How do conventional prices impact on organic cotton?

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PONTEFRACT - This was a question posed to Ecotextile News web-site readers by Annika Dahlstrom from AD Ecotextile in Sweden. Liesl Truscott from Textile Exchange answers this question by showing how hikes in conventional market prices can influence the organic cotton sector.

The answer to Annika’s question is multilayered, but in general, Truscott says, “high conventional prices can result in a loss of organic cotton from organic cotton value chains.”

This is because a percentage of farmers are tempted to dispense with certification or may turn to GM production in the hope of achieving higher yields or are, understandably, prepared to sell their cotton to the highest and quickest bidder.

“Unless producer associations or contractors have the cash up front to buy the organic cotton from their grower communities, they run a real risk of losing the organically produced seed cotton to passing traders,” who, she says, “have no interest in the organic credentials of the raw material.”

Impacting ‘demand’ for organic

Buyers of organic cotton (including brands and retailers) are prepared to pay a ‘price premium’ above conventional prices for their organic cotton on the understanding that it supports better livelihoods for producer communities and contributes positively to sustainable development. This premium can potentially price out organic from the market depending on how high the commodity price goes and the percentage above commodity price in place.

“The effect of the recent price spike was that organic premiums threatened, rather than secured organic businesses,” explained Truscott, “one potential solution is to use the market price as a guide but build other business terms and conditions into trade agreements that benefit both parties – for example, timely and guaranteed sales may be more rewarding and less risk to all than a simple premium placed on the commodity price.”

Different business models? Positive results

There were examples last year where trade relations between growers and buyers remained stable and intact despite the soaring commodity prices. These ‘partners in trade’ had agreed on prices early in the growing season (which reflected the parties agreed costs, terms and conditions).
Some had contracts which included clear producer benefits such as timely payments and pre-payment to cover costs of seed and other inputs for producers. These arrangements benefited producers in developing countries, but also built in security and other benefits for the brands. In these cases, parties were not as badly affected by the price spike. “Admittedly, these scenarios are far from the norm and pressures were indeed intense for both sides, but they illustrate how business can be done differently to the benefit and stability of all,” she said.

Change is underway

Truscott remains upbeat for the sector and says despite higher cotton prices, there is good news for the sector. “There are plenty of businesses committed to organic cotton for social, market and ecological reasons, who see this commitment as good business strategy in the long run,” she said.

Reason’s to be optimistic include:

- Competent farmers with years of investment in knowledge-intensive organic agriculture (biologically superior soils and alternative biodiversity-friendly pest management practices);
- A growing number of brands and retailers with well-established organic cotton value chains (some going even further by investing in in-conversion farming and more sustainable cotton production to help bring organic production along and help reduce the negative impact of conventional production);
- Socially-focused financial services able to offer a ‘third party’ to the buyer-seller partnership to help support better trade relations;
- Expert and experienced NGOs, government agencies, consultants and extension service providers supporting knowledge-intensification on the ground;
- Academic, social, and scientific researchers proving the benefits of organic agriculture for addressing global concerns such as poverty, food security, gender equality, soil fertility, water scarcity, and climate change.
- A growing consumer base wanting to purchase organically and ethically produced products. In regards to consumers, more and more people understand the broader definition of a ‘quality’ product, which includes the social and environmental aspects as well as the direct product appeal.

She adds that “price spikes and troughs in the cotton commodity market only reinforce the need to better support alternative approaches to business that address externalities such as climate change, clean water, and workplace health and safety.
“Textile Exchange is expecting to see progressive market leaders (such as Anvil, C&A, Egedeniz, H&M, Nike, Nordstrom, Patagonia, Remei AG, Sanko and many others) become increasingly influential through their commitment to organic cotton and other more sustainable fibres and textile production generally.”

Liesel notes that in terms of organic cotton, Textile Exchange is very well positioned to support farmers, brands, and retailers and all players in the value chain wanting to better secure business, embark on longer term, socially sound strategies, reduce corporate risk, and find better solutions to future-proof businesses against the volatile market conditions currently at play.

Very shortly, Textile Exchange will produce a new, mid-year predictions report to give readers a concise update on the world organic cotton forecast for 2011/12 and beyond. The NGO’s excellent annual farm and fibre report, reviewing production levels for 2010/11 will be out at the end of 2011.