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Updates from the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy

Report of the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy on its Third Session

Submitted by the secretariat for endorsement

I. Attendance

1. The Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy (ToS-ESG-SVC-CE) held its third session on 23 November 2023.
2. 90 participants from more than 20 countries attended the session, representing governments, international organizations, national development agencies, the private sector (industry associations, brands and retailers, testing, auditing and certification companies, technology solution providers), academic institutions as well as non-governmental organizations and other stakeholders (e.g. standards-setting bodies).
3. The meeting was held in a hybrid format, with participants joining either in-person at the Palais des Nations in Geneva or remotely.
4. Representatives of the following United Nation Economic Commission for Europe (ECE) member States attended: Canada, Germany, Russian Federation, and United Kingdom of Great Britain and Northern Ireland.
5. Representatives of the following international organizations attended: the European Commission, International Labour Organization (ILO), International Trade Centre (ITC), United Nations Environment Programme (UNEP), World Trade Organization (WTO) and the German Agency for International Cooperation (GIZ).
6. Representatives of the following non-governmental organizations attended: the Clean Clothes Campaign (CCC), International Institute for Sustainable Development (IISD), World Business Council for Sustainable Development (WBCSD), World Economic Forum (WEF).

II. Opening and keynotes: drivers and challenges in scaling up traceability and adoption of the agenda (agenda item 1)

7. The Chair (Mr. Christian Hudson of the German Agency for International Cooperation, GIZ) opened the third session of the ToS-ESG-SVC-CE and welcomed the experts.

8. In her opening remarks, the Director of ECE's Economic Cooperation and Trade Division, Ms. Elisabeth Türk, highlighted the increasing need for traceability systems to support verified and trusted ESG credentials for products placed on markets in critical sectors such as textiles, agrifood and minerals. The fast-changing regulatory landscape of sustainability amplifies the need for harmonization at the global level and the importance of providing capacity-building support to developing countries and countries with economies in transition. These efforts can leverage existing successful solutions that use advanced technologies, such as those already implemented under the ECE Sustainability Pledge initiative¹. The ECE Sustainability Pledge traceability toolbox (which includes recommendations, guidelines, information-exchange standards and a blockchain system) is a package that can be replicated for other critical sectors like agrifood and minerals. Improving the ESG traceability and transparency of value chains is essential to supporting responsible consumption and production (Sustainable Development Goal 12).

9. From an international trade and environment perspective, the WTO underscored the collective engagement required to trace value chains. Traceability and transparency are critical in supporting re-globalization² towards efficient, inclusive and resilient value chains. The WTO, with its Committee on Trade and Environment and its TESSD initiative³ are taking steps to explore sector-specific challenges, such as those in plastics. Such challenges require investment and capacity, that need to be provided to put in place traceability and transparency systems, particularly for upstream actors. As such, on 21 November 2023, the ECE contributed to the WTO TESSD informal working group meeting to share with members the available traceability tools that can support tackling challenges linked to value chains sustainability, and to enable more circular textile value chains.

10. The European Commission (Directorate-General for International Partnerships) noted the risk of new sustainability legislation creating trade barriers for the more vulnerable actors in global value chains. Cooperation with relevant international organizations to support compliance is key, which, in turn, can become a competitive advantage. The ECE-ITC traceability and transparency programme⁴ for the garment and footwear sector is a successful example of cooperation to advance sustainable trade globally.

11. The German Federal Ministry for Economic Affairs and Climate Action emphasized their support for effective due diligence implementation, based on international standards (i.e. United Nations Guiding Principles on Business and Human Rights; Organisation for Economic Co-operation and Development (OECD) due diligence principles) in the context of the German Act on Due Diligence in Supply Chains⁵. The combination of traceability tools and due diligence principles can help companies to find the right balance to comply. The project Catena-X is a notable example in the automotive industry.

12. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) is the parent body of the ToS-ESG-SVC-CE, which adopts the mandates and

¹ This collaboration is part of the joint ITC-ECE programme, Transparency and Traceability in the Garment and Footwear sector, funded by the European Commission, Directorate-General for International Partnerships. The project webpage is available at <https://unece.org/trade/traceability-sustainable-garment-and-footwear>.

² WTO, *World Trade Report 2023 - Re-globalization for a secure, inclusive and sustainable future*. Available at: https://www.wto.org/english/res_e/publications_e/wtr23_e.htm.

