

CHAPTER 8

Cotton as a Competitive Commodity



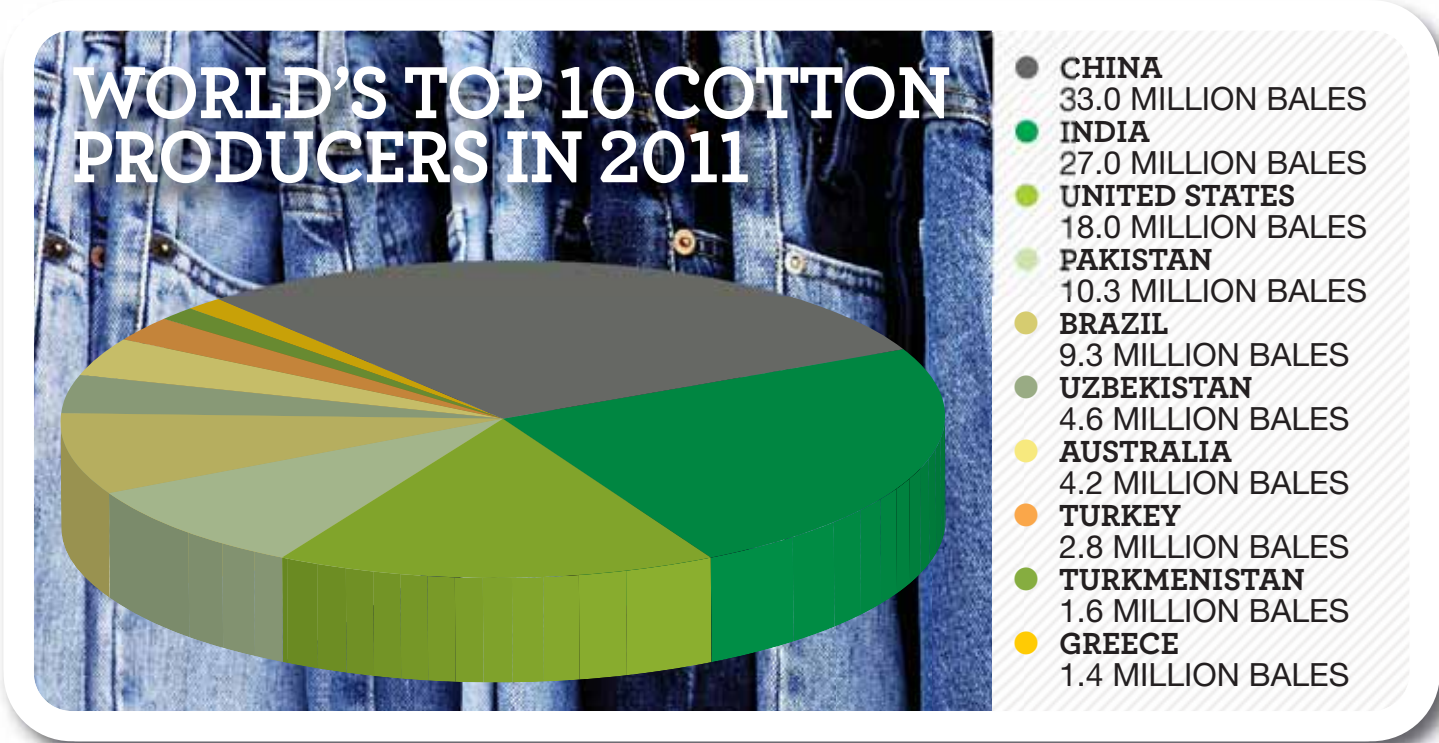
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RAW COTTON LINT IS A COMMODITY SOLD INTO A WORLD MARKET. AUSTRALIA'S COTTON GROWERS COMPETE AGAINST AROUND 75 OTHER COTTON PRODUCING NATIONS FOR ITS SHARE OF GLOBAL COTTON TRADE, WHICH IS ESTIMATED TO BE WORTH \$12 BILLION.

