



**4th MEETING OF
THE MERCHANTS COMMITTEE
Wednesday, 29 June 2023
8 am Washington, DC time**

Minutes

The ICAC Secretariat staff who attended the meeting:

Parkhi Vats, Mike McCue, Kanwar Usman, Maria Borisova

The PSAC members who attended the meeting: La Rhea Pepper, Mark Messura, Terry Townsend, Kim Kitchings, Peter Wakefield, Amy Bain, Cliff White, Massimo Morpurgo, Christian Barthel, Ahmed K. Elbosaty, Hamma Ali, Joao Paulo Lefevre

Observers/presenters: Kelli Hoggle, Gary Bell

Meeting recording

Presentation by Gary Bell, US Cotton Trust Protocol

Presentation by La Rhea Pepper, Textile Exchange

Presentation by Valentina Bolognesi, Amfori

<https://youtu.be/hyn69hEBWBw>

<https://youtu.be/CUtSNnxHm8w>

<https://youtu.be/u543W4f9zic>

<https://youtu.be/TvMa02k0uhs>

- 1. The Chair welcomed everyone and started the meeting.**
- 2. Mike's update on World Cotton Day (WCD):** 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 October 18th, we are suggesting that we 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, the International Organisations 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. Parkhi's update on the ICAC Plenary Meeting:** We will have an in-person Plenary Meeting in Mumbai, India, from 2-5 December 2023. The inaugural session will take place on Saturday, 2 December and there will be a slot for PSAC session; the final 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 email with the details.



4. **Mike's update on sponsorship for Plenary Meeting:** Our position is to let the Organising Committee in India determine what they can do with sponsorships. 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. We will update on this as well.
5. **Parkhi:** There is no update from the EU so far, but it is normal for them to take time.
6. **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.
7. **Cliff:** The PSAC session title at the ICAC Plenary Meeting this year is going to be 'Private Sector Recommendations for Policy Making on Traceability'. We have already heard Nate's presentation on USA/Canada/Mexico regulations and today we are going to listen to more presentations to form our opinion and present recommendations from the private sector.

Peter: Please keep in mind that our deadline is in September or October because we will need time to sum up the recommendations and get an approval from the SC.

8. Presentation by Gary Bell, US Cotton Trust Protocol

9. Q&A with Gary Bell

Terry: The objective is to position US cotton as a sustainable fibre. Why should ICAC endorse any single country's sustainability program?

Gary: Today every single brand, retailer, or large corporation is facing an increasing number of regulations regarding what they declare, and I think that the core to it is data. We were asking ourselves the same question: Is Protocol cotton more sustainable than organic cotton or any other cotton? And we are only able to answer this question if we have data. USCTP is essentially a data capturing system. Endorsement of a single individual source of cotton is probably not what ICAC should do. Considering the traceability topic, though, the practices behind these solutions are the right things to be supported. The potential of the depth of the data we are capturing is something very powerful.

Cliff: We are not in the process of endorsing USCTP; the idea is to inform people on what systems are around, how can we proceed from here. My question to Gary: It is only 15% of the crop. How are you going to encourage participation?

Gary: USDA climate smart grant is focused on USCTP, having the incentives to be able to attract growers to get to 50% that was initially stated as a target for 2025. The main question of every grower who is asked to do something differently is. 'What is in it for me?' So, if we can build demand from the brand side that filters down through the supply chain, that is how you are going to drive sustainability adoption and participation from the grower side. The biggest challenge in the textile and apparel industry is that you are trying to create a connection between transactions happening within the supply chain which are inherently not connected. Trying to connect the dots after something happened is impossible, so our program is built around this fibre-forward concept — the system starts capturing the data as



the normal flow is happening in the supply chain. One of the biggest challenges is that our industry has a very complex data model. So, one of the biggest suggestions that I would make to this group as you are recommending solutions is to find ways to standardise data models regardless of the exact technical solution used.

Parkhi: As an official statement, ICAC does not endorse or diminish any particular traceability solution present in the world; the goal is to learn about existing problems, upcoming regulations and already-existing solutions. We will see what is lacking and present our recommendations to ICAC member governments.

Gary: Our industry is very fragmented and has been highly unregulated for a very long time, so now we are facing increased regulatory pressures. Inevitably, this will go down the supply chain. Our system captures the same data that suppliers need to submit for certification. It is not more information; it is just presented differently.

Peter: Could you please elaborate on how the programme works with different products?

Gary: The system enables any fibre to be tracked. If the yarn is 60% US cotton and 40% Indian cotton, it is identified correspondingly. When a yarn becomes a fabric, the second validation happens in the system and this fabric will be identified as only 60% US cotton. The system allows double-knit fabric, woven fabric, multiple yarns fabric, etc.

Usman: The only risk factor I can see in the presentation is the calculation of wastages. How is it calculated? Do you take data from manufacturers or use average?

