



**5th MEETING OF
THE MERCHANTS COMMITTEE
Thursday, 7 September 2023
8 am Washington, DC time**

Minutes

The ICAC Secretariat staff who attended the meeting:

Parkhi Vats, Eric Trachtenberg, Mike McCue, Maria Borisova

The PSAC members who attended the meeting: Salman Ispahani, Mark Messura, Dr Javed Hassan, John King, Peter Wakefield, Amy Bain, Cliff White, Massimo Morpurgo, Amy Bain, Eimear McDonagh

Observers/presenters: Jacky Broomhead

Meeting recording:

Presentation by Alia Malik, Better Cotton Initiative

- 1. The Chair welcomed everyone and started the meeting.**
- The Chair introduced new members of PSAC: Canadian Apparel Federation as an observer, and three new members – The Yield Initiative from Nigeria, The Eastern Southern Cotton Organisation from Zambia, The African Chamber of Trade and Commerce.
- The Chair reminded about traceability, the PSAC main topic for the upcoming ICAC Plenary Meeting, previous presentations, and the next steps of the Final Statement preparation.
- The Committee members introduced themselves.
- 5. Presentation by Alia Malik, Better Cotton Initiative.**
- 6. Q&A with Jacky.**

Cliff: from a merchant's point of view, traceability from a farmer is relatively easy. We can track that bale to the spinning mill but where it is really becoming complicated is at the spinning level. What control can Better Cotton have at a spinning mill? You have to rely on spinner's words about where exactly which bale went. Are you looking at how you can verify the spinning process?

Jacky: We are not just launching a digital platform for traceability; the solution includes quite comprehensive auditing and monitoring on- and off-site, the supply chain will be subject to third-party audits, and we request documentation for all the traceable transactions. We are also doing a screening of suppliers before accepting them to the programme. And we are



currently working on two things: 1) A standardised method of bale tagging — in the future we will ask the spinners to include bale ID — and 2) the use of additive of physical traces. We have some pilot projects around that (isotope testing etc.) This will add an extra level of credibility to ensure that what is being documented is what is happening on the ground.

Cliff: This is a good point. We are getting requests from our grower body Cotton Australia whether we shipped certain bales, and we can answer that question, but we don't know what happens to those bales once they get to the spinner.

Jacky: We had a conversation with the entire supply chain and every group reports that they have no clarity about what happened at the previous point or what happens at the next stage. People know perfectly what happens at their facility, but this information is not necessarily shared outside. Introducing traceability means adding transparency to this information and building credibility around it.

Mark Messura: Do you anticipate that this is going to create some conflict with the mass balance approach? If I understood correctly, there will be the mass balance option along with the traceability. How do you see them interacting? Will it create a problem with mass balance?

Jacky: We don't see it creating a problem because there is demand for both. There are a lot of retailers demanding traceability and there are retailers who don't need it yet; mass balance contributes to sustainable sourcing targets for some retailers and brands.

Peter: You mentioned you will be paying farmers but what exactly for?

Jacky: There are lots of opportunities and we would like to explore any of those leading to more income for farmers. There are options to pay farmers for their data, options of price premiums for cotton, there is option to introduce different credit trading systems, reward farmers for better socio-environmental practices. But first of all, we need to have a traceability system in place to know the product origins, so, we know who we are working with and where to drive benefits.

Salman Ispahani: We find that buyers are not willing to pay the premium for Better Cotton while spinners are happy to use that. Traceability will obviously include some additional costs; how do we pass it down the line?

Jacky: Better Cotton is not involved in market pricing. From the conversations we had I can say there is an understanding that traceability requires more work, and it will be more expensive than mass balance Better Cotton or conventional cotton. But in terms of pricing discussions, that's between buyers and suppliers.

Salman Ispahani: Do you anticipate losing some volume because of that? Why would we want to pay a premium and not get compensated?

