

2008 Africa Regional Meeting



Sustainable Fibre
Pricing in organic
cotton





Maintaining or creating sustainable rural incomes is part of the guarantee system for organic cotton production – guaranteeing that production delivers social and economic sustainability as well as environmental improvements

Organic Exchange aims to provide tools for calculating sustainable prices/incomes in organic cotton production – to support farmers while maintaining a level playing field in the supply chain for all actors





What the Farm Program wants to establish:

...that organic cotton must first cover the following triangle
(at the farm gate):

1. Cost of production (inputs, soil fertility, seed research, water management)
2. Cost of basic needs (food, education, health, and shelter)
3. Cost of development/maintaining a healthy rural economy and landscape (infrastructure development and maintenance, human development, landscape and biodiversity management and preservation, a healthy rural economy...)



Qualifiers – prices must offer fair returns but:

- Production must be productive
- Returns from the system maximised
- Beyond price is a Sustainable rural income
- A productive system of which cotton is just one part

Which means:

- A secure value chain that allows the development and maintenance of support services (training, research)
- The system generates value addition and new economic opportunities to secure sustainable rural economies (new business development, new business models).
- Profits must flow equally within the system to cover all stakeholders needs



In other words a sustainable business model and price take into account other factors than \$/kilo:

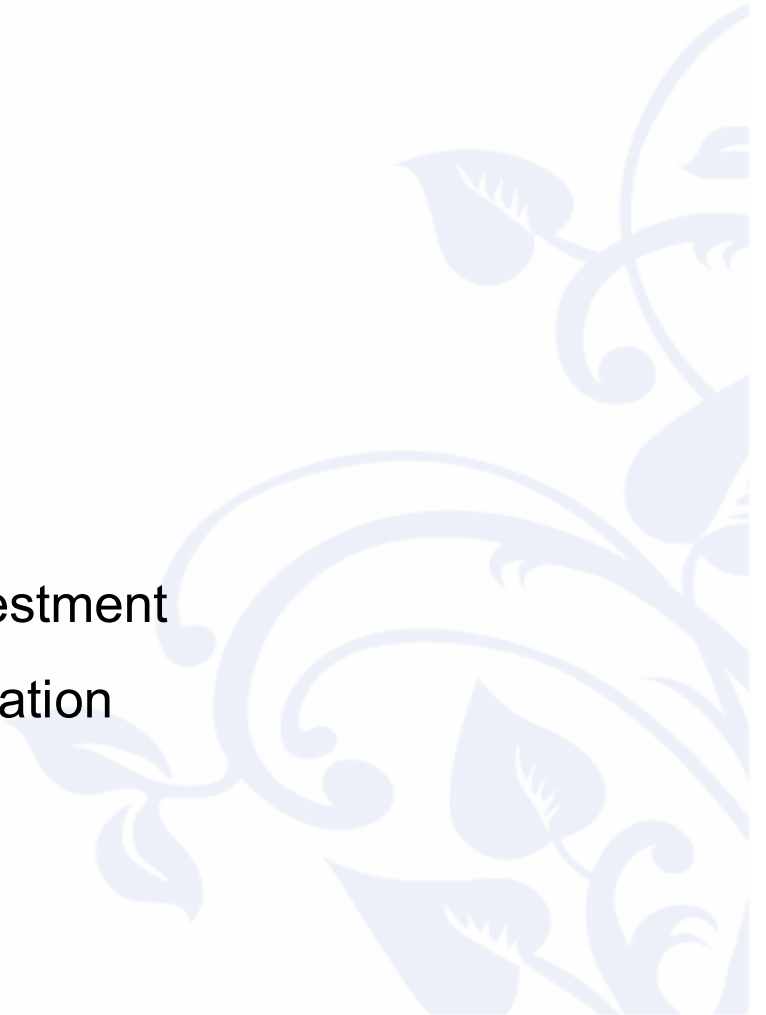
- Access to capital and ability to access finance (for investment, for development);
- Increased value-addition/retention
- Access to markets for other farm crops
- Ability to invest in other economic options (diversification,...)
- Ability to generate or access research and market information

Essentially, a sustainable price and business model lead to financial and resource surpluses that can be invested in business development, community development and farmers' and workers' families: education, health, nutrition that lead to a richer not poorer next generation.