³ For more information, see the WTO Trade and Environmental Sustainability Structured Discussions (TESSD) website at: https://www.wto.org/english/news_e/archive_e/tessd_arc_e.htm.

⁴ ECE Traceability and Transparency programme website (see footnote 1).

⁵ Germany, Act on Corporate Due Diligence Obligations in Supply Chains of 16 July 2021, *Federal Law Gazette* (22 July 2021). Available at: <https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html>.

its programme of work. The ToS-ESG-SVC-CE reports on its activities on a yearly basis. The twenty-ninth UN/CEFACT Plenary⁶ expressed satisfaction with the work of the ToS-ESG-SVC-CE, recognized the importance of due diligence and verified ESG credentials in value chains of critical sectors for the digital and green transition, and endorsed the annual report of the activities of the ToS-ESG-SVC-CE for 2022-2023⁷.

13. Over the period 2022-2023, and in line with the decisions of the second session⁸ of the ToS-ESG-SVC-CE, the “*ECE Policy Paper on Accelerating the Transition Towards a Circular Economy in the ECE Region: Improving the Traceability of Products along International Value Chains*”⁹ was finalized. The ToS-ESG-SVC-CE identified the possible elements of a protocol/guideline to promote ESG monitoring and reporting in value chains across various key sectors, linking up to the *draft ECE Recommendation No. 49: Transparency at Scale*¹⁰. The implementation of ESG traceability was supported through the Sustainability Pledge call to action, which received more than 100 pledges¹¹ from more than 750 actors globally, and through the blockchain pilots for textiles and leather products¹². The ToS-ESG-SVC-CE explored fundraising opportunities through continued cooperation with the European Union (EU) to expand the traceability work to the agrifood and minerals sector. Additional documents of reference¹³ under the area of interest of the ToS-ESG-SVC-CE are available for consultation.

14. The Chair emphasized some of the key issues to be addressed: the collection of sustainability data beyond the point of sale and the ESG data volumes and quality needed to scale up transparency and traceability. The Chair acknowledged the need for global cooperation across the ecosystem of actors in value chains to enable interoperability of data access in an affordable way.

15. The third session aimed to define the format and the level of participation needed for a global collaboration to scale traceability and transparency, which will eventually deliver sustainable and inclusive growth of benefit to all.

16. The ToS-ESG-SVC-CE thanked the Vice Chairs of the Bureau for their guidance, namely:

- Mr. Harm Jan van Burg, the Netherlands; and

⁶ See ECE, twenty-ninth UN/CEFACT session (09-10 November 2023) website at: <https://unece.org/info/events/event/377991>.

⁷ ECE, “Report of the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy on its Activities in 2022-2023”, (November 2023). Accessible at: <https://unece.org/trade/documents/2023/08/session-documents/report-team-specialists-environmental-social-and>.

⁸ ECE, “Report of the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy on its Second Session” (May 2023). Available at <https://unece.org/trade/documents/reports/report-second-session-tsvce-2022>.

⁹ ECE, “Policy Paper on Accelerating the Transition Towards a Circular Economy in the ECE Region: Improving the Traceability of Products along International Value Chains”. (8 November 2023). Accessible at: <https://unece.org/trade/documents/2023/11/session-documents/ece-policy-paper-accelerating-transition-towards-circular>.

¹⁰ See ECE, “Recommendation No. 49: Transparency at Scale Terms of Reference v0.8 (3 October 2023). Accessible at : <https://unece.org/trade/documents/2023/10/working-documents/unece-recommendation-no-49-transparency-scale-tor-v08>.

¹¹ The Sustainability Pledge call to action webpage is available at <https://thesustainabilitypledge.org/joinus.html>.

¹² See ECE, “Updated Report on the Blockchain Pilots Project for the Garment and Footwear Sector: Proof of Concept Report: Harnessing the potential of blockchain technology for due diligence and sustainability in textile and leather value chains” (3 November 2023). Available at <https://unece.org/trade/documents/2023/11/session-documents/updated-report-blockchain-pilots-project-garment-and>.

¹³ The executive summary of the joint ECE and Economic Commission for Latin America and the Caribbean (ECLAC) study “Improving the Sustainability of Used Clothing: Global, European and Chilean Perspectives”, (3 November 2023) is accessible at <https://unece.org/trade/documents/2023/11/session-documents/economic-commission-europe-and-economic-commission-latin>.