Jacky: There is a thing we are going to introduce in the chain of custody standard – an option to downgrade traceable cotton to mass balance cotton. So, if you as a spinner have a certain volume of Better Cotton that you cannot sell, you can transfer it to mass balance. We don't necessarily know that it will be used, because demand for traceable Better Cotton is very high. We cannot be involved in the price discussion, but we are doing as much as possible to make it easier and less expensive for suppliers. The system is run as non-profit; we are not looking



to generate significant margins. To stimulate requirements for suppliers is very closely aligned with the requirements of the stimuli organisations: We benchmarked our standards against Textile Exchange, etc. We have done our best to reduce costs: We do not require annual third-party audits for suppliers that have to be paid for by themselves; we have a three-year assessment cycle. Your risk category will depend on whether you need a third party. In a series of pilot projects, we saw price increasing somewhere but not everywhere, mostly in more commercial markets. In all instances where it happened, the buyer and the supplier were able to reach agreements.

Eimear: The traceable system as opposed to mass balance, are you going to implement isotope testing?

Jacky: We are investigating isotope testing. But if we are going to use it, it will be a risk-based approach and not everywhere across the board, because it is very expensive.

Eimear: That was my thinking too. Unless it is required by law.

Jacky: I don't think the technology is quite there yet. It takes months to get the test results and I don't think consumers will cover incurred costs. Also, doing isotope testing for all your products suggests that you have a highly problematic supply chain.

Dr Javed Hassan: 1) Will this work for conventional cotton or only for BCI cotton? 2) If we look at countries like Pakistan and India, cotton does not go from farmers to ginner directly, it goes through the market first. How is this managed in your traceability model?

Jacky: 1) It is only for BCI cotton at the moment, but we will introduce 'controlled blending', which means you could mix Better Cotton with conventional cotton at the spinner stage. But we will only trace this conventional cotton from the point it enters our system, not prior to blending. We are in discussions with our benchmark partners to be able to trace their cotton; and we are looking for potential ways to track recycled cotton or other types of sustainable fibres. 2) All the ginner are screened prior to being accepted to the programme. If there are any concerns about the sources of their cotton or their ability to segregate, they will not be allowed to the programme. Also, we ask for evidence of where this cotton came from, especially when there are middle players between farmer and ginner, and we would be doing additional checks. But in the long term, we are looking to include farmers to the system as well.

Mark Messura: What is the indented level of granularity in the traceability reporting? Is it to go by 2025 to be able to trace origins, or is the intention to be able to say that it came from this particular region or even farmer? What is the long-term plan?

Jacky: When we go live in November, we will be able to provide traceability down to country level. Also, as a retailer, you will be able to see the route to market: manufacturer or fabric mill, spinner, trader, etc. By 2025, we want to get down to region and post-2030, we want to get to the farm level. In case of smallholder farms, it is quite challenging.

7. Cliff: The biggest issue is that buyers' and growers' challenges are very different, and it is very difficult to have a system that's applicable to everything.



Eric: I have seen some processes in other commodities and similar questions arise: Who is going to pay for that? Also, if there is not going to be a market premium, how is it going to be sustained? The other thing is this idea of market access — basically a social license to sell a product. And the third issue is that major exporters and traders want to get their market share back from synthetics, so from the ICAC perspective, we can think about how cotton can be sustainable.

Cliff: The issue of cost is on the producer, to a lesser degree on the merchant, then on the spinner, but I don't see it coming back. That's the biggest challenge that I see. They want everything but don't want to pay for it.

Salman Ispahani: At the moment, they sometimes do pay small premiums for certification because of the market access. But most of them do not want to pay so it is us who is going to absorb these costs.

Eimear: We can't rely on opportunities where brands tell us that it is market access that is actually driving that demand for traceability/sustainable cotton. The real risk here is that it's depending on the assessment of the fibre. If the man-made fibre looks like it is more sustainable and easier to trace, we lose market share. There's obviously a cost of everything we do, so retailers have to find a way to pay for this sustainability.

