TextileExchange
Organic Cotton Round Table

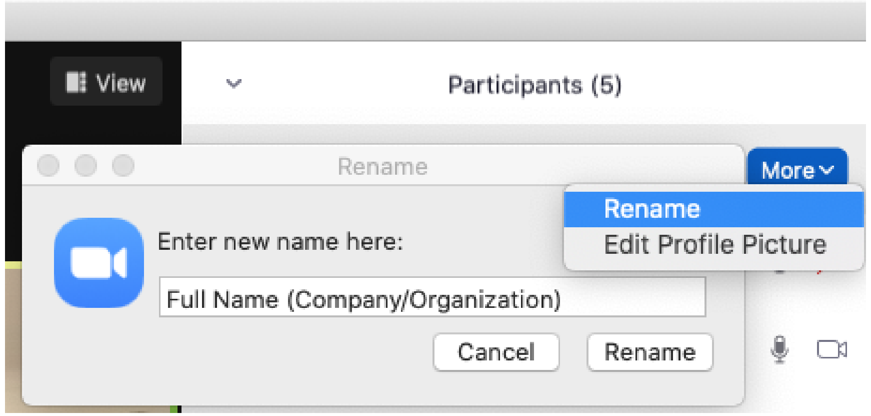
# OCRT e-Learning series: Part 2

"Investigating Approaches to Sourcing Organic and In-Conversion Cotton"

April 29, 2021

# Zoom guidance and requests

- Please update your Zoom name to include your full name with your organization in parenthesis.
- Please introduce yourself in the chat box and tell us where you are joining from.
- Please type your questions into the Q&A box.
- Please note that this meeting is being recorded.



# Anti-Trust Statement

Textile Exchange convenes the textile community and values diversity of views, expertise, opinions, backgrounds, and experiences. It is expected that members of this community will collaborate by sharing ideas, information, and resources of publicly available information only and avoid discussions on price, strategic plans or other private and sensitive information.

# In no more than 3 words, tell us what are you hoping for from today's session?

Mentimeter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# Rui Fontoura

Senior Manager for Cotton Strategy,
Textile Exchange

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# OUR **MISSION**

Textile Exchange inspires and equips people to accelerate adoption of preferred materials in the textile value chain. We focus on carbon reduction, soil health, water and biodiversity as part of our holistic approach to drive positive impact for the entire industry.

# OUR **VISION**

We envision a global textile industry that protects and restores the environment, while enhancing lives. By 2030 we aspire to guide the textile industry to reduce GHG emissions ($CO_2$ equivalents) by 45% from a 2020 baseline.

# OUR **STRATEGY**

Our strategy is to accelerate climate action in the textile industry by providing trusted data and reporting, market-based solutions, and a community that can do what no single company or organization can do alone.

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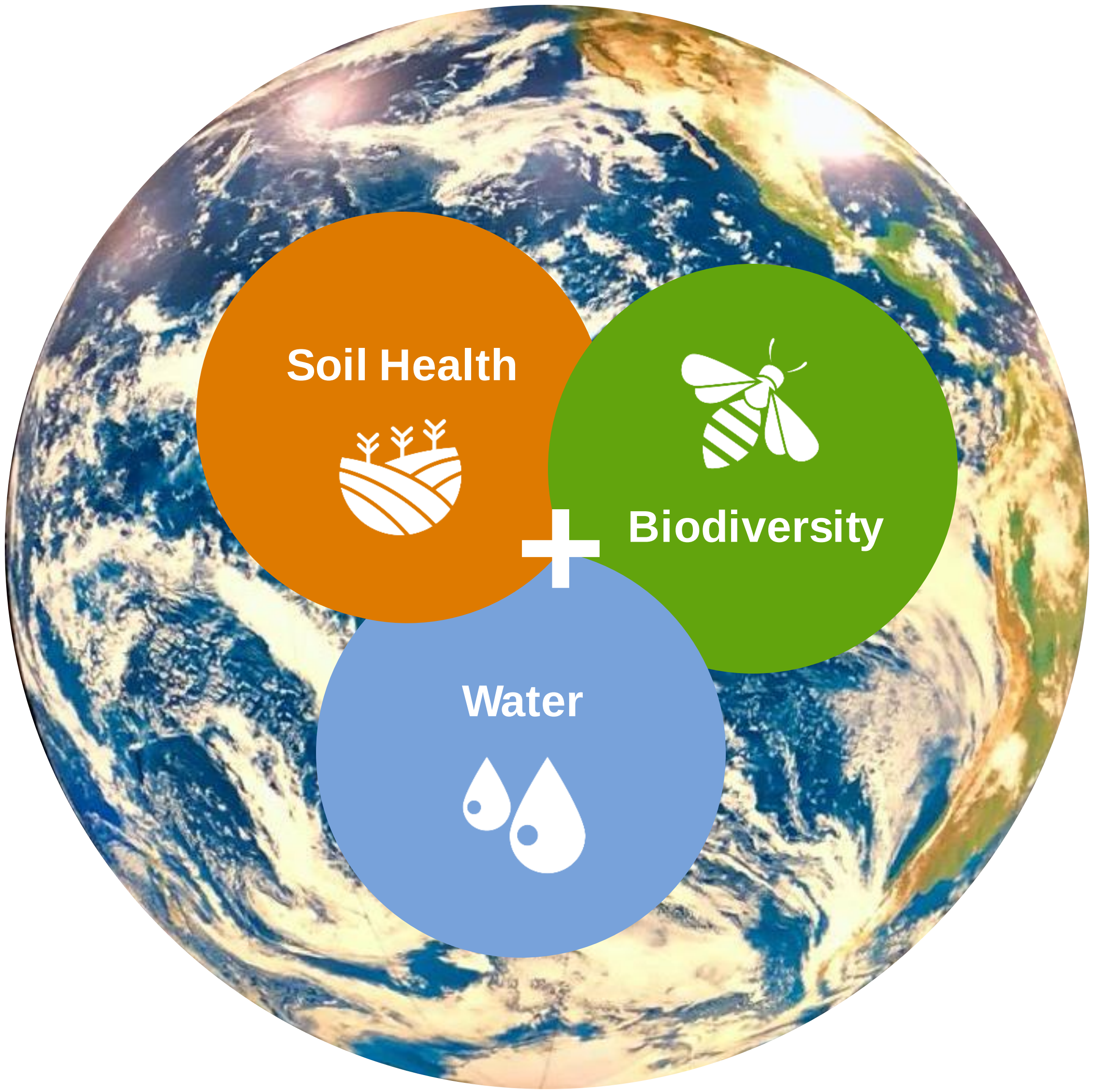
# CLIMATE+