- Ms. Nathalie Bernasconi, Switzerland.

17. The Chair presented the annotated provisional agenda for the third session of the ToS-ESG-SVC-CE. The ToS-ESG-SVC-CE adopted its agenda as contained in the document¹⁴.

Decision 2023-01. The Team noted the need for interoperability in information exchange in order to scale-up access to social and environmental data for sustainable, resilient and efficient value chains and meet future regulatory and market demands. In this connection the Team agreed to work on defining collective needs, identifying synergies, and aligning on transformative solutions.

Decision 2023-02. The Team took note of the *Report of the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy on its Activities in 2022-2023* (ECE/TRADE/C/CEFACT/2023/24) endorsed at the twenty-ninth UN/CEFACT session.

III. Needs for the future of ESG traceability (agenda item 2)

18. This session gathered inputs from stakeholders and technology solution providers for ESG traceability, looking into the future and assessing challenges based on current experiences. The dialogue was structured around three panels:

- Panel (a) considered what performance features are needed in systems and standards to enable transparency and traceability at scale in global markets and to meet the policy needs of brands, retailers and technology solution providers;
- Panel (b) collected information on existing initiatives related to ESG traceability, which are currently in place or being developed, to understand the level of alignment and to build synergies between initiatives to support needs that are common among stakeholders; and
- Panel (c) assessed the role of multilateral cooperation and standard setting to foster ESG traceability discussing specific examples of ECE initiatives such as the draft Recommendation No. 49, the standards of the World Wide Web Consortium (W3C) and private sector initiatives supporting all implementing actors, particularly in emerging economies.

A. Enabling transparency and traceability at scale in global markets

19. From the perspective of textile retailers, a successful ESG traceability strategy requires collaboration and joint action on multiple levels (policymakers, businesses, consumers, civil society) to drive large scale change. Some of the key challenges in scaling are the implementation of traceability of materials and fibres at the downstream part of the value chain, the lack of interoperability, and the lack of common frameworks for the identification of locations.

20. Technology plays an instrumental role in scaling traceability. Enabling interoperability across multiple systems would allow for the creation of a traceability ecosystem along the whole value chain, towards full transparency. The translation of regulatory requirements into daily garment manufacturing operations is another challenge.

21. The EU funded CIRPASS Consortium is laying the groundwork for the piloting and deployment of a digital product passport (DPP) approach in line with the EU proposal for Ecodesign for Sustainable Product Regulation (ESPR)¹⁵ with an initial focus on electronics, batteries and textile sectors. CIRPASS is taking steps to have all industries agree on an

¹⁴ Draft Agenda of the ToS-ESG-SVC-CE - Third Session 2023 (DraftAgenda-TSVCCE-ThirdSession2023). Available at: <https://unece.org/trade/documents/2023/10/agendas/draft-agenda-tsvcce-2023>.

¹⁵ The European Commission's proposal for an Ecodesign for Sustainable Products Regulation (2022) is accessible at https://environment.ec.europa.eu/publications/proposal-ecodesign-sustainable-products-regulation_en.

extensible and flexible DPP system, connecting upstream and downstream parts of the value chain. Such a DPP would be generated at the product market entry and use stage. However, it would require extensive upstream traceability and transparency data for customers and consumers to make better sourcing decisions. The information contained in the DPP will enable the disclosure of traceability information in digital formats.

22. A DPP can enhance traceability by providing a framework for standardized data formats. It can also ensure semantic interoperability, including for verified credentials, by leveraging existing information models and vocabularies like the UN/CEFACT standards¹⁶, using flexible IT systems to connect data systems.

23. From a technology solution provider’s perspective, the deployment of traceability at scale would require incentivizing market operators (regulation is one way) and establishing incentives (e.g. market access measures) for actors of all sizes along the value chain, bridging the gap between compliance and incentives.

24. Existing use cases in the cocoa sector, showcase the possibility of achieving value chain traceability using a blockchain-based solution. The Team discussed the example involving a cooperative and a French chocolate factory, incentivizing farmers to participate by reducing payment delays or setting price premiums. There are also other examples of blockchain traceability supporting ESG objectives, in particular to address child labour issues in the mica sector, which is used in cosmetics, electronics and paint¹⁷.

