3ᴿᴰ MEETING OF THE
PRODUCERS COMMITTEE
Tuesday, 11 July 2023
8 am Washington, DC, time

Minutes

The ICAC Secretariat staff who attended the meeting:
Parkhi Vats, Mike McCue, Maria Borisova

The PSAC members who attended the meeting:
Chandrima Chatterjee, Atif Dada, Ras Smith, Terry Townsend, John King, Marc Lewkowitz, Youssouf Djime Sidibe, La Rhea Pepper, Francisco Ferreira dos Santos, Peter Wakefield, Yvonne Chileshe, Alexandra Perschau, Baris Kocagoz, Elke Hortmeyer

Observers/Presenters: Gary Bell

Meeting video: https://youtu.be/wHjvwb8SxKM
Presentation by Gary Bell, USCTP: https://youtu.be/CUtSNnxHm8w
Presentation by La Rhea Pepper, Textile Exchange: https://youtu.be/u543W4f9zic

1. The Chair opened the meeting and the participants introduced themselves.
2. <u>Mike's update on WCD</u>: This year, it is going to be a combination of different types of events. WCD falls on a Saturday, so the original founding organisations (ICAC, FAO, ITC, UNIDO, WTO, UNCTAD) will be gathering on 4 October in Vienna for a one-day event. UNIDO is responsible for the event this year. The ICAC wants to have another event and considering the support from Taiwan-based Peter Wakefield and Mark Sussman and that we have scheduled an international seminar in Taipei for 18 October, we are planning to have a WCD exhibit on 19 October. The ICAC delegate from Taiwan is now discussing this question with the capital. As there is another major event in Taiwan on 21 October, International Organizations Day, we were discussing a possibility of wrapping it into one big event. I will be back with an update about the opportunities for PSAC.
3. <u>Terry</u>: Should supporting organisations do something on October 7th, 4th, or any other day?
4. <u>Mike</u>: The 7th is the actual WCD, I would personally recommend holding any activities on 7 October.
5. <u>Parkhi's update on the ICAC Plenary Meeting</u>: We will have an in-person Plenary Meeting in Mumbai, India, from 2 to 5 December 2023. The inaugural session will take place on Saturday and there will be a slot for the PSAC session; the formal date is under discussion.

Usually there is a technical tour after the Plenary and the tentative dates are 6-7 December. We will get back to PSAC via emails with the details.

6. <u>Mike's update on sponsorship for Plenary Meeting</u>: Our position is to let the Organising Committee in India to determine what they can do with sponsorship. When they decide on their plans, we will fill in the gaps. We are going to have an exhibition area and I presume we will have opportunities for sponsorship like lunches, dinners, etc. We will update on this as well.

7. <u>Chandrima</u>: 1) Regarding the WCD, since it is more about visibility, are we planning any social media activity which we can all be part of? We would be happy to join, and it would be nice to have some common branding.

8. <u>Mike</u>: I maintain the ICAC and WCD Twitter accounts, also I made some infographics, and we have a video; please feel free to follow and share. I will be active on 7 October and will be retweeting all the posts too.

9. <u>Chandrima</u>: 2) Regarding the Plenary Meeting, we are very excited about finalising the theme and it will be made available soon.

10. <u>Peter</u>: We agreed to maintain the single theme for the WCD, which is "Cotton for Good". Could you please share the marketing materials for that?

11. <u>Mike</u>: Sure, we will do that. We have logos in several languages and can add more languages if you send the wording.

12. <u>Elke</u>: Mike, you mentioned a 10-minute film for the WCD?

13. <u>Mike</u>: we are making a series of videos 'Get to know the ICAC'; some are on hold in the Standing Committee, but I did a video about WCD; it's on YouTube and Twitter. I could rebrand it to be a general one not under the 'Get to know the ICAC' logo. We also have a 4.5-minute video made by WTO after the inaugural 2019 event.

14. <u>Elke</u>: Thank you. Regarding the Plenary Meeting, are there any plans to gather working groups like CSITC, SEEP etc.?

15. <u>Mike</u>: Yes, these meetings will be scheduled as usual for the opening day, which is a Saturday.

16. Parkhi requested to skip the 3rd agenda item and come back to it later due to time constraints. The Chair agreed.

17. <u>Parkhi</u>: We are preparing for the PSAC session at the Plenary Meeting this year and the Permanent Committees decided to work on traceability. So, the session title is going to be, 'Private Sector Recommendations for Policy Making on Traceability'. Each Permanent Committee will advise what is important, in their view, to keep in mind when making decisions on traceability policies. The audience will include government delegations so we can seek that the governments can force or relax some aspects of the policies. Once each Permanent Committee has compiled their comments, the Executive Committee will merge them into one set of guidelines that will be presented at the Plenary Meeting. This objective will be achieved in three steps: collecting the current problems from the private

sector; discussing the current and upcoming traceability regulations in the world; and looking at the solutions that are available in the industry.

