

**Minutes of the Second Working Meeting of the Team of Specialists on ESG  
Traceability of Sustainable Value Chains in the Circular Economy**

27 March 2023 – 14:00-15:30 CEST (Virtual via Webex)

**OPENING AND WELCOME REMARKS - 14.00-14.05**

The Vice-Chair of the ToS, and Executive Director, IISD Europe; Senior Director, Economic Law & Policy, **Natalie Bernasconi** welcomed participants, and mentioned about the previous ToS meetings held in October and in December. The ToS had agreed to concentrate on

- i) Policies, legislative frameworks and institutional arrangements for ESG monitoring and reporting, and on
- ii) Transformative pathways to sustainability: corporate strategies and actions, which requires focus on three substantive areas, as follows:
  - Finalizing the policy paper “Improving traceability of products along international value chains for circular economy and sustainable use of natural resources” in view of the 70th session of the Economic Commission for Europe in April 2023
  - Supporting the implementation of the ESG traceability
  - Identifying the key possible elements of a protocol to promote ESG monitoring and reporting in value chains across different key sectors, which is the focus of the second working meeting.

A protocol that considers the environmental, social, and governance (ESG) factors in value chains offers significant benefits to businesses and countries. The ESG factors cover a range of issues that can affect the performance and reputation of a business, including environmental impacts, labour standards, human rights, and anti-corruption practices. Moreover, developing a monitoring and reporting protocol demonstrates the user's commitment to sustainable development, transparency, and accountability.

**UPDATES ON THE TOS ACTIVITIES SINCE DECEMBER 2022 - 14.05-14.20**

The secretary of the Team of Specialists on ESG Traceability, **Maria Teresa Pisani**, provided a few updates regarding four different workstreams implemented by the UNECE:

First, the **blockchain pilots for traceability and transparency in the textile and leather sector**, implemented under the global framework initiative, funded by the European Union (EU), reached 18 use cases, for traceability of origin and ESG performance, in cotton, leather, wool value chains. It involves more than 85 companies and stakeholders, across 22 countries (Europe, Central Asia, North/South Americas, Africa). In addition to blockchain, physical markers, new use cases are now exploring new technologies, such as Satellite imagery, environmental DNA, isotope testing, to prove sustainability credentials. More details were provided regarding the cotton regenerative cotton, blended wool and lyocell dress, Uzbek-Better Cotton licensed use cases. The draft report on the blockchain pilots published in November 2022, is available at: [https://unece.org/sites/default/files/2022-10/ECE TRADE C CEFAC T 2022\\_9E.pdf](https://unece.org/sites/default/files/2022-10/ECE_TRADE_C_CEFAC T 2022_9E.pdf)

Secondly, the **Policy paper on Enhancing traceability of products along international value chains for the circular economy and sustainable use of resources**, reviews the state of play of traceability and transparency approaches in three economic sectors which are critical for the circular transition in the UNECE region: the agri-food, garment and footwear and mineral sector. Moreover, it provides an overview of the challenges and opportunities for advancing the circular economy and highlights successful practices from the whole region. Lastly, it provides policy recommendations to leverage traceability and transparency for the circular economy, especially the need to look at market drivers and the sector; tailor policies and adopt global traceability standards and frameworks; engage industry stakeholders and for the whole value chain; define national strategies and roadmaps; create an effective and efficient system of incentives; promote innovation and R&D; raise consumers' awareness and education, provide information and support to MSMEs; support national, globally connected, trading platforms. The Policy Paper is available at: [https://unece.org/sites/default/files/2022-10/ECE\\_TRADE\\_C\\_CEFAC\\_2022\\_8E.pdf](https://unece.org/sites/default/files/2022-10/ECE_TRADE_C_CEFAC_2022_8E.pdf)

Thirdly, UNECE is working on a **study**, jointly with UN-ECLAC, on **second-hand clothing trade, imports and disposal in the Latin American region**. The study will include a comparative analysis of existing trade, environmental and local legislation in Chile and other Pacific Alliance countries with regards to the import, handling, disposal and recycling of waste in the country, as well as gaps and shortcomings in the implementation of existing legislation, with a focus on the main import hubs in Chile. The study will also capture global trade flows of used textiles and analyses the business models and trade flows on the disposal, collection, sorting and export of used textile originating from Europe. Lastly, the study will make policy recommendation for the government of Chile and is expected to be presented in Santiago to an audience composed of government, business and civil society members.