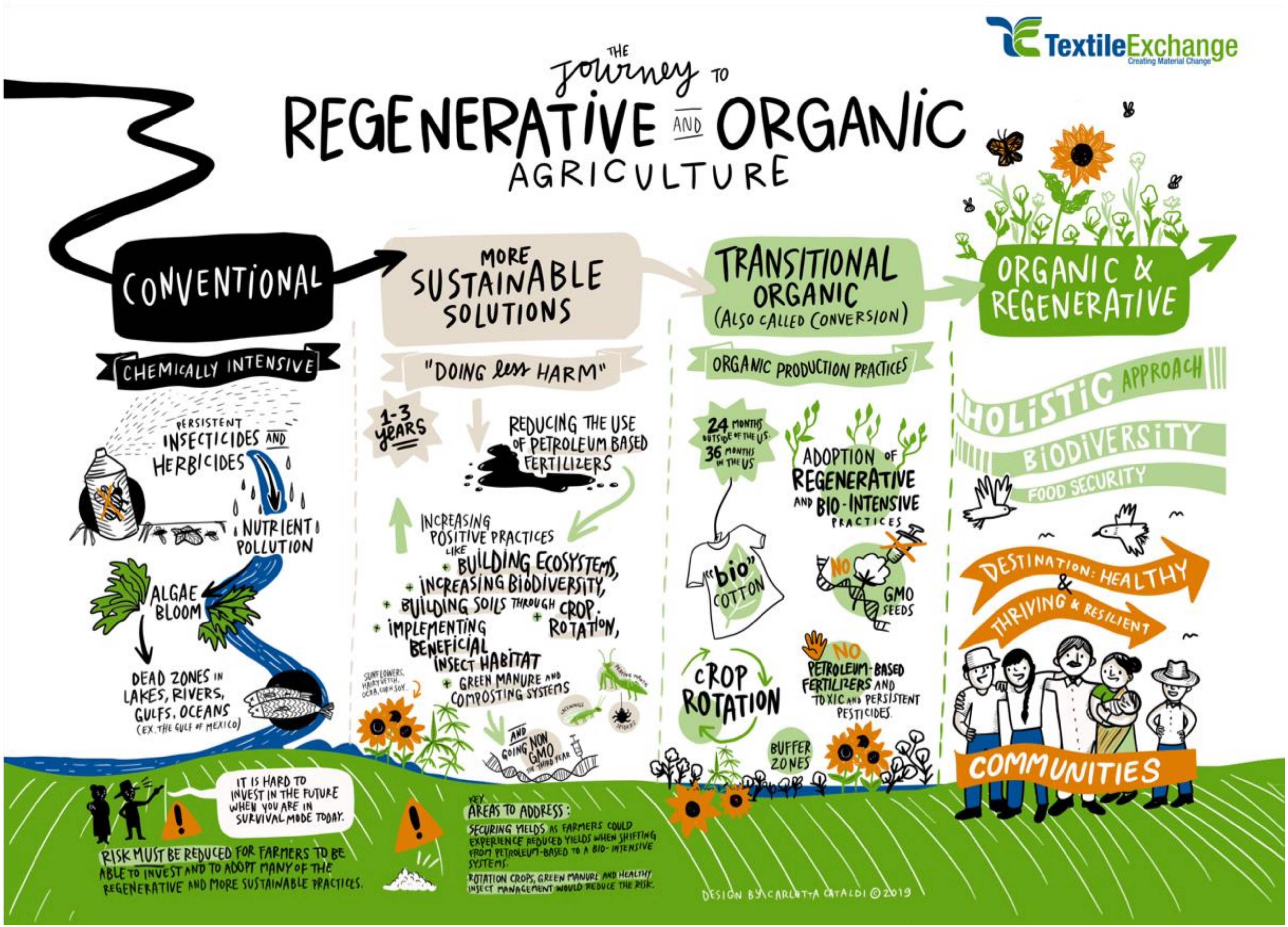
## TextileExchange • VISION 2030

**Textile Exchange's strategic intent over the next 10 years is to be a driving force for urgent climate action in textile fiber and materials production, specifically:**

Enabling and guiding the textile industry to reduce GHG emissions (CO2 equivalents) ***45% by 2030*** in the pre-spinning phase of textile fiber and materials production.

***Amplifying positive impacts in soil health, water, +biodiversity.***

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Creating Material Change
THE Journey TO REGENERATIVE AND ORGANIC AGRICULTURE
CONVENTIONAL
CHEMICALLY INTENSIVE
PERSISTENT INSECTICIDES AND HERBICIDES
NUTRIENT POLLUTION
ALGAE BLOOM
DEAD ZONES IN LAKES, RIVERS, GULFS, OCEANS (EX. THE GULF OF MEXICO)
MORE SUSTAINABLE SOLUTIONS
"DOING less HARM"
1-3 YEARS
REDUCING THE USE OF PETROLEUM BASED FERTILIZERS
INCREASING POSITIVE PRACTICES LIKE
+ BUILDING ECOSYSTEMS,
+ INCREASING BIODIVERSITY,
+ BUILDING SOILS THROUGH CROP ROTATION,
+ IMPLEMENTING BENEFICIAL INSECT HABITAT
+ GREEN MANURE AND COMPOSTING SYSTEMS
SUNFLOWERS, HAIRY VETCH, OCRA, CORN, SOY...
AND GOING NON GMO THE THIRD YEAR
TRANSITIONAL ORGANIC (ALSO CALLED CONVERSION)
ORGANIC PRODUCTION PRACTICES
24 MONTHS OUTSIDE OF THE US. 36 MONTHS IN THE US
"bio" COTTON
ADOPTION OF REGENERATIVE AND BIO-INTENSIVE PRACTICES
NO GMO SEEDS
CROP ROTATION
NO PETROLEUM-BASED FERTILIZERS AND TOXIC AND PERSISTENT PESTICIDES.
BUFFER ZONES
ORGANIC & REGENERATIVE
HOLISTIC APPROACH
BIODIVERSITY
FOOD SECURITY
DESTINATION: HEALTHY & THRIVING & RESILIENT
COMMUNITIES
IT IS HARD TO INVEST IN THE FUTURE WHEN YOU ARE IN SURVIVAL MODE TODAY.
RISK MUST BE REDUCED FOR FARMERS TO BE ABLE TO INVEST AND TO ADOPT MANY OF THE REGENERATIVE AND MORE SUSTAINABLE PRACTICES.
KEY AREAS TO ADDRESS:
SECURING YIELDS AS FARMERS COULD EXPERIENCE REDUCED YIELDS WHEN SHIFTING FROM PETROLEUM-BASED TO A BIO-INTENSIVE SYSTEMS.
ROTATION CROPS, GREEN MANURE AND HEALTHY INSECT MANAGEMENT WOULD REDUCE THE RISK.
DESIGN BY CARLOTTA CATALDI © 2019