The main cotton producing countries in the world are China, India, USA, Pakistan, Brazil and Uzbekistan. These countries account for nearly 80% of world production.

Australia is a relatively small producer, but is the fourth largest exporter in the world cotton marketplace, behind USA, India and Uzbekistan. China, Brazil and India process almost all their cotton locally.

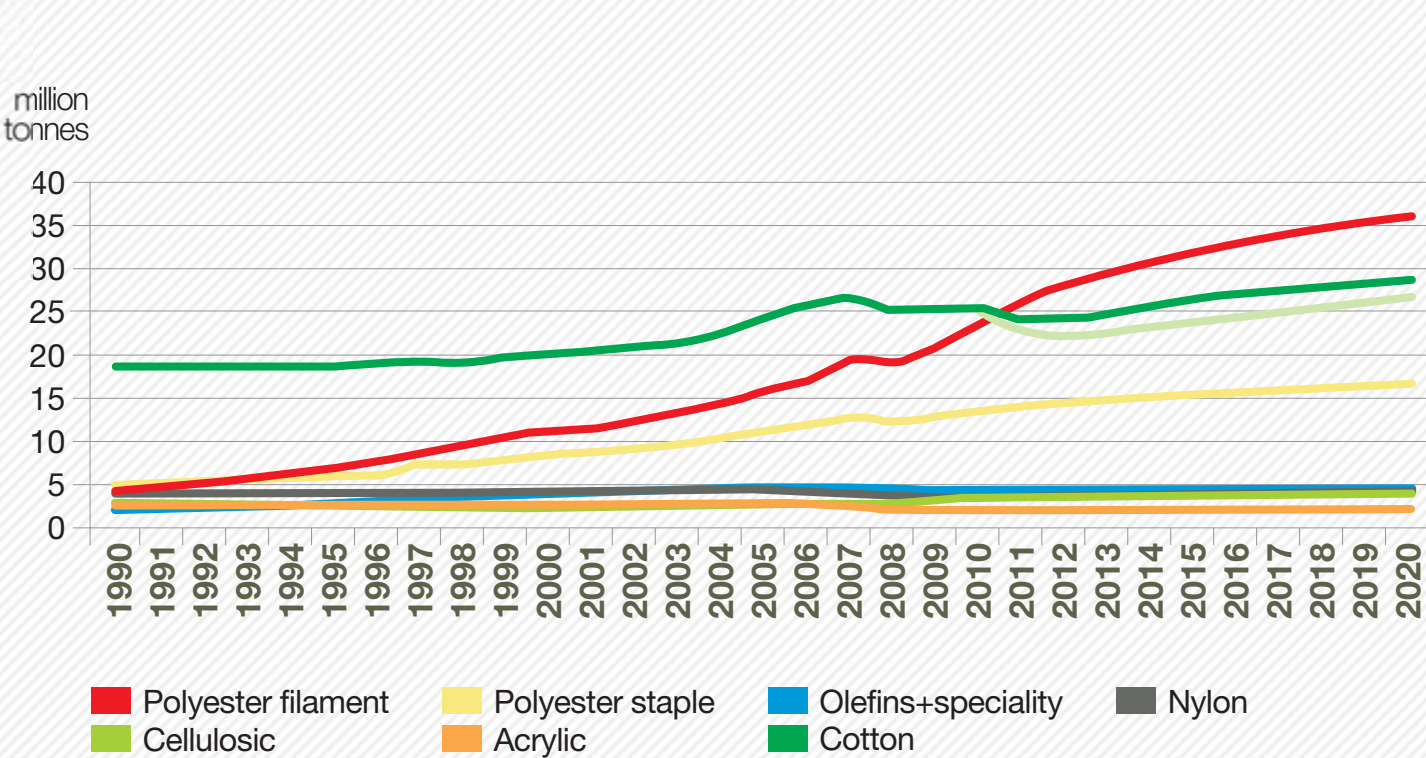
China is the world's largest cotton producer AND the world's largest consumer of fibre, with a share of around 25% of global cotton production in 2009/10.