Lastly, the **Product Circularity Data Project**, was initiated by the UNECE Team of Specialists in January 2023, to better support product circularity. It aims to update the Textile and Leather Business Requirement Specification (BRS) part 2 with an additional use case and data structure to cover the reusing and recycling stages of the value chains, through a digital representation and exchange of circular product and material data. It will provide brands, recyclers, resellers and other stakeholders with a clear understanding of the business processes and information that is needed to electronically exchange data relayed to circular-economy business models. Development will take the European Digital Product Passport (DPP) data points as an important contribution and provides a basis for existing and future domains of work. It is expected that there will be quite some work to align the DPP preliminary list of attributes with the UN Core Component Library (UNCCL). The Product Circularity Data standard will be published by May 2024. The project webpage is accessible at: <https://uncefact.unece.org/display/uncefactpublic/EXTENSION+TEXTILE+AND+LEATHER+BRS+PART+2%3A+Use+case+and+CCBDA+data+structure+supporting+product+circularity>

## **POLICIES, LEGISLATIVE FRAMEWORKS AND INSTITUTIONAL ARRANGEMENTS FOR ESG MONITORING AND REPORTING - 14.20-15.00**

Moderated by the ToS Vice Chair, Nathalie Bernasconi, this session on Policies, Legislative Frameworks and Institutional Arrangements for ESG Monitoring and Reporting, delved into sector-specific presentations.

The first panelist, **Koen Deconinck, Economist and Policy Analyst** at the **OECD**, presented ongoing work on making better policies for food systems, looking at the linkage between agriculture and environmental impacts. Evidence shows that food systems entail substantial environmental impacts (e.g. land use, deforestation, biodiversity loss, water use, water pollution, global warming). Field-to-shelf traceability played an instrumental role to measure and reduce environmental impacts and GHG emissions during land use change and agricultural production. Life-cycle assessment evidence also demonstrates that impacts differ depending on product types (e.g. beef has a worse environmental impact than poultry). Gathering knowledge about environmental impacts at product level is key and requires traceability along the food systems' value chains. Some key evidence-based trends underscore that, first, firms are increasingly disclosing environmental impact information with a growth of 42 per cent between 2003-2022 (source Carbon Disclosure Project (CDP) mainly from Scope 1 and moving towards Scope 2 and Scope 3 emissions). It seems that like for textiles, the most important environmental impacts occur upstream in the value chain, at land use and farm stages, whereby traceability is needed to understand the provenance and sustainability performance of food products. Second, there is a growing emphasis on measuring and communicating carbon footprint in food systems, with a substantial number of initiatives, whereby there is a risk of fragmentation and an opportunity for coordination. The OECD will focus its work in 2023 and 2024 on carbon footprint measurement in food systems (e.g. existing methodologies, gaps, scope for harmonization), on carbon footprint information sharing along the value chain (e.g. transaction costs reduction), and on communication to consumers (e.g. behavioral changes, labels effectiveness). Mr. Deconinck called out for experts' interest and announced the upcoming OECD paper '*Fast and furious: the rise of environmental impact reporting in food systems*' which will be published in the course of summer 2023. The presentation delivered is available [here](#).

Building upon the Roadmap for transparency and traceability in global textile value chains, which was shared with all participants ahead of the meeting, the second panelist, **Christian Hudson, European Union G7 G20 Environmental Diplomacy Support** at **GIZ**, presented the results from a stakeholder discussion conducted between January to February 2023. The roadmap acknowledges that challenges for textile products are linked to social and environmental impacts in global value chains, at the manufacturing, use and end-of-life phase. Building upon the previous presentation, more precise data is needed at product level regarding sustainability performance. Traceability and transparency in textile value chains are driven by an accelerating policy and regulatory framework at the EU level, especially with the EU strategy for sustainable and circular textiles, although impactful action shall be global. Institutions and policymakers have a key role to play to provide global information, the necessary guidance, infrastructures and protocols, to support good quality data flows in supply chains, considering the issues of transaction cost reduction, trust, cost for small and medium sized companies (SMEs), while considering the breadth of the ecosystem of actors<sup>1</sup> involved.