Sample cost items for a kilo of organic fibre

- Farmer price (production costs, basic needs, development)
- Extension/Training/Support Services
- Farmer organisation/company/Coop
- Certification/Traceability
- Internal Control System
- Transport
- Ginning
- Insurance
- Marketing
- R&D/Business development/Investment
- business development/diversification
- Quality management





Examples of possible variations/additions in the calculation: farm level

Costs of production (based on maximised use of on-farm inputs) – soil fertility, pest management, biodiversity, diversification, water management, transport, ginning,

Yields and % variation with average yields in zone (basis as within +/- 20% local average? – Factor in variations for in-conversion in areas of previous high chemical use, where farmers are from lowest socio-economic categories? Other factors?)

Cotton contribution to cash income (ranges: 100% - over 75% - 50 to 75% - 25 to 50% - below 25%) and required from cotton to meet farm overall costs including food/subsistence crops and family/worker needs

Potential income from other farm system crops to meet overall cost need

Living costs (family, workers, dependents, food, basic health, primary education) and

Income required for household and community level improvements

Finance (costs of, needs for)

Costs of certification / transparency



Examples of possible variations in the calculation

Global variables - fuel – energy – currency (a variable percentage applicable annually depending on global situation?)

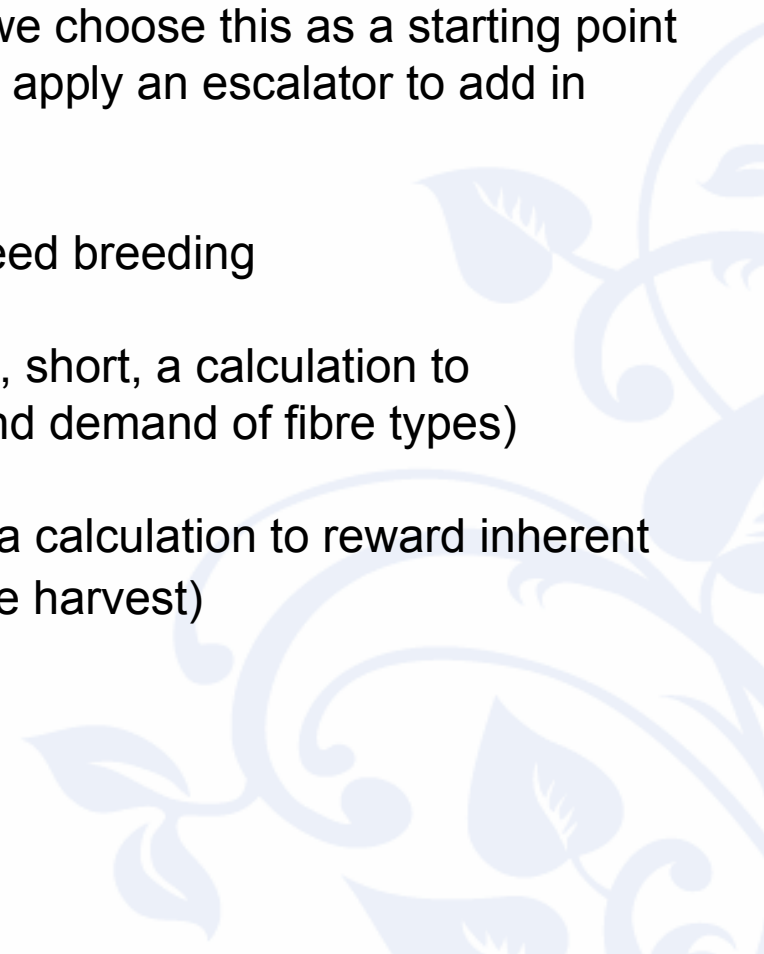
Global variable – conventional price (if we choose this as a starting point for calculating sustainable price and then apply an escalator to add in variables)