# TextileExchange Organic Cotton Round Table

## Platform for Collective Action & Incubator for Great Ideas

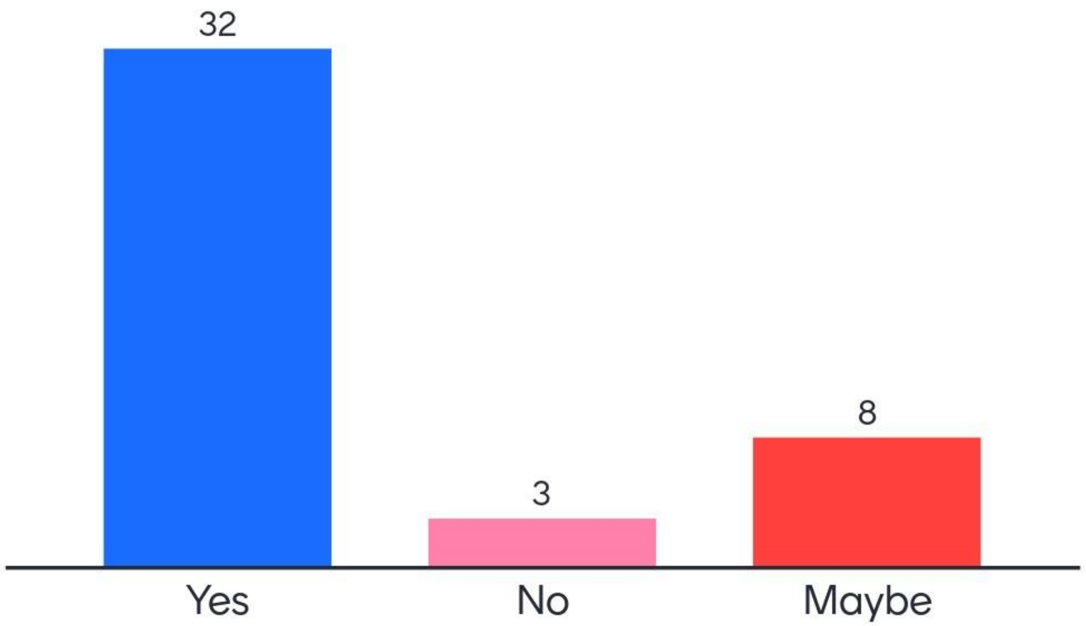
- A global stakeholder platform that supports and brings together the organic cotton community to be inspired, mobilized, and equipped to act
- Annual Global OCRT Summit
- Regional OCRT Summits held throughout the year
- 14 OCRT Summits held since first established in 2012, involving over 1,500 people from across the sector and the globe
- The OCRT has catalyzed and incubated a number of initiatives including the Organic Cotton Accelerator, Chetna Coalition, aboutorganiccotton.org, OCRT Innovation Award, OCRT HUB, Organic Cotton Producer Directory.
- OCRT e-Learning series launched in 2021.

# Today’s agenda

- **Organic Cotton Sourcing Models across the world**
- **Case Studies:**
  - OBEPAB
  - Chetna Coalition (ChetCo)
  - Organic Cotton Accelerator
  - bioRe Tanzania
- **Q&A Session**

# Would you approach sourcing organic or in-conversion cotton in a different way than you would approach sourcing other types of cotton?

Mentimeter

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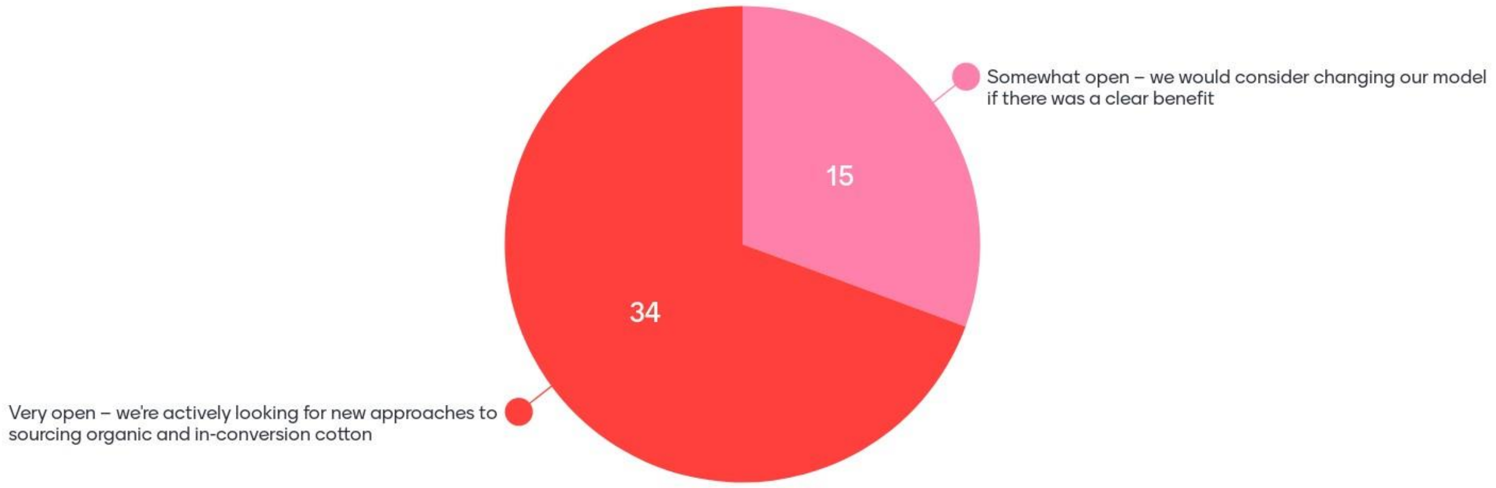
# How open would you be to trying a new approach if you could see a clear benefit to your business?

Mentimeter

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# Organic Cotton Sourcing Models

**Amish Gosai**

South Asia Manager, Textile Exchange | India

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# Want vs Need: Business for everyone

Farmers (Individual/group)

1) Committed buyers
2) A fair price
3) Affordable finances
4) Protection against an unpredictable market
5) Trade, not AID

Manufactures

1) Committed customers
2) Value sharing
3) Risk sharing
4) Assurance of product integrity
5) Clear targets for sustainability

Brands/Retailer

1) Supply Security
2) Consistent Quality and pricing
3) Product integrity
4) Assurance that farmers are benefiting
5) Reliable information & data.

