies in the deforestation regulation as well: they're telling other countries, "If you want to sell to the EU, you have to abide by these laws". There's a lot of discussion for deforestation, specifically about whether that means that they will just stop selling to the EU and they will sell to their internal markets instead. And that could indeed happen. That's a really important point to make if you reach out to the commission, to make them aware of the fact that it could simply mean a switch to synthetics in the EU because it's easier, and therefore they will sell the cotton somewhere else. And it's a similar point relating to your question on SMEs, that was also one of the more controversial points in the CSDDD discussion. The original text included that you should be able to track your suppliers and your sub-suppliers in the entire value chain, certainly for all agricultural commodities, not just for textiles, but for an agricultural commodity where you have small holder farmers, it is nearly impossible to track all of your sub-suppliers down to the level of knowing anyone who brought a cart to the market that day. We shouldn't ignore the level of ambition that the European Commission has in terms of traceability.

Eric: Do you want to talk about the trade angle, because there are some issues of whether this runs afoul of the TBT agreement?

Eva: That's certainly been considered, and because it's part of every process in the EU that they send out to TBT (technical barriers to trade) consultation. I've seen a lot of countries, even within the EU, making that point in relation to deforestation. While the EU hasn't finalized the text it is usually too soon to talk about TBT, but for deforestation, it has certainly been mentioned. A lot will depend on what happens in the election in June, there could be a general shift towards protectionism. In the past years the EU has been very strongly focused on WTO compliance, on a level playing field. But if, after the election, the EU becomes more protectionist and becomes more strongly "made in the EU", that might also change the way they look at WTO, TBT and other trade instruments, trade agreements in general.

Usman: Going into trade side and going into the export volumes, Europe is exporting \$222 billions of textiles, and they are importing \$290 billions of textiles. They are using textile for creating jobs. They become the second textile exporters in the world after China. So how is their own preparation to achieve all those objectives going? The EU is not a very big producer of



cotton nor a big producer of man-made fibers. How are they going to abide by all the traceability rules? The EU has very few spinners and weavers. How are they preparing themselves for all this change?

Eva: I don't think the European industry is completely ready to comply either. A lot of the European textile industry has also been active in the finalization of these texts to make sure that it is workable. There are points at which the European textile industry is not fully aligned with what the commission is proposing either, so it will be difficult for everyone to meet the new requirements.

The Chair thanked Eva for the presentation and gave floor to Parkhi.

Parkhi: I have two updates from the ICAC Standing Committee. The first is that the EU does not want individual brands to directly participate at the PSAC. And considering EU strong position on this, ICAC will not be inviting individual brands and firms. There is another option that we are considering to strengthen our connection with brands, and I'll get back to you once we have a clear position on it. And the second, the US requested comments from PSAC on the ICAC strategic objectives for 2024, and this is something that Eric will be presenting to the ICAC executive committee later this month.

Nate: Since we are the brands committee on the PSAC, it would make sense to have brands who are heavy cotton users be on the committee, so thank you for your work on this.

Eric: We are trying to work with associations to convene brands, because they want those interactions. This might work because our success lies in the communications with brands.

The Chair thanked presenters and attendees and closed the meeting.