



TRADING BETTER COTTON Q&A



This Q&A is to provide Australia’s cotton growers and merchants with information about Better Cotton, and how it’s traded on the world market. It is not intended to be a fully comprehensive guide, rather provide some basic information for those wanting to get involved.

WHAT IS THE BETTER COTTON INITIATIVE?

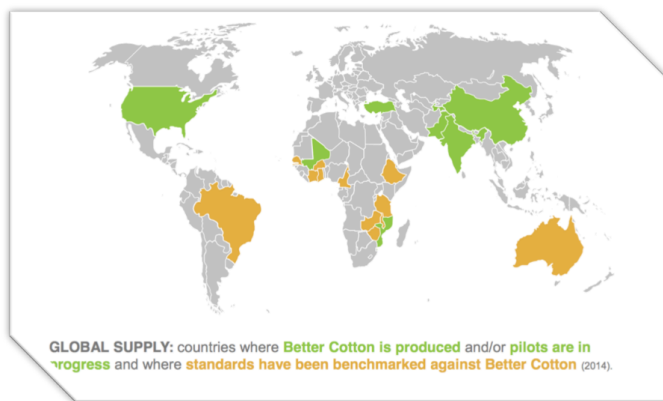
The Better Cotton Initiative (BCI) is a not-for-profit global initiative that helps individual farmers to grow cotton in a way that reduces stress on the environment and improves the welfare of farming communities.

It was originally established by the World Wildlife Fund and a number of international brands concerned about some cotton farming production practices. Brands and retailers that support BCI make commitments to using Better Cotton throughout their supply chains.

HOW DO I BECOME INVOLVED IN BCI?

Growers	Merchants
<p>Australian cotton growers must do three things to qualify as a BCI grower:</p> <ol style="list-style-type: none">1. Achieve myBMP certification2. Pay their <u>full</u> Cotton Australia levy3. Opt-in to Better Cotton via myBMP / Cotton Australia	<p>Become a registered member of BCI</p>

WHERE IS BETTER COTTON IN THE WORLD TODAY?



HOW IS BETTER COTTON TRADED?

Better Cotton is tracked through the supply chain using an on-line web platform called the "Better Cotton Tracer". Growers (in some countries), ginners, merchants, spinners, manufacturers and brands) all access the Tracer to declare the quantities of Better Cotton bought and sold across the supply chain. Merchants and spinners must be registered members of BCI in order to access the Tracer system - a list is available on the BCI website at www.bettercotton.org.

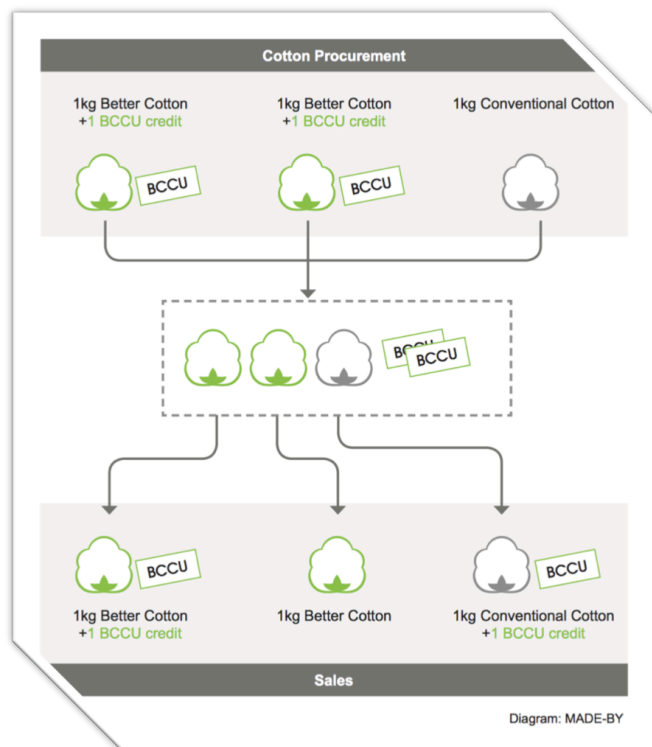
Fabric mills may access the system via a new option for a 'user' account. Each supply-chain participant has an account, and whenever they purchase Better Cotton lint, yarn, or other products, they must log in to the system and enter the purchases and sales. These are then confirmed by the counter-party before the inventory shifts from one participant's account to another. It's a relatively simple system that also allows the BCI program to calculate how much Better Cotton in total is being traded in the world at any given time.

WHAT IS A BETTER COTTON CLAIM UNIT?

One Better Cotton Claim Unit (BCCU) represents one kilogram of physical Better Cotton sourced. It's like a credit attached to the physical kilogram of Better Cotton and it gets attached when a bale is sold to a merchant, via the Better Cotton Tracer.

BCI (and members) use the BCCUs to track their consumption of Better Cotton as physical segregation is not required, and a Mass-Balance Chain of Custody is in operation for Better Cotton after the ginning stage.