Consumer

- Driving force

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# A GUIDE TO WHAT IS RIGHT FOR YOU

| | BRAND/RETAILER | SME (Small volumes) | MEDIUM-LARGE (Average volumes) | LARGE (Significant volumes) | COLLABORATION | | TIMELINE | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Solo | Group | Now | Longer Term |
| TRADING MODELS | DIRECT SOURCING | ★ | ★ | ★ | ★ | | ★ | ★ |
| | SPECIAL PURPOSE VEHICLES | | ★ | ★ | ★ | | | ★ |
| | SECTOR PARTNERSHIPS | | ★ | ★ | | ★ | | ★ |
| | COLLABORATIVE COMMUNITIES | ★ | | | | ★ | | ★ |
| PRICING MECHANISMS | FIXED PRICING | | ★ | ★ | | | | |
| | FLEXIBLE PRICING | ★ | ★ | ★ | | | | |
| | SPLIT DIFFERENTIALS | ★ | ★ | ★ | | | | |
| | FAIR TRADE | ★ | ★ | ★ | | | | |
| ENABLERS | PRIVATE SECTOR/SOCIAL ENTERPRISE | | ★ | ★ | ★ | | ★ | ★ |
| | PUBLIC SECTOR/CIVIL SOCIETY | ★ | ★ | ★ | ★ | ★ | | ★ |
| STAKEHOLDER INITIATIVES | ORGANIC COTTON ACCELERATOR | | ★ | ★ | | ★ | ★ | ★ |
| | ORGANIC COTTON ROUND TABLE | ★ | ★ | ★ | ★ | ★ | ★ | ★ |

# Model I: Direct sourcing

NEGOTIATION AND AGREEMENT BETWEEN BRAND AND SUPPLIER TO INCREASE TRANSPARENCY AND SECURE PRICE AND TERMS OF TRADE

## (a) Spinner-Centric Model

### SPINNER-CENTRIC MODEL – ADVANTAGES & DISADVANTAGES

ADVANTAGES

- Security in supply/demand
- Control of supply process back to yarn
- Agreed price and quality of yarn
- Chain of Custody records from spinner (potentially back to fiber)

DISADVANTAGES

- Human resource intensive
- Warehouse, inventory, and insurance cost
- GMO testing on yarn (the brand has to ask the spinner for GMO test reports from the farm through to the yarn stage)
- Traceability only to spinning level (the brand needs to rely on the spinner for integrity and sharing of the price differential to the PG and ginner)

### DIRECT SOURCING (SPINNER CENTRIC) – MODEL ATTRIBUTES

| | | | |
|---|---|---|---|
| Securing supply | ☑ | Farm price transparency | ☑ |
| Early demand signaling | ☑ | Risk and reward sharing | ☑ |
| Agreement brand - spinner | ☑ | Pre-financing | ☑ |
| Guaranteed uptake | ☑ | Leveraging access to financial services | ☐ |
| Quality control management | ☑ | CSR/ Community investment | ☐ |
| Open book costing | ☐ | KPI data collection and monitoring | ☐ |
| Pricing mechanism in place | ☑ | Consumer engagement | ☐ |
| Farm capacity building/input credits | ☑ | Supporting Fair Trade certification | ☐ |

## (b) Producer-Centric Model

### PRODUCER-CENTRIC MODEL – ADVANTAGES & DISADVANTAGES

ADVANTAGES

- Security of supply/demand
- Control of supply process back to fiber
- Agreed price and quality of fiber
- GMO testing is carried out on seed cotton and fiber
- Open costing and traceability back to farm
- Transparency in price differential paid to farmer
- Chain of Custody records back to fiber

DISADVANTAGES

- Human resource intensive
- Warehouse, inventory, and insurance costs
- Ownership and responsibility for fiber

### DIRECT SOURCING (PRODUCER CENTRIC)- MODEL ATTRIBUTES

| | | | |
|---|---|---|---|
| Securing supply | ☑ | Farm price transparency | ☑ |
| Early demand signaling | ☑ | Risk and reward sharing | ☑ |
| Agreements with fiber producers/gin | ☑ | Pre-financing | ☑ |
| Guaranteed uptake | ☑ | Leveraging access to financial services | ☐ |
| Quality control management | ☑ | CSR/ Community investment | ☐ |
| Open book costing | ☑ | KPI data collection and monitoring | ☐ |
| Pricing mechanism in place | ☑ | Consumer engagement | ☐ |
| Farm capacity building/input credits | ☑ | Supporting Fair Trade certification | ☐ |

