



**4th MEETING OF THE
PRODUCERS COMMITTEE
Wednesday, 6 September 2023
8 am Washington, DC, time**

Minutes

The ICAC Secretariat staff who attended the meeting:

Parkhi Vats, Eric Trachtenberg, Maria Borisova

The PSAC members who attended the meeting: Francisco Ferreira dos Santos, Terry Townsend, Peter Wakefield, Haroldo Cunha, Tas Smith, Lisa Ventura, Nate Herman, Fabio Carneiro, Mary Concilia, Alexandra Perschau, Sunduzwayo Banda, Hamma Kwajaffa, John King

Observers/Presenters: Corin Wood-Jones, Josh Taylor, Kelli Hoggle

Meeting video: https://youtu.be/ybRZRfVM_Qg

Presentation by Nate Herman: <https://youtu.be/I4R8GIC5o38>

Presentation by Valentina Bolognesi, Amfori: <https://youtu.be/TvMa02k0uhs>

Presentation by Alia Malik, BCI: <https://youtu.be/j-Fq553OUJc>

1. The Chair opened the meeting.
2. Participants introduced themselves, and Parkhi reminded them about the next steps in preparation for the ICAC Plenary Meeting.
3. **Presentation by Nate Herman.**
4. **Q&A with Nate Herman.**

Francisco: How does the cotton bale system work for controlling the farm to bale route?

Nate: There are all types of farms in the US and all of them have bale ID. I am not quite sure how exactly it happens, but it looks like something that US customs takes to trace cotton. There are efforts to expand that further and provide additional traceability on top of that through USCTP (US Cotton Trust Protocol).

Terry: We have discussed permanent bale ID (PBI) and it is not expensive or technologically challenging. Universal application of PBI would be an appropriate recommendation coming out of the PSAC.

Peter: Having a good PBI system will make a huge difference in getting from gin level to spinner level. If an importer is more proactive and produces results using DNA or isotope testing and gives this to the US Customs, does that guarantee them that they are clear for importing to the US, or do they still go through checks?



Nate: They still use some checks of their own based on their targeting and intelligence. They use relationship mapping systems for that. If you get your shipment detained, even the results of DNA and isotope tests won't get it released; you still need to provide all the documentation. The only thing that tests results do is provide additional verification.

Francisco: Our concern is mostly related to the farmer, to the bale. If we are talking about regions, it is OK; if we are talking about smaller production units, it is worse. But if we are talking about traceability to the farm, that is a great challenge. We need to have a system in place that is able to embrace and promote the Global South to join the transition, not simply to exclude them.

Corin: There is every reason to believe that the most sophisticated supply chains working with large farms are already able to trace cotton back in the US, Australia — where there are unified systems in place. But there are many scenarios in African countries or Pakistan or India where the ginner is marking their bales and shipping documents, but from the gin back to the farm level, it becomes difficult — especially in the environments with a lot of informality or intermediate actors are involved. From our experience gained in pilot projects in India, we know that the typology of intermediaries is extremely complex. And from where we are looking, the first thing is for us to understand how it is working to be able to explain to everyone else who is interested in this issue. And we will need a pragmatic approach, maybe looking at farmer groups level. We are already doing that at BC; we have well-defined groups and we are building a picture of saturation level of BC farmers in particular areas that will lead to a better confidence level. We are focussing our efforts on this because we understand that these farmers may suffer more than others because they can be potentially sidelined when it comes to supply chain preferences.

Parkhi: There is a cost associated with this documentation — who is absorbing these costs? Is it brands and retailers, or merchants? Is there any support from the US government for transition to these new regulations? The second question is: Are there any kind of problems with re-export? If, for example, products from China go to some other place first and then are being re-exported to the USA?