Mark Messura: I don't think people understand how the cost of traceability, driven by retailers and brands, imposes on farmers and ginners. But the regulations are going to drive that; the retailers and brands will have to comply, so they are looking for solutions. And these solutions come at a cost and that's what needs to be understood. This is where I see the ICAC and PSAC in terms of identifying what are the key policy issues are. I don't see how these solutions will benefit the producers. That's why they went to mass balance system: They could not sell more expensive Better Cotton. With regard to the issue of competing with synthetics, on the traceability level, cotton is severely disadvantaged because the cotton supply chain is much more complex. If you look at things like isotope testing where US is investing money, there are technical limitations to it, and it is extremely expensive. So, it can't be an across-the-board technology — you might use it in case of problems. My takeaway from the conversation is, price is an issue and if retailers are forced to do this because of regulations, it doesn't take away the question of who's paying for it. That is a threat to cotton use and cotton share. And I would look at it from the ICAC perspective: how traceability could negatively affect the producing and merchandising of cotton.

Eric: This is one of the important questions to me: How we protect cotton market share, grow it, etc.

Peter: The ICAC is in the prime position to tell that, because governments implementing regulations might not understand these consequences. It's these messages that we need to convey very precisely. Better Cotton has very clear goals on their timeline; is it something we want to try to tell the governments about setting targets? These solutions are all coming up with something different. Should we say something like, 'Try getting some sort of standardisation'?



Cliff: I don't think so. It is a commercial position. I think it is more about what we were touching on with governments: with what you are introducing, the cost and the implications to the industry are significant. We need to be able to clearly illustrate to the governments the consequences of what they are doing.

Eimear: I think the bigger issue is that we are going to look at the lower level of traceability, to the region and to the farm, we will end up with the same discussion about what is sustainable cotton. What is the measure of sustainability to get approval? If there is no standardised sustainability measure across the board, that's another problem.

Mark Messura: That's the part of the problem, from the meetings with retailers and brands I know: Some of them don't want to source cotton from farms that use irrigation. That is why I asked how granular they want to be, and I think there should be some kind of pushback. Because getting traceability to individual farms means you will be able to choose one farmer over another and that is an absurd level of precision, and the cost of this information and compliance is too high for cotton. This group might consider two things: 1) The ultimate level of granularity probably needs to be national, because countries can set sustainability goals and define things differently. But if regulations move on to require identifying source at a farm level, it is going to impose impractical requirements on the industry. 2) I don't think this cost issue will benefit most of the world's cotton farms. And though Better Cotton focuses on smallholder farmers, they are going to be the ones who are going to be hurt the most by this. And if retailers and brands are not going to pay for this, someone is. And maybe it is going to be the farmers ultimately. I think this is another argument that could get the attention of policy makers.

Cliff: I agree with you on the granularity side, but the reality is that we are already at that point. I can't see how it can be put back; I think it is just going to increase.

Mark Messura: Part of the problem is that countries like US and Australia have done a very good job providing very detailed information, and retailers and brands expect the same level from every cotton-growing country, but that's not true. Here we have to manage expectations. Regarding granularity, we are constantly educating retailers and brands that it is not always practical and possible to go to this level.

Salman Ispahani: Are you saying that BC certification is more worth at some places than at the others? Or the BC from one place is better itself than from another?

Mark Messura: BC is a subjective standard that looks for improvement — but what it defines as improvement varies from country to country and from region to region. And they are not public about it as well. The standards for the US cotton farmer to be qualified for Better Cotton may be very different from those for a farmer in Mali, Pakistan, Brazil, or Australia. BC doesn't really reveal those comparisons. They are looking for improvement plans for farmers, but these plans are not objective; they are not the same — they are case-by-case. And I don't say it is a problem, it is good, but there was also a debate about the misleading labelling.

Eimear: I think this is why there is a conflict: Helping smallholder farmers with technologies and plans is very different from a large farm in Australia. And BC is also 20% of the global



cotton market. And they are trying to appeal to retailers. We are supposed to be looking at 100% of the cotton production and how it is being taken care of from an intergovernmental point of view; so, national standards would be a really great help. This way you can measure improvement on a national level and there is some barrier to drilling down to individual farms.

Salman Ispahani: So, I wish I could understand it better, how this 20% are all BC and within that some cotton is still better than the other.

Cliff: It is confusing, and Australia is a great example. Not even 50% of our cotton is BCI. Our grower association set a higher level for Better Cotton; that's why we don't get participation.

8. The Chair thanked everyone and closed the meeting.