# Model II: Special Purpose Vehicles

JOINT VENTURE BETWEEN COMPANIES WITH A COMMON GOAL TO LEVERAGE EFFICIENCIES, SCALE, AND BUSINESS BENEFITS

**SPECIAL PURPOSE VEHICLES & DISADVANTAGES**

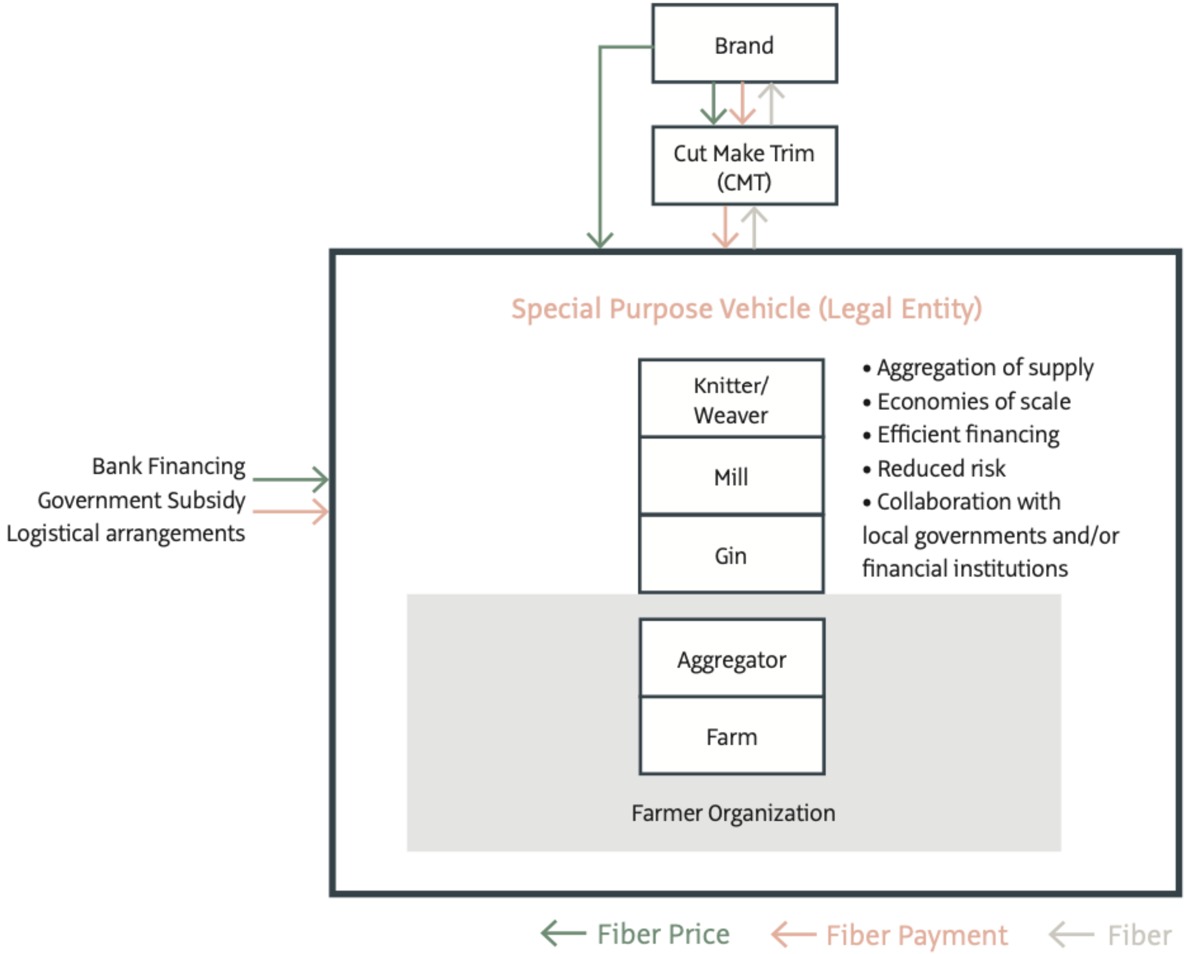
ADVANTAGES

- Security of supply/demand
- Control of supply process back to fiber
- Agreed price and quality of fiber
- Quality control and price transparency
- GMO testing can be carried out as part of the agreement
- Open costing and traceability back to farm
- Transparency in price differential paid to farmer
- Chain of Custody records back to fiber
- Risk management and potential incorporation of lenders/financial institutions
- Power to leverage finance

DISADVANTAGES

- Costly to set up
- Involves an element of risk taking
- Requires strong business knowledge and skills
- Warehouse, inventory, and insurance costs

| | | | |
|---|---|---|---|
| Open book costing | ☐ | KPI data collection and monitoring | ☐ |
| Pricing mechanism in place | ☑ | Consumer engagement | ☐ |
| Farm capacity building/input credits | ☑ | Supporting Fair Trade certification | ☐ |




Aggregator pools seed cotton or fiber - can be a cooperative or legal entity, ginner, spinner, etc.

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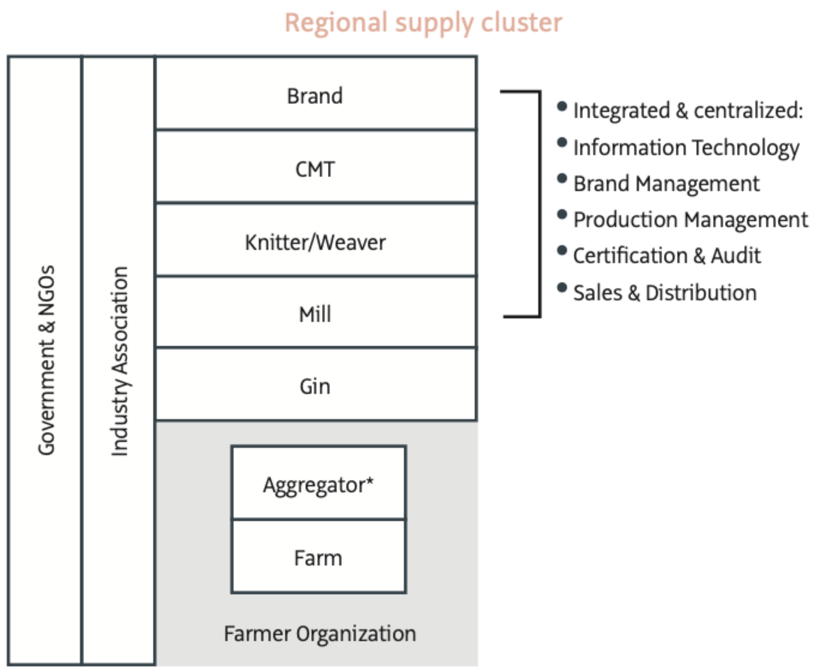
# Model III: Cluster Partnerships

PUBLIC AND PRIVATE SECTOR COLLABORATION TO SUPPORT LONG-TERM BUSINESS SUSTAINABILITY AND STABILITY WITHIN SUPPLY NETWORKS




## CLUSTER PARTNERSHIPS – ADVANTAGES & DISADVANTAGES

### ADVANTAGES

- Security of supply/demand
- Control of supply process back to fiber
- Agreed price and quality of fiber
- Quality control and price transparency
- GMO testing can be carried out as part of the agreement
- Whole sector investment/ collaboration
- Information sharing leveraged through technology platform
- Open costing and traceability back to farm
- Transparency in price differential paid to farmer
- Farm level KPI collection
- Power to leverage finances

### DISADVANTAGES

- Significant investment upfront
- Potential for dependency on investor(s)
- Requires whole sector agreement and co-ordination
- Considerable risk management and change management requirements

### DIS/ADVANTAGE

- Requires long-term buying commitments

## CLUSTER PARTNERSHIPS – MODEL ATTRIBUTES

| | | | |
|---|---|---|---|
| Securing supply | ☑ | Farm price transparency | ☑ |
| Early demand signaling | ☑ | Risk and reward sharing | ☑ |
| Agreements with spinners or ginners | ☑ | Pre-financing | ☑ |
| Guaranteed uptake | ☑ | Leveraging access to financial services | ☑ |
| Quality control management | ☑ | CSR/ Community investment | ☐ |
| Open book costing | ☑ | KPI data collection and monitoring | ☑ |
| Pricing mechanism in place | ☑ | Consumer engagement | ☑ |
| Farm capacity building/input credits | ☑ | Supporting Fair Trade certification | ☐ |

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# Model IV: Collaborative Communities