Collecting BCCUs is important for brands, as it provides them with visibility into how much Better Cotton was sourced by their suppliers for the orders they placed. This supports their efforts to encourage the uptake of Better Cotton within their supply chains.



WHAT IS THE MASS BALANCE SYSTEM?

In most countries the Better Cotton Initiative requires Better Cotton seed-cotton and lint to be physically segregated at farm and gin level. However due to Australia's sophisticated traceability system (where a bar-coded bale of cotton can be traced back to a gin, and a farm) this physical segregation is not required, making it much simpler for ginners and merchants here in Australia.

BCI uses a mass balance system - a credit system where physical bales are not followed through the supply chain. Rather, the Cotton Tracer follows the volumes of Better Cotton lint (measured in BCCUs), as part of the orders placed between suppliers, from the merchant down the supply chain.

Mass-balance in the Australian context means that merchants can buy physical Better Cotton, earn BCCUs in their Tracer accounts but are not required to ship these same bales to fulfill a Better Cotton order. They can ship non-BCI cotton that meets the spinners' requirements however, the bales need to originate from Australia.

This gives merchants and others in the supply chain flexibility to deliver cotton with a variety of quality parameters to their customers and it takes the headache out of segregating and tracing a physical bale of cotton through the complex textile supply chain.

WHAT DOES THE MASS BALANCE SYSTEM REQUIRE FROM THE PLAYERS IN AUSTRALIA?

Farm	Gin	Merchant
No physical segregation of bales &/or modules of seed-cotton. Fully certified myBMP growers are required to have opted-in to Better Cotton through myBMP / Cotton Australia'.	No physical segregation of bales. Gins are not required to be members of BCI.	No physical segregation of bales. Merchants <u>are</u> required to be members of BCI.

HOW DOES A GROWER SELL BETTER COTTON?

A cotton grower in Australia sells physical bales of Better Cotton to a merchant with a Better Cotton Claims Unit (BCCU) attached. Some or all of the crop can be sold as Better Cotton, and the crop can be divided up and sold to a number of merchants as Better Cotton.

BCI doesn't set any premiums for Better Cotton nor takes any part in the commercial trading of bales that are licensed as Better Cotton. The grower provides its BCI code to the merchant in order for the transaction to be recorded in Cotton Tracer.

Using the assumption that growers do not carry-over stock of unsold lint from one season to the next, their account on the Tracer is 'zeroed out' to prepare for the next season. All outstanding credits in the grower's Tracer account are erased in March prior to adding credits for the new season. Growers in Australia don't have access to the Tracer system, but are notified via BCI when a transaction involving their cotton is recorded.

IS THERE A CHECKING MECHANISM TO SAFEGUARD GROWERS?

Yes. Whenever a merchant enters a purchase from a myBMP/BCI grower, the Tracer system sends a notification to the concerned party. If the grower objects to the transaction entered by the merchant, BCI has a process in place to resolve disputes.

CAN ANY MERCHANT TRADE BETTER COTTON?

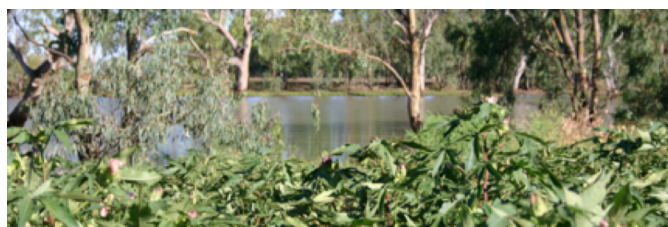
No, only merchants that are a member of BCI can buy and sell your cotton as BCI. These merchants can only sell to BCI spinning mill members and so on down the supply chain.

WHICH AUSTRALIAN MERCHANTS ARE BCI MEMBERS?

As at time of writing (July 2015), Auscott, Louis Dreyfus, ECOM, Cargill, Olam, Glencore Grain BV, Omni Cotton, Reinhart, Plexus, were BCI members. Contact details are on the ACSA website at www.austcottonshippers.com.au

HOW DOES A MERCHANT FIND OUT I'M A BETTER COTTON GROWER WITH COTTON AVAILABLE?

Cotton Australia keeps a register of BCI growers that is made available to merchants on request. A grower's details will remain confidential, unless they choose to be included on the register.



THE QUESTION ON EVERYONE'S LIPS - IS THERE A PREMIUM FOR BETTER COTTON?

Better Cotton is traded without a fixed price premium. BCI allows the market to determine the price just like for all other cotton.

However anecdotal evidence would suggest to Cotton Australia that demand for BCI cotton is growing and there may be a premium available for BCI cotton, depending on the season. This is to be negotiated between individual growers and their merchants, and like all commodities will be determined by the forces of supply and demand.

Involvement in BCI offers growers and merchants another tool to sell Australian cotton. In future, demand for BCI cotton may grow to a point that merchants will choose cotton from BCI/myBMP growers over those who are not participating because it is easier to sell and it's what the market wants.