COTTON'S SHARE OF THE WORLD FIBRE MARKET

Cotton is the biggest selling natural fibre in the world, accounting for around 32% of the world fibre market compared to wool at just less than 4%. Over the past 30 years natural fibres have lost market share to synthetic fibres. Between 2005 and 2009 cotton's share in fibre production worldwide fell from 35.7% to 31.7%.

Despite cotton's fall in the share of the world fibre market, consumption of cotton is increasing overall due to increases in population growth.



Fact Sheet:
The World Cotton Market

A GLOBAL APPROACH TO POSITIONING COTTON

The challenge to improve cotton's declining global market share means a significant and unified approach toward competing against synthetic fibres is needed.

The International Forum for Cotton Promotion (IFCP) exists to help encourage increased consumer demand for cotton and promote cotton's qualities and sustainability attributes. Cotton Australia, government departments and industry bodies from other countries participate. IFCP members are committed to a unified approach to promoting generic cotton to appeal to the consumer and their love of cotton and compete against man-made fibre industries who are increasingly promoting their products claiming misleading environmental credentials.

IFCP supports all cottons and opposes dissemination of exaggerated and misleading information by those attempting to secure competitive advantage at the cost of other cottons. Speaking with one voice, at a consumer level, about the positive aspects of cotton and its end use (comfort, softness, durability, versatility and value) as well as the industry's environmental, economic and social benefits is key to this.

POSITIONING AUSTRALIAN COTTON AGAINST ITS COMPETITORS IN THE WORLD MARKET

Cotton has a number of competitors on the world market, synthetic fibres being the main one. Synthetic fibres are man-made fibres made from polymers produced artificially, in contrast to natural fibres made from naturally occurring polymers such as cellulose (from plants) and proteins (from animals). Synthetic polymers come from petroleum for example coal or oil.

Cotton's share of the world fibre market is falling. In the 1960s 70% of fibre consumed was cotton. Since then cotton's percentage market share has dropped continuously while man-made fibre consumption has risen.

A number of strategies are used globally, nationally and locally to position Australian cotton against its competitors including:

- Joining with other countries to position cotton globally through the International Forum for Cotton Promotion and
- Branding compliant Australian Cotton as BMP (Best Management Practices) cotton to appeal to the buyers demanding environmental accountability, traceability and transparency.



International Forum for Cotton Promotion Display

POSITIONING AUSTRALIAN COTTON IN THE WORLD MARKET

One of the ways that the cotton industry is able to differentiate Australian cotton from those of other countries is on its documented environmental credentials. While the Best Management Practices Program (myBMP) allows the cotton industry to monitor and improve its performance, it is also a powerful marketing tool.

A small but influential segment of the consumer market are demanding greater traceability, environmental accountability and ethical labour standards across the supply chain. Marks and Spencer, one of the United Kingdom's largest retailers, for example, has committed to becoming the world's first sustainable major retailer by 2015 by which time, only clothing that can be traced and proven to be produced to a certain environmental standard will be stocked in their stores. Australian BMP cotton is positioned to meet this consumer demand.

Each and every bale of Australian BMP cotton that is shipped is verified and sanctioned as being

produced on a BMP accredited farm that is practicing the highest levels of cotton production in terms of sustainability, safety and quality.

The traceability system that the Australian cotton industry has in place means that a brand owner can verify and trace an article of clothing from apparel manufacture, knitting or weaving, spinning, ginning, right back to the farm and even the field where that cotton was grown in Australia.

At farm level each module or round bale is marked with appropriate growing information (such as variety, farm and field etc.) Once the module is ginned, this information is transferred to bale tag identification and the data can be verified throughout the ginning, classing and shipping process.

Once a BMP shipment has been authenticated by Cotton Australia, a BMP certificate is issued with the shipment so the receiver can be sure it comes from a fully accredited farm.