25. Both sectors are, or about to be, regulated through the EU Regulation on Deforestation-free Products¹⁸, the EU Corporate Sustainability Due Diligence (CSDD) Directive proposal¹⁹ and the EU Regulation proposal prohibiting products made with forced labour²⁰. Market operators seeking a competitive edge will benefit from traceability as it highlights responsible practices and provides a comparative advantage.

26. The ToS-ESG-SVC-CE emphasized the importance of semantic interoperability to connect the DPP requirements and the data in the DPP across value chains. One of the concerns raised by market operators is the gap between legislations and policies adopted within the EU market and the trade and business impacts on global value chains.

27. The ToS-ESG-SVC-CE took note of a recent UN/CEFACT publication²¹ that (i) describes why ECE-UN/CEFACT standards and tools are ideally suited to support DPP development; (ii) explains which current and forthcoming ECE-UN/CEFACT standards and tools can assist in the development of DPPs—notably the traceability and transparency standards; and (iii) provides specific recommendations on how ECE-UN/CEFACT standards and tools could be further developed to support the adoption of DPPs.

¹⁶ Eighteen UN/CEFACT standards have already been mapped out of the 149 standards in the StandICT.eu “Report of the EU Technical Working Group on DDP: Landscape of DPP Standards” (13 March 2023), as reference standards for the EU DPP. Accessible at: <https://standict.eu/digital-product-passport-standards-report>.

¹⁷ Based on a presentation and data by France - Tilkal ‘Better Supply Chains, Better Products, Better Future’ at the ToS Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy - Third Session (23 November 2023), available at https://unece.org/sites/default/files/2023-11/PPT_TVSCCE_Nov2023.pdf.

¹⁸ Regulation (EU) 2023/1115 of the European Parliament and of the Council (31 May 2023) on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010. Accessible at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1687867231461>.

¹⁹ Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. Accessible at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>.

²⁰ Proposal for a Regulation of the European Parliament and of the Council on prohibiting products made with forced labour on the Union market (2022). Accessible at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0453>.

²¹ See the “United Nations Centre for Trade Facilitation and Electronic Business Solutions in Support of Digital Product Passports” publication (2023). Available at <https://unece.org/info/Trade/CEFACT/pub/387846>

28. The ToS-ESG-SVC-CE pointed out the challenge in accessing upstream data (all stages prior to market placement) from outside of the EU to inform the content of the DPP, especially regarding the origin, and the role that market surveillance authorities would play in such verification. Verifiable credentials could be attached to data elements to improve audit-data quality. For instance, United States Department of Homeland Security²² is testing verified credentials technology to enable the “auditing” of data. In the EU, a verifiable battery passport²³ has also been developed, attaching verifiable credentials to batteries.

29. The ToS-ESG-SVC-CE emphasized the importance of not overlooking social data (e.g. wages, working hours, type of contract) in the DPP, which can provide more transparency regarding compliance with labour and human rights standards. Data access to civil society organizations, beyond consumers, is another important transparency driver.

B. The landscape of initiatives related to ESG traceability

30. The Partnership for Carbon Transparency (PACT)²⁴ of the World Business Council for Sustainable Development (WBCSD) is a leading initiative aiming to increase carbon transparency in supply chains. Credible emissions data and a carbon accounting system are key for businesses to take targeted decarbonization action across their value chains. However, the current accounting system for supply chain emissions is flawed due to two main issues: (i) the lack of technology-enabled access to suppliers’ data (resulting in “survey fatigue”²⁵) and (ii) the lack of quality data.

31. PACT has developed a global standard that calculates and exchanges Scope 3 emissions data across supply chains through (i) standardization of data exchange, (ii) collaboration across an ecosystem of actors, and (iii) harmonization of emissions accounting for products via a common reporting methodology.

32. In 2023, PACT focused on providing 900 companies with the tools to calculate their product carbon footprint, with an average variance of 37 per cent when comparing emissions received directly from suppliers with emissions calculated via secondary databases. PACT demonstrated promising results in advancing the journey toward net zero emissions and transparency, leveraging technology, data quality and collaboration.

33. In the last decade, the development of digital traceability, particularly in the agrifood sector has enabled the transfer of data through processing locations (harvesting, processing, packaging, shipping), with sustainability credentials (e.g. carbon footprint, water footprint, packaging information) being captured in a barcode. For example, case of a salmonella outbreak in the United States in the early 2000s (initially attributed to tomatoes and later attributed to paper) resulted in USD 250 million in losses, which accelerated the development of digital traceability systems. In addition to product characteristics, digital traceability also allows for the capturing of data about energy and water use and other ESG credentials.