Leading stakeholders in the space of traceability and transparency engaged in the consultation identified five areas of action to improve social and environmental product data flows: first is

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<sup>1</sup> The reference of the ecosystem is the UNECE Mapping of Garment and Footwear Sector Ecosystem (2021) accessible at: [https://unece.org/sites/default/files/2021-05/Ecosystem\\_report-April2021.pdf](https://unece.org/sites/default/files/2021-05/Ecosystem_report-April2021.pdf)

traceability as a foundational step, two is a technological data infrastructure, three is a harmonized data model, four is incentive structures, five is a governance framework. Incentive and governance structures have been particularly identified as the largest gaps. There has been little work on how to incentivize manufacturers and suppliers to measure and provide quality and reliable data. As for the governance framework, it will be key to create trust among all players and support decision-making. While several initiatives are underway, there is a risk of fragmentation by sector and by product type, and consequently the need for a collaborative framework. The roadmap provides a basis for discussions, which are also relevant to other sectors, like agri-food, and the required steps to define incentive and governance structures. The **proof-of-concept Open Banking UK** proved to be a successful example of collaboration for data sharing based on incentive and governance structures. With 2 million consumers in the United Kingdom (UK), it has spread to over 20 countries globally and enables data sharing between bank accounts to create a market of banking services and offers for customers, while ensuring competition. The PoC Open Banking is now replicated in the energy market in the UK. The presentation delivered is available [here](#).

The last panelist, **Nancy Norris, Senior Director – ESG & Digital Trust** at the **British Columbia (B.C.), Ministry of Energy, Mines and Low Carbon Innovation** presented the pilot project ‘Energy & Mines digital trust’, implemented since 2021, with the aim to experiment the digital identity technology to effectively share sustainability performance-related data through digital credentials (e.g. between a natural gas operator, or a mine). It builds upon digital credentials technology, that uses verified credentials and decentralized data identifiers in a permissioned and open ledger. The credentials of B.C. were anchored in existing regulatory processes. One key challenge is that while information moves, it moves away from the source of trust. It was critical to allow the operator to share trusted information, while providing another level of transparency recorded in a ledger. The pilot was developed considering the need of operators in B.C. to increasingly substantiate sustainability claims in their operations, through an efficient information exchange system. The participants acknowledged the benefits of such system, in terms of increased data trust and accuracy. Due to prevalent greenwashing issues, proving sustainability credentials through trusted reporting is a substantial benefit. Another lesson drawn from the pilot is that, having a sub-national government as issuer of the credential enabled to anchor an additional layer of validity on the information and on the governance of the pilot. Building upon the issue of interoperability, another lesson learned is isolated and siloed initiatives. The pilot leveraged had participants using interoperable technology to send and receive digital credentials. Overall, it led B.C. to identify opportunities in terms of cross-border trade (especially having B.C. as a trusted anchor), supply chain traceability (at organizational level while the product level is the next objective), net zero and ESG reporting enabling for companies. In 2023, the completed pilots will be launched in production, and B.C. aims to focus on critical minerals and to collaborate closely with UN/CEFACT to ensure alignment with international standards. The presentation delivered is available [here](#).

In reaction to the presentation, experts in the chat mentioned about the existence of ESG data standards and the lack of incentives for data providers, such as farmers. The issue of diverged methodologies was also mentioned, regarding for instance GHG emissions measurement in life-cycle assessment in/outputs models, which do not work in agriculture, and are expensive for poor

farmers in developing countries. The newly published EU Critical Raw Materials Regulation<sup>2</sup> on 16 March 2023 was also mentioned. The Swedish School of Textiles located in the University of Borås also mentioned about the consortium-based project they are leading, on developing a decision support system tool for textile recycling value chains, and possible synergies with UNECE-UN/CEFACT Product Circularity Data project. The World Business Council Forum for Sustainable Development (WBCSD) also shared about their Partnership for Carbon Transparency (PACT)<sup>3</sup> supporting value chain Scope 3 data transparency through a carbon accounting and data exchange methodologies. The International Institute for Sustainable Development (IISD) mentioned about the small pilot<sup>4</sup> conducted jointly with the Swedish retailer Kappahl on mapping the value chain of four products to identify suppliers, connect with cotton farmers and collect product sustainability information. Some of the key findings and successful factors drawn from the pilot are the need for engagement, collaboration with suppliers and trust building. Experts also emphasized the challenge of identifying impacts at product level and at facility level, which eventually leads to misleading impression on life-cycle assessment preciseness. Lastly, participation in the OECD Food Chain Analysis network is through designated experts by OECD countries' delegates and external speakers can be invited to contribute.

#### **FOCUSED INTERACTIVE DISCUSSION 15.00-15:30**

Moderated by the Vice-Chair of the ToS, Harm Jan van Burg, Senior Policy Advisor on International Standards, OASIS, the group tackled two questions as follows:

- 1) How to optimize financial and non-financial incentives for data access and sharing for traceability and transparency?
- 2) What are the best practices and examples of successful collaboration to create trust for data access?

