



**6th MEETING OF THE
PSAC PRODUCERS COMMITTEE
Tuesday, July 23, 2024
8:00 am, Washington DC**

Minutes

The PSAC members who attended the meeting: Terry Townsend, Haroldo Cunha, Francisco Ferreira dos Santos, Peter Wakefield, Alexandra Perschau, Lisa Ventura, Dr Javed Hassan, Elke Hortmeyer, Khaled Schuman

Observers/Presenters: Gaurav Agarwal, David Kam

The ICAC Secretariat staff who attended the meeting:
Parkhi Vats, Eric Trachtenberg

Meeting video: <https://youtu.be/9eN64hAIx64>

Presentation by Gaurav Agarwal, Aditya Birla Group: <https://youtu.be/aoyIylaYAGc>

Presentation by David Kam, Trans Pacific Textile: <https://youtu.be/wBgwUHF5-k>

The Chair started the meeting and reminded the Committee about PSAC goals for 2024.

Presentation by Eric Trachtenberg on the EU regulatory landscape

Terry: I would like to add that in addition to financial support, there's also just membership in "Make the label count". It is free, and the broader the membership base, the more credibility "Make the label count" has. PSAC members can also urge the organizations they represent to join. Currently, there are six cotton organizations.

Francisco: Regarding telling the same story, I think it will be very helpful if we could have something like a fact sheet, something very practical that we can use to align the same ideas and concepts, but also to share in the communities.

Regarding the regulations, it is very technical, and I think it would be very helpful to the Producers group, if we could have something that would assist us in translating that into practical terms. What in practical terms, will be the impact for producers? What should we be doing to prepare ourselves? My third question is about understanding the driver behind man-made fibers. Cotton is not a threat. We are more expensive. Is there something against cotton, or is it something that tends to facilitate the man-made fibers? And if yes, why? Is it the retail agenda?



Eric: The regulators in the EU realize the challenge of doing life cycle assessments for mine versus agriculture products. And as per the ISO standard, you're not supposed to use LCA in that way.

The PEF has its roots in the Higg index. If you look at the composition of the technical Secretariat, they have voting and non-voting members, and being a voting member costs upwards of \$150,000. The international wool trade organization was in, but then they couldn't afford it, so they dropped out from voting to non-voting members.

Cotton Incorporated has been fighting, but they get out-voted. You also don't see a lot of environmental civil society groups voting. The process and the technical secretariat are really dominated by companies that support synthetics because they're cheaper. In the end of the day, synthetics are cheaper, you can get a bigger margin. It is driven by a lot of economics.

The environmental case is very strong, and this is one of the reasons why the ICAC has been very focused on building connections with environmental groups and trying to make the case based on science that cotton is positive for the environment in many dimensions. If we're successful in that, then we can even start pushing back on market share issues and because this is good for the planet.

Beyond all the new Green Deal issues, Europe has also signed on to livelihoods. It matters to them, and they're focused on it as part of their mandate, but also, they see it from a national security point of view. When you have extreme poverty just one continent away, it results in instability, migration, which is a sensitive issue in the EU.

Francisco: Do you think that retailers and brands are convinced that cotton is more sustainable than synthetic fibers?

Eric: They vary a lot.

Lisa: There is a bit of a shortcut for retail and brands. Synthetic fibers are easier to trace, to monitor, to understand the risk. I see it more as a way to cut themselves from any kind of possible liability. Cotton is a complex supply chain. It might not be necessarily intentional, but they are also bombarded with the legislation they need to comply with.

Eric: There is also price volatility, and difference in quality. Yes, it's agriculture, and it's always complicated, but there are positive things, so we are trying to put that positive side on the scale.

Terry: I'd like to raise the issue of the World Trade Organization and how the PSAC can funnel into that process. Europe consumes about 5 million tons of cotton a year at the retail level, and the ultimate impact of all these 16 regulations that Eric summarized is to affect trade in cotton. Something that the PSAC can do through the report that Peter will be giving at the Plenary Meeting is to urge members of ICAC to communicate through channels to their delegates in Geneva at the WTO, to raise awareness at how these trade distorting measures can negatively impact cotton producing countries. There's a lot of research in this, and "Make the label count" can supply documentation, but something the PSAC can do is reporting to member governments of ICAC, so they raise these issues in the WTO. The EU does listen to the WTO, and there is a subcommittee on cotton.



Eric: If you look at the WTO agreement on technical barriers to trade, these regulations appear to be contrary. According to TBT agreement, there are certain things, and certain tests that must apply, and it must be done in the least trade restrictive way possible. When a country's actions basically undermine market access rights as agreed to through the WTO, this is where they can raise an issue. How can we emphasize the importance of cotton as a natural fiber, so it remains competitive? This really goes back to telling our story. If you destroy a market for really poor people, you make them much poorer. And extreme poverty tends to make extremism worse.

Another thing we're doing is the cotton innovation platform. We want to get the new technologies out there so that cotton can be competitive in new ways. And if we can make cotton more competitive in new ways, then it can help us gain market share.