34. The circular economy has the potential to reduce carbon emissions by 20 per cent²⁶ and ESG traceability is a core enabler. Companies must increasingly disclose sustainability-

²² See the U.S. Science and Technology Directorate press release “DHS Supply Chain Traceability Startups Successfully Complete Data Exchange Testing”, 18 October 2023, available at <https://www.dhs.gov/science-and-technology/news/2023/10/18/dhs-supply-chain-traceability-startups-successfully-complete-data-exchange-testing>.

²³ See Susanne Guth-Orlowski, "The world's first decentralized, verifiable Battery Passport: How to implement a Battery Passports based on SSI technology", Medium, 4 November 2023. Available at <https://medium.com/p/a0f42c1bcb5e>.

²⁴ See PACT website at <https://www.carbon-transparency.com/>.

²⁵ When it is too onerous for organizations or auditors to gather, provide or understand the data or requirements, they lose interest in the effort.

²⁶ Based on a presentation and research by TÜV Rheinland at the ToS Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy - Third Session (23 November 2023), available at https://unece.org/sites/default/files/2023-11/PPT_TVSCCE_Nov2023.pdf.

related data. In the context of the EU Corporate Sustainability Reporting Directive²⁷, the role of investors could be a game changer should ESG data be linked to green and sustainable finance goals.

35. Building on the ITC Standards Map²⁸—one of the largest databases for sustainability standards—the ITC will extend its work on voluntary sustainability standards, with the launch of a Certified Business Registry²⁹. The Certified Business Registry aims to register 100 businesses, mainly small and medium-size enterprises (SMEs), with valid business credentials, with a focus on scope certificate data. This toolkit offers a global public-good solution, which could be integrated by businesses in their own systems. Pilots are underway with standards-setting bodies to assess the possibility of compiling and validating the data.

C. The role of multilateral cooperation and standard setting

36. Interoperability between traceability platforms is the key to scaling traceability and transparency in value chains. Interoperability would address two main challenges, including challenges arising from the multiplicity of traceability platforms and approaches that are emerging:

- (i) The lack of business incentives (e.g. price premium, improved customer relationships, market access) for actors (especially upstream) to provide the required traceability data and change their processes; and
- (ii) The technical challenge, given that all suppliers are using their own platforms, it may entail the duplication of information requests on multiple platforms used by their customers.

37. The forthcoming DPP, along with the ambition to move to decentralized traceability (rather than traceability platforms) would require verified data to be reliable, and that DPPs be issued by accredited providers.

38. The draft ECE Recommendation No.49: Transparency at Scale³⁰ aims to provide counter-greenwashing advice to member States. It also aims to lay out practical measures to implement supply chain traceability and transparency at the scale needed to achieve meaningful impacts on global sustainability goals for critical sectors like textiles, agrifood and minerals.

39. While the world faces sustainability challenges, regulators are responding by introducing measures and incentives to increase sustainable behaviours. However, incentives may also encourage more greenwashing. Therefore, to maintain their value and to fight greenwashing, transparency along the value chain is key, leveraging technology and digital tools.

40. Once completed, the recommendation will support interoperability between platforms to allow traceability data to move across actors in the value chain. Multiple traceability platforms, disparate standards, privacy and confidentiality, cost, and the lack of business incentives are some of the key challenges in scaling transparency from pilots to global adoption. The recommendation will aim to address these challenges.

41. One way to scale transparency is to use a decentralized architecture for data. This method uses a unified transparency protocol (built on existing W3C, GS1 EPCIS standards) that can convey sufficient ESG data along the value chain. Each supplier provides this info

²⁷ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. Accessible at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>.

²⁸ See <https://standardsmap.org/>.

²⁹ See ITC press release, “Centralizing profiles of sustainable small businesses in the textile industry: COP28”, 8 December 2023. More information at: <https://intracen.org/news-and-events/news/centralizing-profiles-of-sustainable-small-businesses-in-the-textile-industry>.

³⁰ See footnote 10.

to the next stage in the chain, using B2B product passports at the shipment level, product conformity credentials and traceability events.