Organic system level – research and seed breeding

Product level – fibre type (ELS, medium, short, a calculation to differentiate between the market value and demand of fibre types)

Product level – quality and cleanliness (a calculation to reward inherent fibre characteristics and cleanliness of the harvest)

Rural level – economic development



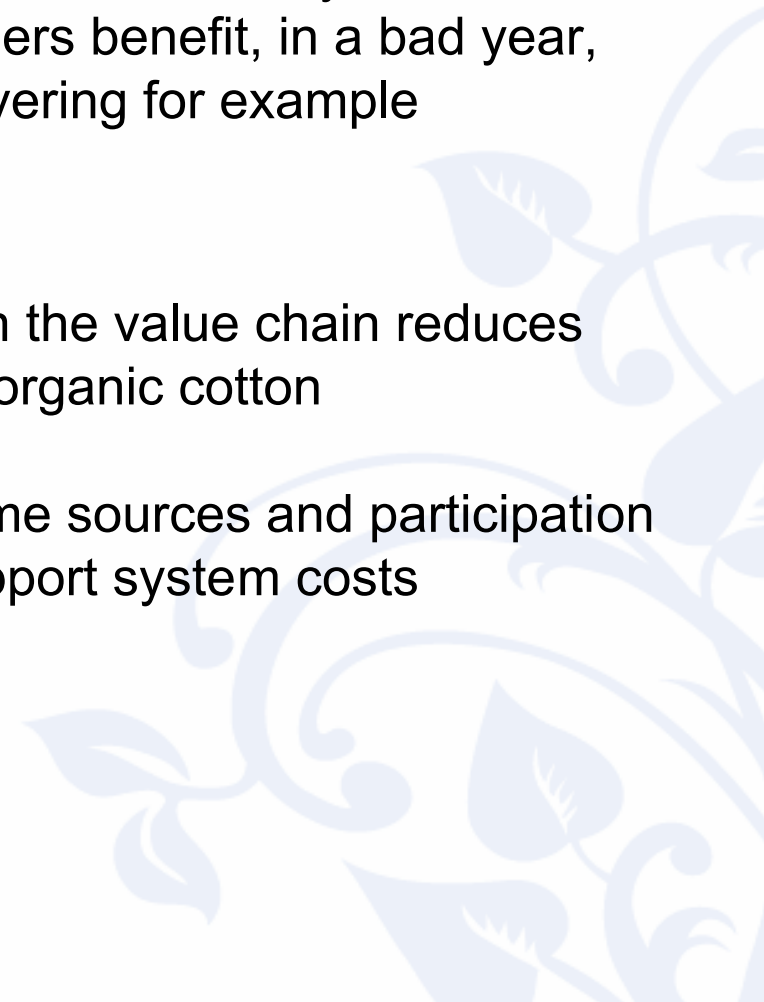


NB:

The business models selected can move some costs around and spread risk. Where farmers share in supply chain profits, some costs could be borne by dividends rather than directly as basic seed cotton price. In a good year, farmers benefit, in a bad year, they would still get a baseline price covering for example production costs/basic needs.

Participation by farmer organisations in the value chain reduces dependency of the farm gate price for organic cotton