The ultimate aim of BCI is that Better Cotton becomes not a 'niche' product, but a mainstream commodity where large percentages of cotton are grown with very high standards across all of the cotton producing nations. BCI's target is to have 30% of the world's

HOW DOES A MERCHANT PROCURE BETTER COTTON FROM GROWERS?

Merchants use the Better Cotton Tracer to record the sale and purchase of Better Cotton and it's traded just like any other cotton. The only requirement is for merchants to record their purchases from growers and enter their sales to spinners using the BCI's online system.

Growers need to provide the merchants with their BCI license numbers so that the merchant can earn BCCUs for their purchases. For each kilo of Better Cotton purchased from a grower, merchants earn 1 BCCU. Growers don't have to provide any special documents, or certificates for their Better Cotton sales to merchants.

Likewise, merchants don't have to provide any special documents or certificates to their spinner customers for Better Cotton sales. All purchases and sales between merchants and spinners need to be recorded in the BCI's system and BCCUs are transferred to spinner accounts electronically.

When a merchant sells cotton the BCCU credit is no longer linked to the physical cotton purchased. This means:

- 1kg of Better Cotton can be sold with 1 BCCU OR
- 1kg of Better Cotton can be sold without a BCCU, with this BCCU allocated to sell another 1kg of non-BCI cotton originating from Australia only (this is referred to as country-scope for Mass-Balance)

A BCCU can only be allocated once. If a merchant wants to deliver 100 kg of non-Better Cotton with 100 BCCUs, this means they also need to have earned the 100 BCCUs from a previous transaction.

Spinning mills buying Better Cotton from an Australian merchant also must confirm the purchase via the Tracer system, and so on down the supply chain. A merchant's BCCUs never expire.

DOES BETTER COTTON HAVE TO BE OF A CERTAIN QUALITY?

Better Cotton is grown according to the minimum production criteria of the Better Cotton Standard System (in Australia's case this is linked to myBMP). It does not refer to a specific cotton quality. Better Cotton is grown in many different countries with many different qualities. Better Cotton is called "better" not due to its superior quality but due to the way it was grown using the Better Cotton Standards.

CAN A MERCHANT SELL BCCUS WITHOUT THE PHYSICAL BALE ATTACHED?

No, the credits must remain attached to a bale.

HOW DOES TRADE IN BETTER COTTON INTERACT WITH AUSTRALIA'S FORWARD SELLING MARKET?

Growers' licensed volumes are uploaded into the Tracer at the beginning of the harvest each season. Only after this process can merchants declare their purchases from growers, earn BCCUs, and enter their sales to spinners to pass these credits onto them. Merchants are not able to enter their forward purchases into the system for future seasons. Therefore, some coordination of purchase entries by merchants is required when using BCI's Tracer system.



CASE STUDY SIMON CORISH BCI COTTON GROWER, GOONDIWINDI QLD

"Many growers have asked how I've gone about marketing my BCI cotton. I am myBMP accredited, registered with BCI and have my BCI code. I have had two seasons of experience now with selling my cotton under BCI – and it's much simpler than I expected.

For the last two seasons I have sold my crop in parcels to a number of different merchants and have extracted a premium each time.

For me it was worth shopping around a number of merchants to negotiate a premium, bearing in mind that a merchant's BCI credits don't expire, but mine only last for one season.

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CASE STUDY CONTINUED...

It's also worth noting that every time a sale is made and the merchant claims the BCCUs, BCI sends me a note checking that the sale did occur and checking the number of bales sold. This gives me peace of mind that the merchants are doing the right thing.

At first I didn't think much of the mass balance system. But having used the system for two seasons now, I believe it gives great flexibility to the grower in trying to extract a bit of a premium AND it gives the merchant even more flexibility because if I grow lower quality cotton the merchant has the ability to supply cotton from other valleys with unlimited time to do it. I think that we've set up a system that works in well with our current trading arrangements.

Of course, chasing premium is not the only reason to be involved in BCI. Future proofing our market access and demonstrating good stewardship to our ultimate customers, our neighbours and the Australian community is also very important."

SIMON CORISH, GOONDIWINDI



Simon Corish is a Cotton Australia Director who also sits on the board of BCI. This photo taken at NIKE headquarters during a board meeting to engage the world's brands earlier in 2015.

FURTHER INFORMATION:

- ▶ Once you've registered with BCI (growers) or become a member (merchants) you get access to BCI's website that contains a whole lot more detailed information.
- ▶ In the meantime, you can also view a video demonstrating how the BCI traceability system works when merchants/spinners declare purchases of Australian cotton here:
<https://www.dropbox.com/s/yoqy5y6sfa0pjb8/Demo%20Australia.avi>
- ▶ Merchants can also download the How to Use the Better Cotton Tracer – Australian Merchants Edition Fact Sheet from www.cottonaustralia.com.au.

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