18. **Presentation by Gary Bell, US Cotton Trust Protocol (USCTP)**

19. **Q&A with Gary Bell**

<u>Atif Dada</u>: I know some of our spinning mills have become members of the USCTP. I have noticed that transfer of data in the protocol seems to be not as smooth as other programmes. I have experienced delays finding something in the system. Has the system matured enough to be as smooth as other sustainability solutions?

<u>Gary</u>: USCTP is a relatively young program; other solutions mainly use transaction certificates or certificates of consumption while USCTP is based on tracking individual articles as opposed to just scanning and uploading documents. We have made the most considerable progress in Central America, and we are seeing now that enrolling new brands and new mills joining the system goes quite easily. Some of our leading brands who started to use the system in Central America are now making transitions in Asia as well. And as more suppliers join, more brands ask their supply chains to do so, I think you will see how it becomes much simpler. I highly recommend the Textile Genesis training because the data we are capturing is pretty much the same one as on their transaction certificate or the certificate of consumption under the BCI program; it is just a different mechanism for translating that information. And because we have that inventory being captured at every node in the network with a ledger enabled by blockchain, brands have a lot more trust that there is no double-counting going on. When creating a traceability solution everyone is facing an inherent challenge: transactions that happened in the beginning of the supply chain are not connected in any way to a brand's order for specific product and the system tries to connect them after the fact. That is why we chose to start at the fibre stage by capturing initial transactions as they normally happen and build eligible inventory buckets along the supply chain as the materials naturally flow through the process. That is why I would highly recommend that you think of recommendations to governments about the concept of data capture standardisation and a process that does not disrupt the supply chain.

<u>Francisco</u>: Are you certifying farmers outside the USA? I am particularly concerned about Africa, where most of the farmers are small scale, some people don't even have IDs. Most traceability systems start in the gins but without going backwards there is no traceability at all. Do you have practical examples of traceability solutions usage in regions like that? And do you see this in general? Could you also elaborate on the costs?

<u>Gary</u>: The program is designed specifically for the US cotton farming industry. And we were able to start capturing the data because of the highly automated US cotton farming. For example, we are negotiating to be able to capture data directly from the field equipment and for many regions that is not possible.

Certifying the origins of material is critical and what I would recommend for any cotton growing region is trying to establish the bale identification system and if you have multiple growers going into one bale, then you have to think of where this pinch point happens in your

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supply chain. Blockchain in agriculture enables very small farmers to be recognised in the systems and to be captured as a part of the process.

If we cannot figure out ways for brands to be able to make sustainability claims credibly and legitimately and legally to their consumers, that downward pressure on the supply chain will always be there.

With respect to cost, for growers, ginners, and merchants it costs nothing; for mill manufacturers it is $500/year for headquarters and one manufacturing site (additional manufacturing sites for a small fee). Brands and retailers pay membership fee depending on the size of the brand and amount of cotton they are tracking, and there is a small volume-based fee in addition to that.

The textile and apparel industry is facing regulatory scrutiny that we have never seen before. We are a highly fragmented industry, and the governments are starting to control more. Traceability used to be a nice thing to have; traceability and sustainability were always something within big brands and retailers that operated as a very small sustainability department. But now these discussions are happening on a very different level and traceability is a 'must have' now.

Peter: What advantages do you suggest to producers and ginners for joining the programme?

Gary: It is about creating an optimal marketability of their cotton. As there is an increasing number of brands demanding their fibres go through traceability solution, then it is about the market exclusion for those who do not comply.

Tas Smith: Demand from brands to have all their materials sustainable and traceable helps to drive this process. There is also a system of compensation for growers joining protocol.

Gary: When the protocol first started, it was different and now there is a risk of seizure of imported products under the UFLPA. It no longer is a 'nice to have' for brands. Similar legislature exists or is going to be put in place soon in Canada, EU, Australia, etc. The environment is changing, and everybody has to align with this.

20. Presentation by La Rhea Pepper, Textile Exchange.

21. Q&A with La Rhea Pepper.

Francisco: What should a producer or a ginner be aware of. What are the challenges? What are the costs?

La Rhea: Our programmes are currently utilised on certified systems. When you certify to one of our standards, the cost is included; there is no additional fee for certified participants.

I believe that there is not going to be a 'one size fits all' solution; there will be many solutions around the world and what we are trying to do is to bring continuity, collect the same data.