Manufacturers in the textile supply chain must be registered and licenced with Cotton Australia to use the BMP Cotton Mark or BMP Cotton Blend Mark on their products.

The Australian BMP Cotton trademark is not transferable. This allows all products that use the trademark to be identified, verified and the quality and integrity of the product (both finished and unfinished) to be safeguarded.

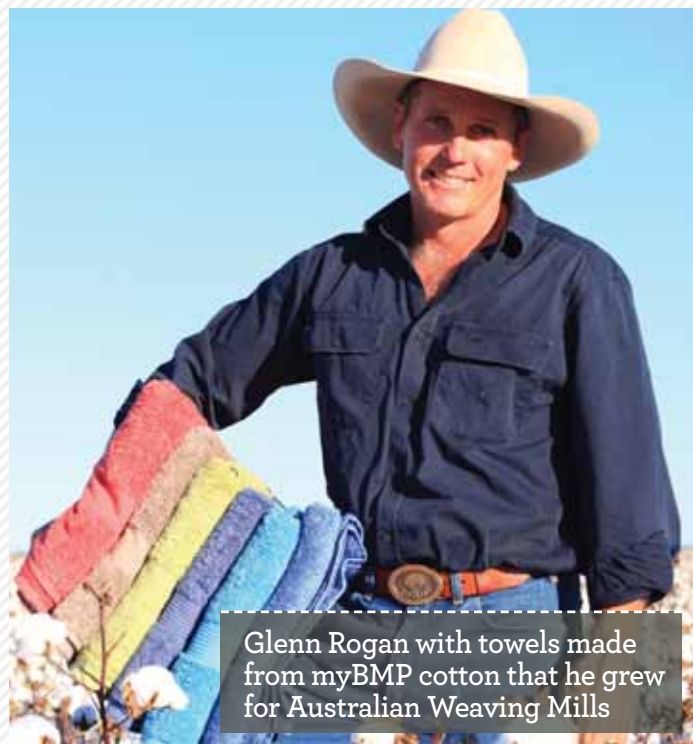
Many companies find the Australian BMP Cotton license to be a valuable marketing tool in approaching manufacturers, brands and retailers for business. Once approved by Cotton Australia, customers buying qualifying product from supply chain licencees can become licensees with the right to use the trademark to promote their own Australian BMP Cotton products.



Major retailer Marks & Spencer explains how it will guarantee full traceability on every single clothing and home product it sells



myBMP cotton bale tag identifies cotton produced under strict environmental standards



Glenn Rogan with towels made from myBMP cotton that he grew for Australian Weaving Mills

MARKETING CASE STUDY – DRI.GLO TOWELS: ICONIC BRAND WARMS TO AN AUSSIE-GROWN STORY

Australian Weaving Mills' (AWM) Dri-Glo towel range is one of Australia's iconic homewear brands. AWM has been in Australia since 1930 and is the only company to manufacture towels in Australia.

AWM recently rediscovered the magic of local manufacture and the great story of Australian cotton production producing the first batch of 100 percent Australian premium cotton towels made from the premium variety Sicala 350B and grown using Best Management Practices at St George, Queensland.

The range was initially pitched to retailers where the response was 'fantastic' according to AWM Marketing Manager Bronwyn Morgan. She says the company hopes to bring its 'Australian Made' story up to a new level, by adding the 'Australian-grown' tag as well.

Traceability is a concept that is becoming more important in today's market place and AWM's market research shows this.

"Consumers want to trust a product and if you can show your product has real honesty – like the iconic Dri-Glo brand does- we're not about to put something into our product our consumers can't trust," she explains.

"Being able to honestly feature Glenn Rogan in our campaign consolidates the 'grass roots' angle of the products and is a real story to tell that we feel Australians can relate to."

"They will know what this product 'honestly' is – that is where this traceability we now have is important," Bronwyn said.