42. For instance, Australia has implemented traceability cases at the product level, with a minimum set of data attached to a shipment via an identifier, anchoring trust to a claim with verified credentials.

43. The early draft of Recommendation No. 49 is undergoing a public review from 19 April until 19 June 2024³¹ and interested experts can reach out to the project lead, Mr. Steven Capell to contribute.

44. The transfer of data has become an issue due to the high variety of computer systems and data formats. A product-centric approach is important to understand the data needs (e.g. provenance, CO2 emissions, materials, recycling, water consumption, child labour). Data comes from different streams, which entails technical and social challenges on how to identify and measure it. Collaborative actions could look at (i) ontologies, vocabularies, semantics, and (ii) minimum data points in verifiable credentials.

45. The ECE Aarhus Convention³² is a legally binding international treaty for public bodies to advance transparency on environmental matters. It currently has 47 parties from across Europe (46 countries and the EU). Collaboration with the ToS-ESG-SVC-CE could lead to fruitful outcomes, considering the common priority of access to product information, similar challenges to tackle (e.g. greenwashing), and the need for instruments (e.g. eco-labelling, eco-auditing, green procurement) to ensure that information is available at the B2G, B2B and B2C levels.

Decision 2023-03. The ToS-ESG-SVC-CE agreed to provide a neutral, open platform for convening value added collaborative initiatives, with the support of participating organizations. This platform aims to tackle the challenges of normative fragmentation and lack of interoperability and incentivize the sharing of data and implementation experiences, through engaging relevant stakeholders and encouraging wider participation in its work.

Decision 2023-04. The ToS-ESG-SVC-CE took note of the progress on the draft ECE Recommendation No. 49: Transparency at Scale, and its annexes on implementation, that aim to provide guidance for governments and industry actors on scaling up traceability, transparency and trusted information exchange in value chains, especially considering the need to address business incentives and implementation model challenges.

IV. Defining the challenges of ESG traceability (agenda item 3)

46. Participants of the ToS-ESG-SVC-CE divided themselves into three groups to discuss the needs and challenges from the perspective of different value chain actors (e.g. producers, manufacturers, retailers and brands) and of different sectors (e.g. the garment and footwear sector, as well as agrifood and minerals). The groups shared the outcome of their discussions, as follows:

- **Discussion group A** did a deep dive into the needs and the challenges from the business standpoint, referring, among others to: the harmonization of data collection, the determination of a rational price for granular data, business incentives to support SMEs, the reduction of cost and the interoperability of platforms. The needs could be translated into a roadmap for transparency, supported by an analysis of risk-management. The actions recommended focused on collaborations across the value chain involving the financial sector, identifying incentives and pricing analysis.
- **Discussion group B** explored the needs and the challenges from the standpoint of compliance and supply chain services, taking stock of the numerous legislations supporting ESG compliance and the associated challenges regarding technology and

³¹ Available at: <https://uncefact.unece.org/pages/viewpage.action?pageId=4522632>

³² The Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus, Denmark, 1998) is accessible at <https://unece.org/DAM/env/pp/documents/cep43e.pdf>.

financial capacity. The complexity of ESG standards, the importance of ensuring reliability and verification of data call for more standardization. A mapping of relevant stakeholders with whom to engage would enable engagement with all the necessary stakeholder groups.

- **Discussion group C** looked into the needs and the challenges from the standpoint of technology providers, highlighting that scaling transparency and traceability requires more decentralization. Defining the formats on how to exchange the data is key. Such formats should encompass a minimum number of data points, especially to support adoption by SMEs. Establishing interoperability requires common data structures. The future Recommendation No. 49 could develop pilots based on similar data structures to assess feasibility.

Decision 2023-05. The ToS-ESG-SVC-CE agreed on the importance of international collaboration to enable global interoperability for multistakeholder (B2B, B2G and B2C) product-related life cycle information exchange solutions such as digital passports, building on the guidance in the note³³ developed by ECE.

V. Discussion on the programme of work (agenda item 4)

47. The Chair reminded attendees that the programme of work for the mandate and terms of reference³⁴ of the ToS-ESG-SVC-CE for the period 2021-2023 was adopted at the 117th session of Executive Committee (EXCOM) on 8 July 2021. The mandate of the ToS-ESG-SVC-CE was extended for the period 2023-2025 at the 125th EXCOM meeting on 30 November 2022³⁵.