ALLIANCES WITHIN A SUPPLY NETWORK COMMITTED TO BEST PRACTICE AND A COMMON PURPOSE

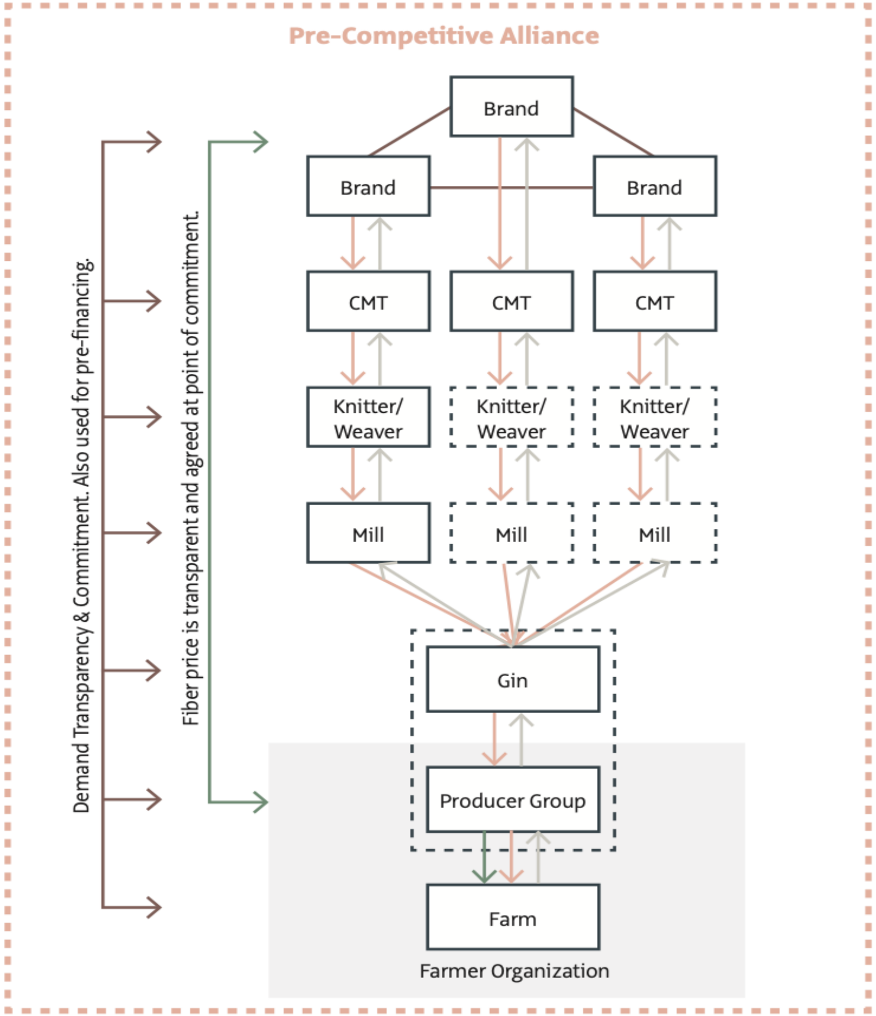
### COLLABORATIVE COMMUNITIES – ADVANTAGES & DISADVANTAGES

ADVANTAGES
- Security of supply/demand
- Agreed price and quality of fiber
- Quality control and price transparency
- GMO testing can be carried out as part of the agreement
- Open costing and traceability back to farm
- Transparency in price differential paid to farmer
- Smaller companies can reach economies of scale through aggregated demand
- Traceability back to farm
- Farm level KPI collection
- Power to leverage finances

DISADVANTAGES
- Human resource intensive
- Warehouse, inventory, and insurance costs
- Considerable risk management and change management skills required

### COLLABORATIVE COMMUNITIES – MODEL ATTRIBUTES

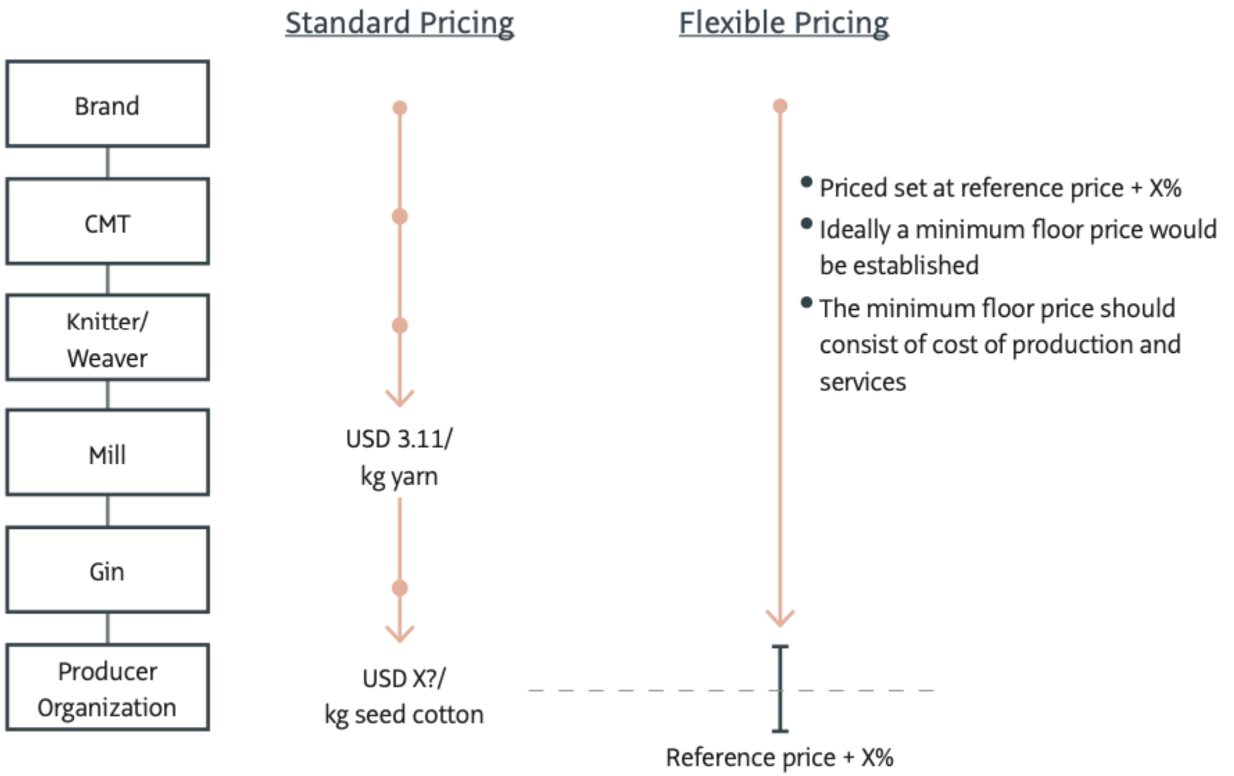
| | | | |
|---|---|---|---|
| Securing supply | ☑ | Farm price transparency | ☑ |
| Early demand signaling | ☑ | Risk and reward sharing | ☑ |
| Agreements with spinners or ginners | ☑ | Pre-financing | ☑ |
| Guaranteed uptake | ☑ | Leveraging access to financial services | ☑ |
| Quality control management | ☑ | CSR/ Community investment | ☑ |
| Open book costing | ☑ | KPI data collection and monitoring | ☑ |
| Pricing mechanism in place | ☑ | Consumer engagement | ☑ |
| Farm capacity building/input credits | ☑ | Supporting Fair Trade certification | ☑ |