Second question was decreasing cotton prices and input costs. In terms of shifting to alternate crops, I think cotton will always compete with other crops, except in some places, for instance, in Texas, there's less competition. In Brazil it's grown in complementary way to soybeans. The main thing we can do is to improve returns, and ICAC projects in Africa proved we can do that.

Another ambitious thing we're doing, is trying to look at how to set up a payment for ecosystem services. Given the high-quality carbon credits that could be generated from cotton production, we want to create a system where cotton farmers, especially small holders, are paid for carbon credits.

Haroldo: We should have more concrete information regarding the legislation in the EU, because we need to know the real situation. Something simple, that tells exactly what is going on, what is the impact of the legislation, and how to engage these organizations. For instance, are the US and the NCC involved? If we have some individual initiatives not organized as a unique strategy, I think it's not going to work. And it's something urgent in terms of legislation. If the legislation is not favorable to cotton, what would be the impact for cotton producing countries?

Eric: I think everyone should sign up for "Make the label count", because they have the timeliest information. The US have been working with Hill and Knowlton. The NCC and US cotton trust protocol are funding them. At ICAC, we are going to put together our strategy very quickly. We want to tell the story about how cotton changes lives.

Elke: It would be very interesting and important if ICAC could develop something about the impact of the current governmental plans and show it to the regulators.

Eric: That's a good suggestion, and we will think about that.

Francisco: And regarding the fact sheet and the story, that would also be great.

Eric: I know "Make the label count" has a lot of material, but we also need to think about this.

Terry: The EU responds particularly well to objective, empirical information. ICAC can calculate net domestic consumption of fiber by country. The ICAC also has a model that estimates changes in the Cotlook A index based on shifts in ratios of stocks to use. If the cumulative result of the EU regulation



is to reduce consumption of cotton in the EU by 20%, which is very a modest impact given the extensive nature in these regulations, that would be a million tons a year. And what would be the impact on cotton prices? That ripples through economies and incomes for farmers around the world. ICAC, by providing information about potential impacts, can focus minds in the EU.

Presentation by Gaurav Agarwal, Aditya Birla Group

Parkhi: Do you face any challenges with the EU regulations currently in terms of proving traceability or sustainability of your product?

Gaurav: We are preparing for the regulations on green washing, because this has come up recently. This is impacting us directly. Second is the EU deforestation regulation, which is directly impacting us, because though the overall share of MMCF with respect to forestry industry is very small, however, the requirements are huge. There are challenges, because the requirements for geo-locations, etc., are not very clear.

Peter: How do you get around audit fatigue and who's paying the costs of these audits? How does that get covered into your product costings?

Gaurav: Audits have already been part of our systems for a long time. Some of these costs are already built in. If somebody asks us to go through a particular audit, they must bear the cost. Some fashion brands have started this for themselves, and they are bearing the cost.

Francisco: How do you see the cotton industry in the coming years, and what would be your advice towards being kind of competitors?

Gaurav: People usually see MMCF and cotton as competitors. However, I disagree. Because MMCF are hardly 5% and cotton is taking a shape. The challenge for cotton is that it has been stagnant for decades. The yields vary from region to region. I am based in India, and we see a lot of challenges. Increasing yields would be helpful. Second issue is with the cotton production system, a lot of water being used because the farmers are aware about the best practices.

Terry: First, a comment about water. This is an example of the tropes about cotton that we must combat.

A specific question: does Birla have lobbyists in Brussels? Are you working directly with the Commission to affect these regulations, and if so, perhaps there's scope for collaboration on some of these issues, because the real competition is polyester, not the cellulosic fibers.

Gaurav: We are not directly engaged, but we work with many organizations in this industry. The real challenge is increased costs for producers. We are trying to put some messages through our stakeholder.



Parkhi: There are multiple certifications for both sustainability and traceability, which would require financing. The final product includes the cost of certification, training and the cost of traceability. Does the price of the final product change when these costs are included? The second question is: most of these initiatives were initiated by your company at least a decade ago. What initiated these kinds of certification process on your end?

Gaurav: First, once the cost of certifications is already included in the product, this is more of a hygiene. Around decade ago, things started moving first on the forestry side. There are challenges and alleviations that could be seen as reputational risk. And we all know that forests are important, both from the biodiversity and climate change points of view. Then we started exploring certificates like FSC. FSC is one of the most recognized certificates globally for forestry. We have done it for all the sites, which gives you traceability to the entire production chain. There are some certifications which we have been doing for 15 to 20 years now. Regarding the cost, it is not very impactful, because it has been built over the years, and it has become a hygiene thing.

The triggers were different: sometimes it was required by brands or multi-stakeholder organizations. These things have become a regular activity for us.

Parkhi: I will circulate the second presentation. If you have any comments or questions on it, you can send them to me.

Peter: This year we need to make the Plenary statement a little bit more concise.

Parkhi: We need to set up our objective for next year. If you have a pressing issue that you want the entire PSAC to work on, it will be a good time to send us that as well.

The Chair asked to share with the PSAC members the list of past topics, thanked everyone and closed the meeting.