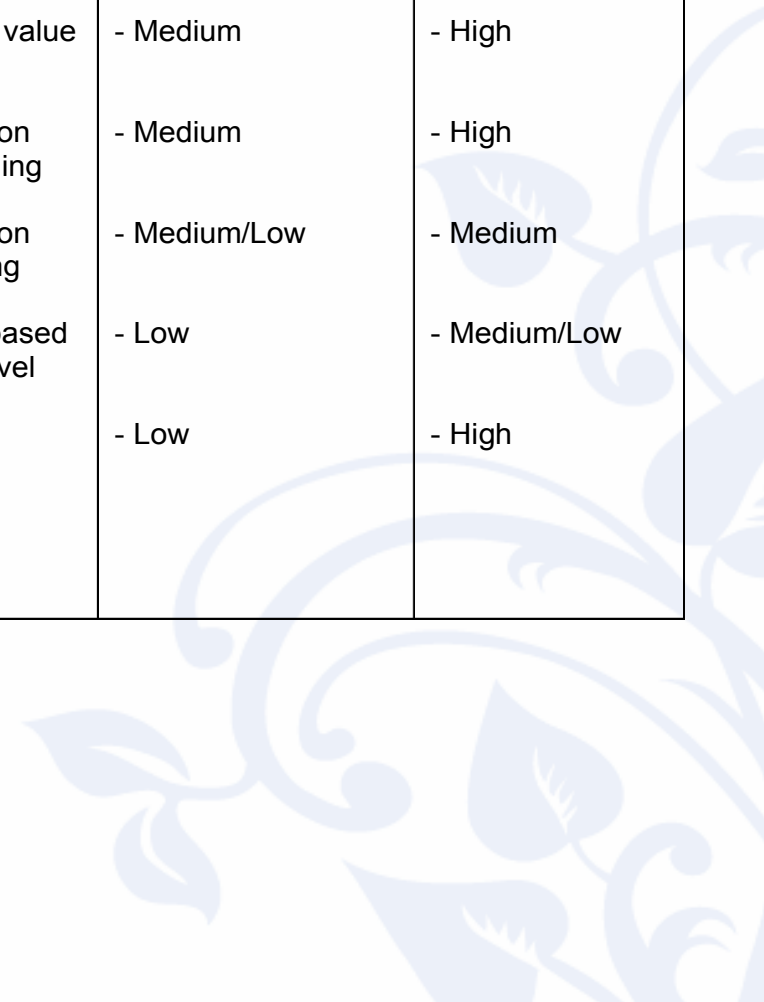
Improved productivity, diversified income sources and participation in the value chain dilute the overall support system costs





Farmer ownership models (outline, non exhaustive)

Farmer organisation type	Management	Ginning/Fibre trade	Captured value	Economic risk level	Sustainability (high cash return generated and net spare cash)
Full cooperative	Internal elected/external paid	<ul style="list-style-type: none"> - Coop Owned and own trading - Coop owned, contracted trading - Contracted in 	<ul style="list-style-type: none"> - Full fibre FOB or CIF value 	<ul style="list-style-type: none"> - Medium/High¹ 	<ul style="list-style-type: none"> - High
		<ul style="list-style-type: none"> - Gin Shareholding by Coop 	<ul style="list-style-type: none"> - High fibre value (FOB/CIF) - High – depending on cost of ginning - Variable depending on shareholding level 	<ul style="list-style-type: none"> - Medium 	<ul style="list-style-type: none"> - High
		<ul style="list-style-type: none"> - Merchant/Gin owned with profit share 	<ul style="list-style-type: none"> - Variable based on share level 	<ul style="list-style-type: none"> - Medium 	<ul style="list-style-type: none"> - High
		<ul style="list-style-type: none"> - Merchant/Gin owned, no profit share 	<ul style="list-style-type: none"> - None 	<ul style="list-style-type: none"> - Medium/Low 	<ul style="list-style-type: none"> - Medium
		<ul style="list-style-type: none"> - Merchant/Gin owned, no profit share 	<ul style="list-style-type: none"> - None 	<ul style="list-style-type: none"> - Low 	<ul style="list-style-type: none"> - Medium/Low
<ul style="list-style-type: none"> - Merchant/Gin owned, no profit share 	<ul style="list-style-type: none"> - None 	<ul style="list-style-type: none"> - Low 	<ul style="list-style-type: none"> - High 		





Questions for the workshop

- What are the cost components we should include?
- What variables do we need to take into account?
- Do we have a global baseline for different qualities and staples or regional variations?
- How do we monitor the implementation of a sustainable price system?
- Can we regulate and penalise or reward and how or who would do this?
- What else do we need to take into account?
- We are looking for groups/volunteers to help us gather information and answer surveys
- Other comments and reactions?