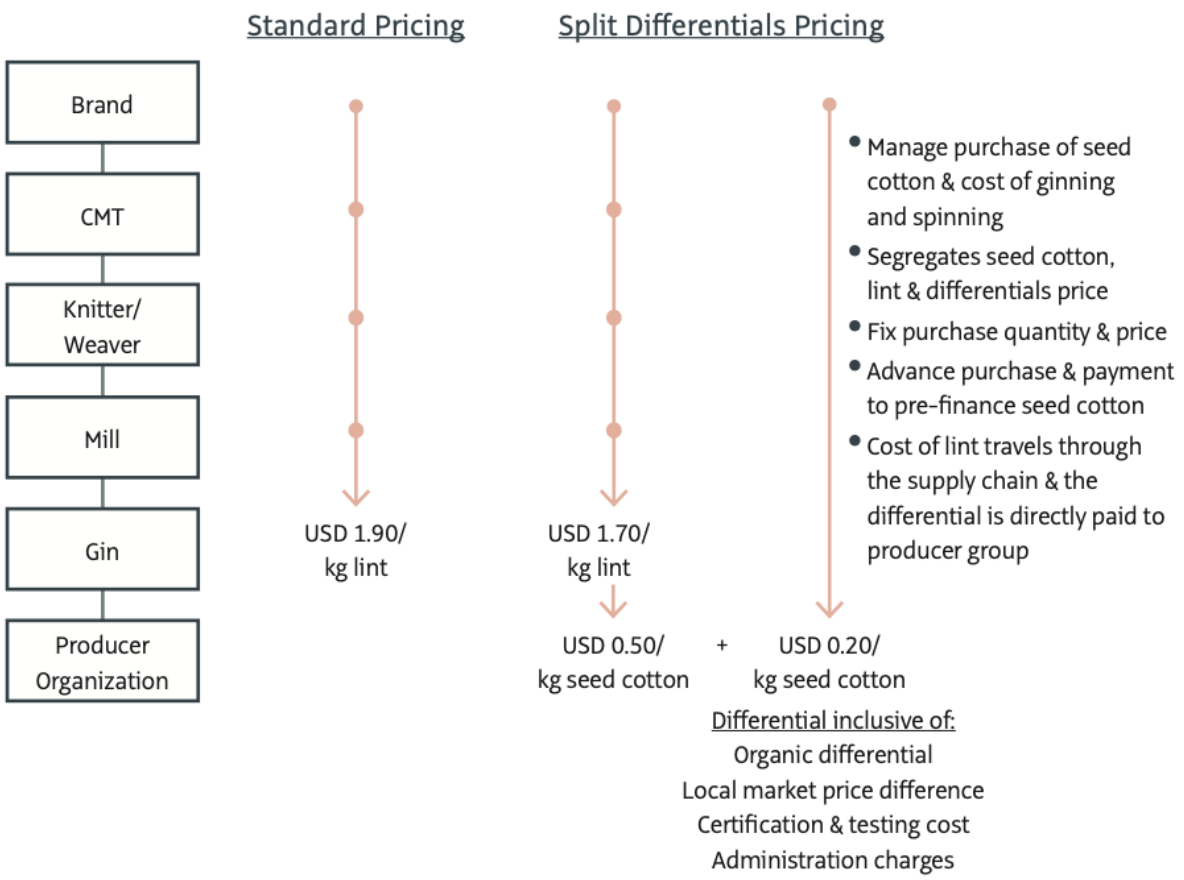

- Farmers are part of a producer group
- Producer group leases/contracts a gin
- Producer group needs to have an open-accounting system
- Demand is aggregated at brand level (or CMT if that is the supply chain decision maker) and committed ahead of time at an agreed price
- Aggregated committed demand can be used for pre-financing
- Each supply chain can maintain its existing players. Some supply chain parties are not part of the Alliance.

← Fiber Demand ← Fiber Price ← Fiber Payment ← Fiber

# Flexible Pricing Mechanism




# Split Differential Pricing Mechanism

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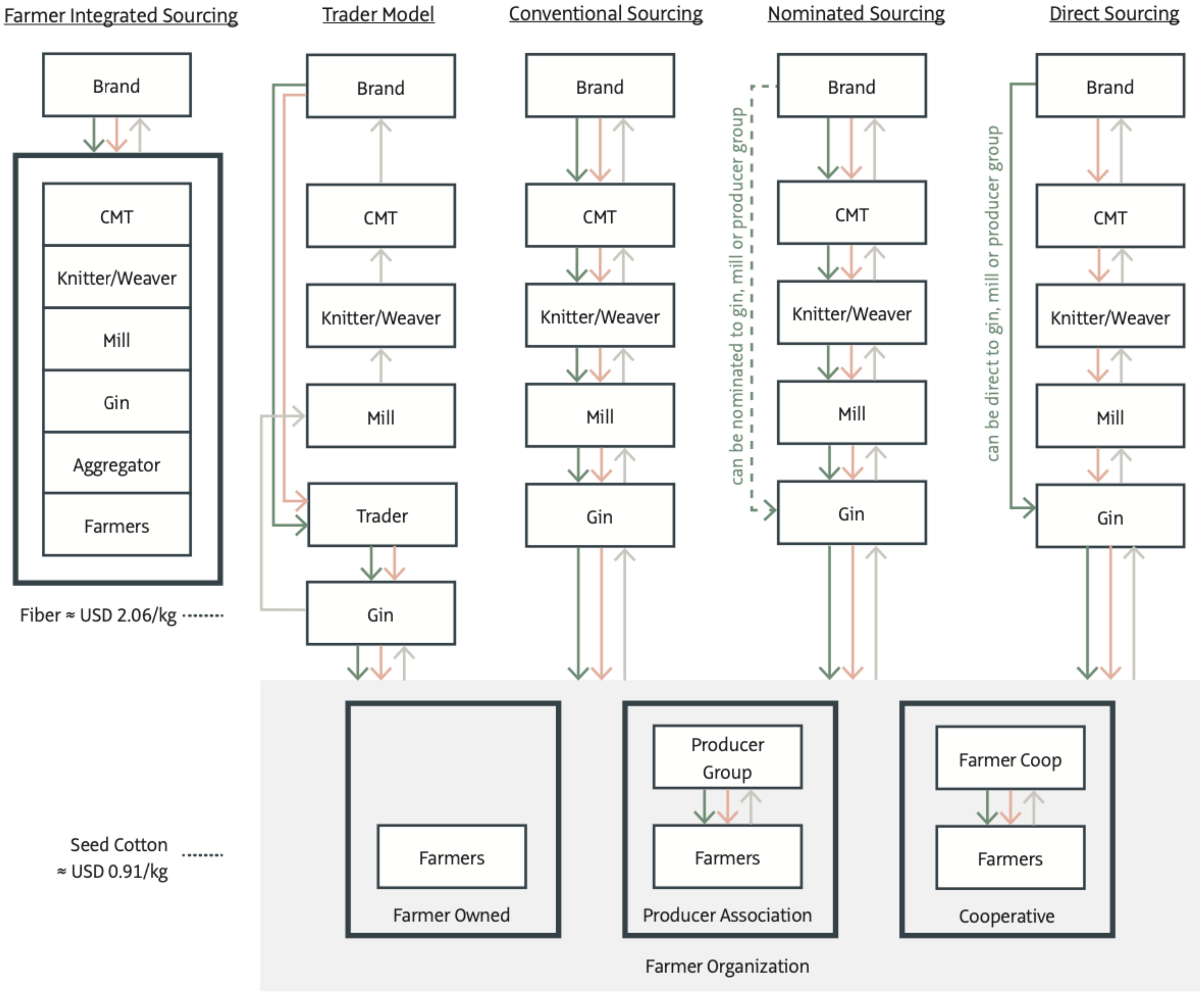
# India trading models