Nate: 1) The brands are paying the entire cost right now: documentation, man hours, warehousing costs for storing shipments while they are collecting the data and the US customs reviewing this data. A decision from customs can take up to 6-8 weeks. Brands sometimes pass these costs on to the suppliers. If the shipment is detained, brands often ship it back to the supplier and asks for a refund. 2) At the moment, there is no other country that banned products from Xinjiang, but there was a lot of information in the press from NGOs of different countries, including Canada and the UK, that they are becoming 'dumping grounds' for these re-exported products. There is no data or ways to prove that and track where re-exports go, though. Canada has a forced labour ban in place already so they can stop accepting these shipments at any point. They are sharing information with the US customs authorities.

Fabio: How exactly do the authorities ensure that forced labour is not used at any point of the supply chain in different countries? What kind of documentation can prove that?



Nate: This is the issue — when brands or other responsible entities do not have visibility beyond tier one or tier two of the supply chain. Brands try to map the supply chain and it is very difficult to do that after the fact. So, they are trying to establish a mechanism to know everything before. At the moment, they are relying heavily on documentation, which of course can be forged and modified.

Parkhi: Is any traceability solution officially accepted by the US government? Or are they relying on their own screening? There are insurances for theft or damaged cotton; is there any kind of insurance for cost increases due to new traceability regulations?

Nate: There is no such insurance at the moment. US customs does not accept anything other than documentation. But they have contracts with a number of solutions providers, such as those with isotope testing and relationship risk mapping (systems for finding financial or other connection with entities in Xinjiang). They use it for targeting and we have seen cases when an importer proved that his goods have no connection with Xinjiang — but the next shipment from the same importer from the same place is still stopped because of this targeting system.

5. Presentation by Valentina Bolognesi, Amfori.

6. Q&A with Kelli Hoggle.

Francisco: What are the other criteria that are becoming mandatory for the EU? Forced labour is a kind of tangible one, but there are others like deforestation. What if cotton falls also under this framework? Most of the farmers will be completely put aside from the most important markets. What more criteria are coming that we should be aware of? We also need to support the nations in promoting meaningful regulations addressing SDGs and not just managing risks. What would be your advice for producers and ginners in relation to these aspects?

Kelli: I don't know much about deforestation regulations but speaking about corporate sustainability due diligence directives (CSDDD), I think this one will affect producers on the ground the most. Pretty much anything falling into the scope of due diligence and environmental consequences can be included in legislation. We are concerned about squeezing smaller producers out of the market, too. We do see the gap in the resources available for smaller producers.

Francisco: So, what would be your advice? In terms of processes, technologies, budgets?

Kelli: There were 'rumours' that certain funds are available for international organisations like World Bank to empower smaller producers. It could look like capacity building and training. I also think that it will take significant time for the pressure to come down to tier 3 and 4 and small production units.

Eric: European and US approaches to regulation are dramatically different. The US approach is basically, 'You need to prove that your supply chain is not terrible', and the EU approach is more about, 'You import, and we will investigate if we find a problem'. It could be an interesting discussion about where other countries are going and what legislation frameworks are the most effective and least punitive for Global South. In African projects, we have seen multiple times how smaller producers were left out by the costs of certifications.



Kelli: Europe is watching how the US is implementing the forced labour ban and it's learning. Europe's upcoming risk identification system might be similar to what the US is using.

Mary: I am wondering if the regulatory bodies are looking at the conditions of infrastructure. What are the incentives that can be put in place? In Africa, there are a lot of challenges and poor conditions for smaller farms. There should be incentives to build an infrastructure to support farming. Governments should support the creation of a decent working environment for those people. We need a picture of what is happening 'behind the label', and I am not sure the EU is looking at these things.

Kelli: I agree with you. However, it is not in the scope of our operations; we are not looking at that level of production. From the EU perspective, they of course should think about ecosystems – and if they want to mitigate risk, they should be looking at this level.

Lisa Ventura: I focus on policies and there is a gap that I see across different sets of policies, so you as a group can convey this to the policy makers. Issues like small producers in developing countries can be overlooked.

Parkhi: 1) Is there some kind of government support or subsidy for the companies transitioning to the new regulations expected from the EU? 2) When the legislation is in place, who will be responsible for proving traceability – brands or merchants? Because that will be who bears the cost of auditing.