Gary: The waste factor calculations are embedded in the rules of the Textile Genesis system, and they were originally taken from Textile Exchange conversion factors. The TE is in the process of refining those calculations; in yarn spinning they will be incorporating accommodations for the cleaning and spinning technologies. There is a certain range of waste factors that are acceptable for each yarn and anything outside of that range will be flagged by the system as unacceptable for that type of yarn. The business rules used by the Textile Genesis system are well informed by organisations and existing data. The manufacturer can change the adopted waste factor for any specific process, but they will have to be within that acceptable range.

10. Presentation by La Rhea Pepper, Textile Exchange

11. Q&A with La Rhea Pepper

Cliff: Why do we need two methods, digital and electronic?

La Rhea: Brands of different sizes have different access to technology; some of the larger brands that have access to advanced technology can just plug in and start using eTrackIt system. Most of the industry is not there yet so we have created a multi-faceted solution.

Mark Messura: From a methodological standpoint, does your programme go back to individual farmers or it is groups of farmers?

La Rhea: It is a little of both depending on the fibre. Our standards go back to the farm and the range (when it comes to animal fibres). Our cotton program operates at a group level, so the system is designed to be able to do both depending on the criteria.



Kim: Are these systems intended to be compared across other fibres or is it to be contained within our industry? Is there going to be cotton sustainability footprint compared to polyester, etc.?

La Rhea: No, this is designed for traceability — each fibre will have its own LCA but there will be no comparison across different fibres.

Kim: I find it interesting that both platforms are using Textile Genesis so both of you will have access to a lot of information.

La Rhea: There has been a lot of work involved to make sure that these systems are built on the same foundation when it comes to methodology, data standards and governance.

Usman: What would be your recommendations to governments to improve traceability systems? A lot of production is based in developing or less developed countries. What steps should they take to promote usage of those systems?

La Rhea: Our system is developed for certified farms so there should be guidance on how to become a certified farm and I think ICAC can be extremely helpful here – in unifying the global industry and having preparations for different farmers in different countries to be able to participate. A lot of market choices will be determined by merchants and brands and what systems they want to put in place. Here the ICAC can use its leadership position to promote traceability.

12. Presentation by Valentina Bolognesi, Amfori

13. Q&A with Kelli Hoggle

Usman: It was mentioned in the presentation that there are many SMB customers. How did you attract SMB customers?

Kelli: Most of them were driven by the retailers who cascade some of the responsibilities down to their suppliers (their buying agents, importers, etc — not the producers) and require ownership of the responsible-sourcing decisions. They can require becoming a member of our association. Other small and medium brands become our members to be able to communicate that they are sourcing responsibly.

Mark Messura: There was a reference to worker-level information. Could you provide some insight about what type of information might be required at a farm level?

Kelli: If we are talking about due diligence regulations, Valentina mentioned that the text is not finalised yet and is under discussion right now; the expectation is to have the final text in the beginning of next year. It will describe in detail who is in scope, what is required, and how far down the value chain.

Cliff: It obviously will be an owner's decision to implement that but what sort of timeline we are looking at?

Kelli: There are three different legislation pieces Valentina talked about. First, it is the reporting directive, which is already published and has a phased approach. The largest companies in Europe, which are already required to report under the Non-Financial Reporting Disclosure, must start reporting from 2024 and by 2028 it goes to smaller and non-



EU companies. For the forced labour ban, we are not sure it is going to pass but if it does, it is going to happen by the end of this year. For the CSDDD, we expect the text to be completed by the beginning of the next year and then EU member states will have two years to transpose it to their national laws, and then the companies will be required to comply. We have about 2.5 years for it to become effective. But we are already seeing the snowball effect happening and the companies are starting to prepare in advance.

Peter: If we are looking at larger companies within the EU, certain retailers will be forwarding in this category and then cascade the requirements down to other members of the value chain.

Kelli: Yes, I think it is a matter of when, not if. It is hard to say if it is going to look very different from what it looks like now, regarding social audits or environmental assessments and how it is going to affect the suppliers. Our company has been very considerate and vocal around the two legislative bodies in Europe about how it is going to affect smaller suppliers.

Peter: Are you getting any reasonable response for that?

Kelli: They made some really good progress, and the updated text reflects that but of course it is not enough.

Parkhi: Valentina mentioned that the EU forced labour ban will not be based on geographical areas, so what will it be based on then?

Kelli: They are trying to learn on the US mistakes with the UFLPA and they listed a couple of different ways in which they can receive intelligence that a product was made using forced labour. For example, it can be a public submission to the government. They also have a knowledge database of the industry-specific forced labour risks and other types of intelligence. They are not very clear on that but hopefully it will be clarified if it becomes legislation. They are also required to provide guidance to inform companies on how to prevent forced labour in their supply chains.

Parkhi: The directive will affect both EU and non-EU companies; how is it defined? By the area of operation?

Kelli: In general, by the area of headquarters, but it is pertaining to goods that are either being made in the EU, imported to the EU, or exported from the EU.

Terry: how the EU is going to handle e-commerce, which is now about 40% of the world apparel sales?

Kelli: I am not sure; it is also one of the concerns from our side, because they do not have any specific body or department to enforce this type of regulation.

14. The Chair informed that the next meeting is going to take place in several weeks, thanked everyone and closed the meeting.