Experts were invited to provide written inputs directly in the poll functionality of Webex. The results of the poll to the question 1 are featured below:

#### **How to optimize financial and non-financial incentives for data access and sharing for traceability and transparency**

- Treating carbon like money<sup>5</sup>
- Strengthening support and business development services that focus on the value proposal of traceability and transparency and connect that with a real business strategy
- Enhancing privacy and transparency in supply chains enabled through blockchain
- Pursuing mutual recognition where harmonization is not possible
- Implementing open and closed architecture for blockchain traceability, open for EFT backed by commodity to trade and closed for ESG credentials for supply chain tracking and they are harmonized
- Standardizing terminology and standards at international level and set up an international body to coordinate.

<sup>2</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_1661](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1661)

<sup>3</sup> <https://www.youtube.com/watch?v=9e45s7-CeaY>

<sup>4</sup> <https://www.iisd.org/ssi/publications/improving-visibility-cotton-supply-chains-transparency/>

<sup>5</sup> <https://www.carbon-transparency.com/media/lnbnkowi/towards-real-carbon-accounting.pdf>



- Establishing preferred contracts and price premium for companies/products that can prove their sustainable performance
- Understanding the benefits of traceability, defining the indicators to be measured and datasets to be used
- Setting systems for sharing value from other people's further use/repackaging of primary data
- Having digital tools, clear KPIs and metrics
- Standardizing the typology of the data needed
- Through regulation to push to more data access
- Setting clear definitions related to product drivers and companies' identity
- Ensuring security and incentivization
- Enhancing confidence in the supply chain and tax incentives
- Ensuring data assurance
- Supporting collaborative trust- based supply chain relationships
- Establishing clear indicators, then promote data collection
- Standardizing and fostering interoperability
- Ensuring compatibility with different data providers
- Differentiating incentives at product level and at organization level, and data collection purposes

The factors that stand-out of the survey regarding incentives optimization for data access and sharing for traceability and transparency are for instance **standardization and harmonization, regulation, interoperability, technology, market access, financial incentives, collaboration, measurement indicators.**

For question 2, experts were invited again to provide written inputs directly in the poll functionality of Webex. The results of the poll to the question 2 are featured below:

**What are the best practices and examples of successful collaboration to create trust for data access?**

- Post-manufacturing traceability service with real-time registration and browsing of key product features concerning quality, safety, conformance, authenticity, social responsibility, environmental compliance, for the whole product lifecycle, from manufacturing down to disposal or recycling
- Artificial Intelligence support is probably the only scalable model for mapping sustainability criteria across thousands of standards each with hundreds of criteria
- IISD-KappAhl pilot project on improving visibility in cotton supply chains to achieve transparency
- Highlight the differences between product-level data (e.g. LCA) and organizational-level data (e.g. CDP, GHG protocol), both usable and traceability needed, but for different use cases
- Catena-X collaborative data ecosystem for the automotive industry includes sustainable value chains principles (in Australia, electric vehicles)

- Build the trust of the actors in the need of ESG standard, traceability and transparency linked to market opportunities
- Governments as trust anchors to reduce greenwashing
- The best practices for developing countries will be the ones that are mandatory requirements
- Decentralized architectures using verifiable credentials as the inter-system framework
- Harmonized sustainability criteria vocabulary from the International Trade Centre
- Profiles on the same product data model may be a solution
- Rules and origin denominations
- EU Timber Regulation
- The diamond industry work in traceability
- Some good lessons from the International Sustainability Standards Board (ISSB) - ESG standard-setter for finance and corporate reporting to investors
- Material Database (IMDS) within the automotive sector
- Best practice: focus on interoperability between technical systems. This needs to be driven by governments
- Unilever has a program to trace all supply chain and suppliers
- Diamonds - Tracr by De Beers and collaborators with provenance verification
- Open Banking proof-of-concept (United-Kingdom)
- Sherpa System applied from Canon Global Supply chain
- The Partnership for Carbon Transparency (PACT)

The second working meeting of the ToS was attended by about 80 participants.

The third working meeting of the ToS will take place in Geneva on the **9 May 2023**, in-person at Palais des Nations in Geneva, in conjunction with the 40<sup>th</sup> UN/CEFACT Forum. Registration for the event is mandatory at this link<sup>6</sup>, as well as accreditation as UN/CEFACT expert<sup>7</sup>. The meeting page is accessible at: <https://unece.org/info/events/event/374598>.

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<sup>6</sup> <https://indico.un.org/event/1002136/>

<sup>7</sup> All participants to the UNECE Team of Specialists on ESG Traceability of Sustainable Value Chains in the Circular Economy are kindly invited to submit their application as UN/CEFACT expert to their relevant Head of Delegation at this link: <https://uncefact.unece.org/display/uncefactpublic/UNCEFACT+Expert+Registration>