Kelli: 1) There is some information on the government website that certain funding will be dedicated to help build capacity, but there are no details yet. I assume the addressees will be EU companies. 2) The global objective of the legislation is to make companies of certain sizes have a due diligence process in place. It is hard to know who will be financially responsible in the end, because the point is that companies should have a system capable of identifying issues. Once issues are identified, this could put some pressure on smaller producers.

Parkhi: So, if it is an EU company some support may be available, but non-EU merchants will bear audit costs themselves.

Kelli: This may go further down the supply chain, and merchants may pass it on to suppliers. It is also proposed in the legislation drafts that high-risk sectors are prioritised. Apparel is one of them, so businesses in this sector will most need to meet the requirements of CSDDD.

Parkhi: In the case of forced labour, the producer will need to prove it, correct?

Kelli: Of course. It is going to be about producers; I am not sure what cost is going to be. But right now, brands and importers are paying warehousing fees, attorney fees, etc.

Parkhi: In the USA, it is region-specific and thus concerns only China, but in the EU, it is not region-specific. Does that mean that any producer from any country will be obligated to comply and pay the associated costs?

Kelli: Yes, unless the importer is willing to pay for that.

7. Presentation by Alia Malik, Better Cotton Initiative.

8. Q&A with BCI team.



Peter: It is very much a data entry system, so you will have parties within the value chain entering data to the system, but then you will be backing up this data with onsite orders to confirm information they've put is correct. Is this right?

Josh: There is an online tracking system, and suppliers will need to add more data than they do now; we also require uploading documents that are reviewed by our internal teams. Then there will be third party assessments to make sure that suppliers have physical infrastructure in place to be able to segregate, and operational infrastructure for tracking.

Peter: Do you require that all parties segregate that physical cotton product from everything else, or can they store it in the same warehouse?

Josh: Providing they keep the product separate, they are good. They need to have identification and inventory management systems in place. Our programme has an option for controlled blending, in which you can blend physical BC with other cotton.

Corin: Just to clarify: We are not abandoning the mass balance administration system; it will continue to run in parallel.

Francisco: I would like to reiterate this: The presentation started with cotton in jute bags, not on a farm level. We know it is a challenge, and BCI is making a tremendous effort on that. The important takeaway for me is that traceability will have a relevant cost in the Global South, which may not be true for the Global North. And there is also cost and effort to implement it on the ground. Traceability to a farm is very challenging — but also very important. And it will become even more challenging in terms of money.

Corin: I hope we will have meaningful conversations around this because we cannot, obviously, leave smallholder farmers aside. We are talking about millions of people who will be affected.

Francisco: I know from people in textiles and retailers that they all want to develop their own systems and present some tangible actions to the market; I suppose there is a lot of duplication, but probably it will be like that until we reach a mainstream model. What are your views on that? What should be our statement and advice to producers and farmers?

Corin: I agree that there are a lot of solutions, and we try to learn from this market too. We also try to use a benchmarking system and recognise work of existing organisations like ABRAPA with their standards, or Cotton Australia with theirs: We don't force them to emulate our processes exactly. This is also a matter of implementation. We have had not very successful projects in this area, but the increasing regulatory pressure may bring us together to find common ground.

Parkhi: What do you find more beneficial, a government with traceability regulation or without? How difficult is it to implement a traceability system in a country with no such regulations and requirements?

Corin: I am sure that if brands and retailers are ultimately the ones who say that they need it, it will be passed down to the whole supply chain, and that is already happening. We do not rely on government regulations to administer our system right now. Retailers and brands are



**INTERNATIONAL
COTTON
ADVISORY
COMMITTEE**

Private Sector Advisory Council

in that key position and if suppliers are unable to comply, they will be left out. We would like to see governments come on board and be a part of a solution.

Josh: There is a role for governments in creating and supporting an environment for traceability. A good example of that is the PBI initiative; this is an infrastructure thing that can be pushed forward.

9. Parkhi explained the next steps of the preparation for the Plenary Meeting.

10. The Chair thanked the participants and closed the meeting.