Some brands are looking not only for carbon goals but for reduction of water usage goals, and there will be more scrutiny. We are trying to create a 'plug-and-play' system. We are collaborating with other certifying bodies. The system can be collaborative with other groups of fibres. For small scale farmers, there is a group category with internal control mechanisms.

We also have two systems because of different levels of access to technologies around the world. More technologically advanced brands can use eTrackIt and we consider it the future way of handling this.

As I mentioned, I don't believe there is going to be a 'one size fits all' programme so we need to have solutions capable of talking to each other. We are continuously working with other companies to make sure we have continuity and consistency on data points, etc.

Terry: These are very sophisticated systems but yet we know there is fraud and when the systems grow, there are more ways to cheat them. Some corporations are hiring hackers to break into their systems to identify vulnerabilities. I wonder if Textile Exchange or USCTP have taken this approach.

La Rhea: We have some internal experts doing this. That being said, these systems are a substantial improvement on the paper copies and Excel documents because we can perform volume reconciliation against the numbers which we are using for losses, etc., and it is much more difficult to cheat compared to paper transactions.

Terry: A part of the role of the PSAC within this broad topic of traceability might be a discussion of how people protect themselves from fraud.

La Rhea: This is one of the recommendations that need to come out: What are the principles we need to see, what kind of verification should be used?

Gary: Specifically with respect to Textile Genesis and our solution: Brands and retailers have compliance teams that are applying exactly the same due diligence to our systems as somebody who is building an ERP system for them. We are going through third-party audits, which are now becoming a requirement. Since it is becoming a regulatory requirement, we are going to see brands and retailers demanding all that down the supply chain. The challenge is that these costs of auditing and securing the data do not get passed down to small scale producers. We need to make sure that in your recommendations, there are ways to accommodate all kinds of stakeholders along the supply chain — very small companies as well as very large companies.

The inventory reconciliation is a really good initial check in which the system does not allow you to ship more than you produce, for example.

Terry: I was thinking more in terms of producers, ginners … What do those people in the supply chain need to do to make sure they do not take part in fraudulent activities?

Gary: That's where blockchain steps in. In many other agricultural products, small farmers get recognised within the system because of that. In cotton, we need to have a unit of measure to secure this starting point and blockchain definitely enables that.

Francisco: This is an issue or a challenge to the developing world, to the Global South: an issue of mindset, having the right tools in place, to train and engage people. We are rapidly moving to a system where the Global South can be put out of the high value markets. The system is moving so fast that local conditions cannot respond. The digital tools are not there yet. We have small scale farmers; most of them do not have ID cards, and there are several levels of traders before the gin. The issue is: How do we see this happening in these countries?

How do we tie this to a complex blockchain system without leaving millions of farmers outside of high value markets?

La Rhea: We have had success in the organic system because the farmers have organised into smaller groups that roll up into larger groups, and there are internal control methods.

Francisco: I have visited organic farms in certain countries, and I have seen what is wrong there. That was not working.

La Rhea: There are organic programmes that work well and there are some that are now working. There are challenges all around the world. We are investing in on-the-ground ambassadors doing on-the-ground audits requiring internal control and verification; we work with reputable groups of farmers who use appropriate methods of control. I think what we created is a system that has enough checks and balances in place. This is a challenge for farmers and ginners: What does a reputable program look like? What are the checks and balances?

Gary: There are some technologies like DNA testing — forensic verification of what has been captured in the system. There are a lot of things that can be driven from the best practices point of view. It will never completely eliminate the fraud, but for any traceability solution, if you are able to assert the point of origin, you alleviate a big part of that. One of the challenges with the old transaction certificate systems is that you scan a document and put a picture of it into a system, but the system does not take all the data from this document and turn it into an item of inventory. Programmes like USCTP and other solutions can do that. Of course, some training is required on the brand side, and this will benefit the supply chain by creating special demand.

22. Parkhi suggested rescheduling the presentation by Amfori to the next meeting; Francisco agreed.

23. Parkhi's update on the EU discussion: The letter was received from the EU after the Plenary Meeting in December 2022; the PSAC Executive Committee replied in March 2023 and currently we are waiting for the EU's reply. It can take a while because they compile the comments from the member governments.

24. Parkhi: The Standing Committee granted its approval to add organisations like WTO and World Bank as permanent Observers at PSAC and validated a list of organisations from non-member countries to become temporary Observers. We also welcome back organisations from Brazil, which has re-joined the ICAC.

25. Parkhi: The EU Green Labelling Directive proposal was released in March 2023; it admits that PEF is not ready because of the controversies around microplastics.

26. The Chair thanked everyone and closed the meeting.