← Fiber Price ← Fiber Payment ← Fiber




- Farms are organized in three ways: farmer owned, producer associations or cooperatives.
- Trading models are applicable across each of the farm organizations irrespective of how it is organized.
- Farmer Organization may be NGO supported.
- Farmer Organization may own or lease gin.

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# It's all about 'right-sourcing & engagement' **strategy**

| Brand A | Brand B |
|---|---|
| Advance commitment | Open market |

| Product | | Brand A | Brand B | diff |
|---|---|---|---|---|
| Ne 30 Combed Knitting yarn | Cotton<br>3.60 USD/kg | Organic Cotton<br>4.5 USD/kg | Organic Cotton<br>6.2 USD/Kg | 37% |

# A tea talk with

## organic cotton sourcing trailblazers

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**Jaskiran Warrik**
Director, South Asia
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**Marco Paul**
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**Davo Simplice Vodouhè**
Coordinator
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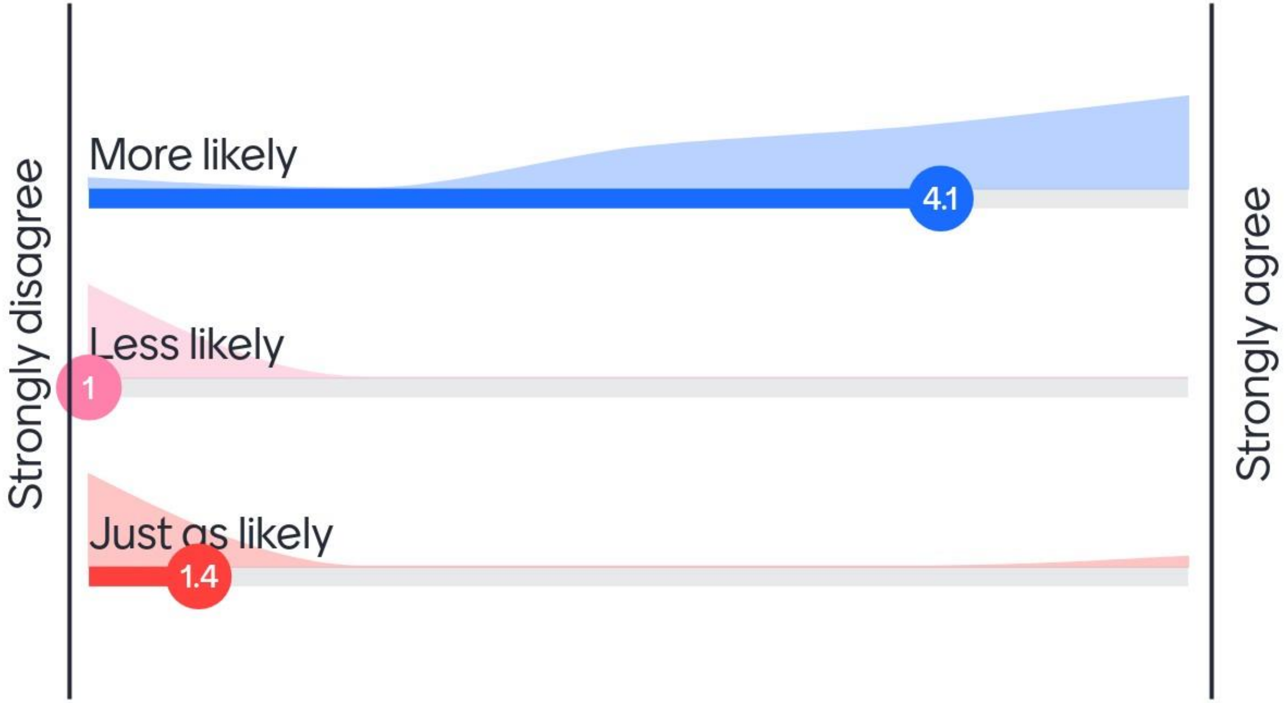
# Q&A

# After joining this webinar, how likely are you to consider new models for sourcing organic cotton?

Mentimeter

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# What would you like to hear more about next?

Mentimeter

How to source in conversion cotton.

More on price mechanisms

how to source this kind of sustainable cotton

more specific regional options that are closest to manufacturing

will there be shortage of organic cotton after the next harvest?

Regenerative Agriculture will overtake Organic cotton?

Regenerative organic farming

How to source from a retailer/brand perspective

is there any visibility of organic cotton booking by brands in TE platform? if not how they monitor & help brands & farmers? the demand canbe created inorganically!

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# What would you like to hear more about next?

Mentimeter

Prices of different type of organic cottons, feed stock of different type of organic cottons, more regional overviews

Case studies or live interaction with stakeholders of various supply chain model stakeholders

excited

Regenrative agriculture

How to set up an MoU with a producer organisation.

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# One word to sum up how you're feeling at the end of today's session

Mentimeter


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# Contact us at OCRT@textileexchange.org

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# Thank you

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