48. The ToS-ESG-SVC-CE used the insights from the discussions to determine the priorities and the next steps for 2024, including collaboration on draft ECE Recommendation No. 49.

49. The ToS-ESG-SVC-CE took note of the following proposals: to update the relevant ECE standards; to identify collaboration opportunities with the Task Force on Access to Information on Product Information under the auspices of the ECE Aarhus Convention and integrate efforts; to work towards a transparency protocol for DPPs to ensure systems' alignment; to create a visual mind map of initiatives supporting value chains sustainability and circularity and to reach out to multilateral development banks to integrate efforts on sustainable development; to engage more SMEs in future meetings considering the impact of legislations on upstream operations and actors; to create a matrix of data points to be collected for each regulation with an impact on sustainability and ESG compliance; to consider the issue of data licensing (e.g. in artificial intelligence) and the optimal licence model.

50. The ToS-ESG-SVC-CE acknowledged the idea to develop cross-sectoral generic guidelines for ESG traceability, which could then be adapted to specific industries. These guidelines could address sector-specific challenges.

51. The UN/CEFACT product circularity data standard³⁶ can support the objectives of the ToS-ESG-SVC-CE. UN/CEFACT, through its product circularity data project, developed the business requirements specification (BRS) supporting data exchange for circular business models (i.e. resale, rental, collecting, sorting, recycling), with an initial focus on textile and leather products. The BRS has been designed in a generic manner to ensure it is globally applicable to other sectors. The standard is aligned with the requirements laid out in the EU

³³ UN/CEFACT Solutions in Support of Digital Product Passports Note (2023)

³⁴ Revised Mandate and Terms of Reference of the Team of Specialists on Environmental, Social and Governance Traceability of Sustainable Value Chains in the Circular Economy (2021). Accessible at <https://unece.org/trade/documents/session-documents/revised-mandate-and-terms-reference-team-specialists>.

³⁵ 125th EXCOM meeting, 30 November 2022. Accessible at: https://unece.org/sites/default/files/2022-11/ECE_EX_2022_L.17_ENG.pdf.

³⁶ The UN/CEFACT product circularity data standard project webpage: <https://unefact.unece.org/display/unefactpublicreview/Public+Review%3A+Product+Circularity+Data+Use+Case%3A+Part+2>.

ESPR proposal and the EU DPP. Experts on the circular economy were invited to contribute to the public review (see the draft Business Requirements Specification³⁷).

Decision 2023-06. The ToS-ESG-SVC-CE agreed on the need for stakeholders to engage in the next stages of development of the issues in draft ECE Recommendation No. 49. This text could be the first basis for an agreed protocol to improve ESG monitoring and reporting in value chains for key sectors, including textiles, agrifood and critical raw materials.

Decision 2023-07. The ToS-ESG-SVC-CE noted *the ECE Policy Paper on Accelerating the Transition Towards a Circular Economy in the ECE Region* (ECE/TRADE/C/CEFACT/2023/17); the *ECE and ECLAC Study: Improving the Sustainability of Used Clothing: Global, European and Chilean Perspectives: Executive Summary* (ECE/TRADE/C/CEFACT/2023/18); the *Updated Report on the Blockchain Pilots Project for the Garment and Footwear Sector: Harnessing the potential of blockchain technology for due diligence and sustainability in textile and leather value chains* (ECE/TRADE/C/CEFACT/2023/19); the *UN/CEFACT Solutions in Support of Digital Product Passports* (ECE/TRADE/C/CEFACT/2023/20) submitted for information at the twenty-ninth UN/CEFACT, as deliverables in support of the outcomes of the seventieth Commission session of the ECE, and as relevant documents in the area of interest of the ToS-ESG-SVC-CE.

VI. Adoption of decisions of the third session (agenda item 5)

52. Delegates and participants agreed on decisions 1-7 and will receive the report of the third session, which will be submitted to the next session of the ToS-ESG-SVC-CE and the thirtieth UN/CEFACT Plenary.

53. The Chair closed the session, emphasizing the main takeaway that scaling ESG transparency and traceability in global trade will support moving towards a more sustainable economy, and help to tackle social and environmental risks and human rights violations in value chains.

³⁷ The Product Circularity Data Use Case Public Draft - Business Requirement Specification extension (2023), accessible at <https://unece.org/trade/documents/2023/11/working-documents/product-circularity-data-use-case-public-draft-brs>.