Some clothing and other products are labeled as containing organic cotton. The economic, social and environmental conditions in Australia are such that there is practically no organic cotton grown in the country. In fact organic cotton accounts for only 0.2 percent of the entire world's cotton production. That is to say all of the cotton labelled as organic by the various certification authorities could fit on two average sized cargo ships a year.

The bulk of organic cotton production comes from Zambia, Zimbabwe and countries in the Middle East and South East Asia, where certification standards can be poor.

Organic cotton is cotton certified organic by bodies in individual countries. Standards vary greatly between countries with some retailers like Patagonia setting up their own systems outside nationally certified registers. The onus is on the consumer to check claims by first verifying the country in which the cotton was grown and then the certification standards of that country. To add an additional layer of complexity, to produce 'organic cotton textiles', certified organic cotton should be manufactured according to organic fibre processing guidelines which again, change according to the country in which the clothing is manufactured.

This leaves the system open to interpretation. In fact there is speculation that some cotton marketed as organic may not be considered as such by a commonly agreed set of criteria.

Although the definition is contested, organic cotton may be defined as cotton that is grown without the use of any synthetically compounded chemicals (ie, pesticides, fertilisers, defoliants, etc.) and is grown from non transgenic cotton seed. Generally certified organic cotton can only use naturally occurring chemicals such as Bt sprays, rotenone and naturally occurring pyrethroids to control pests and organic acid-based foliar sprays (eg, citric acid) as well as nitrogen and zinc sulphate in harvest preparation.

Organic is not necessarily sustainable though it's often marketed as such. Organic cotton is currently not a sustainable option for most growers looking to pass on a healthy and profitable farming operation to future generations for reasons including:

- Australian developed cotton varieties have an inbuilt resistance to insects. The organic industry won't accept the use of these varieties. These transgenic varieties, when combined with Integrated Pest Management (IPM) and biological control, require less chemicals and as such, are the natural preference to organic cotton.
- The cost of production is higher for organic cotton and consumers are not always prepared to pay more for organic cotton. This means that the costs are born by the grower, making it an unprofitable option.

ORGANIC COTTON

COMPETITOR? SUSTAINABLE OPTION? MARKETING TOOL?

"We were growing a bale to an acre where traditionally you grow three bales to the acre. To grow a bale was costing us as much as traditional cotton – and we in the end we found the market wasn't prepared to pay three times as much for the product."

Sam Coulton, Goondiwindi Cotton Company, former grower of organic cotton

- Organic cotton requires more intensive seasonal labour which is difficult to source, expensive for growers and can create OH&S issues in terms of safety. Countries that grow organic cotton tend to have access to cheap labour
- Organic cotton yields far less than modern cotton varieties meaning it takes more land and inputs to produce the same amount of cotton
- Organic cotton requires more water per kg of fibre product than modern varieties

"In terms of water use efficiency, the cotton we are growing on our farm today is about 4 times more productive than the organic cotton we grew in the early 1990's. To break it down into numbers, we can grow about 2 bales per megalitre today using modern varieties and farming techniques. When we grew organic cotton, we were achieving about 0.5 bales per megalitre."

Ben Coulton, Getta Getta Pastoral Company, Goondiwindi

- Australia saw regional cotton industries such as the 1970 Ord River experiment decimated by pest insects and dependent on chemicals when conventional cotton was used in the past and is unwilling to repeat the experience

Many of the practices used in some organic cotton production are also used in producing modern Australian varieties. In fact, the myBMP program goes far beyond the standards required under some organic cotton certification systems.

It may be in the future that organic cotton is grown in Australia however, profitability and sustainability will drive producer decisions as will consumer demand.



www.bmpcotton.com.au puts forward the arguments for choosing Australian cotton grown with myBMP best practice principles



Australian Weaving Mills is one of the first Australian retailers to develop a line of 100% Australian, 100% myBMP certified cotton products



Cotton farmer Glenn Rogan at Rogan Pastoral Co explains his involvement in developing environmentally sustainable products for the market



How Australia's myBMP cotton stacks up against the organic market