

## Organic Cotton Production and Fiber Trade 2008/09: In the Eye of the Storm

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### Overview

Historically, organic cotton began as the initiative of social entrepreneurs, farmers and NGOs responding to problems of misuse and overuse of pesticides and to social problems caused by production practices, low prices and debt.

By the 2008/09 growing season, organic cotton was grown in 22 countries,<sup>2</sup> with another five countries boasting research or trial programs; production reached 175'113 Metric Tons of fiber, or 802'611 Bales of lint in July 2009.

However, as well as the impact of the global recession, which has led to a sharp fall in demand, organic cotton has been hit by the effects of its own internal rapid growth, as new production projects rushed in to meet what seemed like an endless growth curve.

Unfortunately, this has resulted in over-supply and a squeeze on prices, which are running at 85 percent of the trend floor price of recent seasons (that is, the lowest price at which those involved in fiber production cover their costs and can maintain investment in integrity, farmer development, extension and research). However, the market is volatile and real prices paid by buyers (for extra quality, for more assurance of integrity, for good relations) may be higher, and have been seen at 10 percent to 50 percent above this trend price in some cases.

However, the organic cotton production system is a complex system and consequently requires a certain amount of stability to ensure sustainability, obliging farmers to manage their farms for achieving optimum results, such as by investing heavily in soil fertility management. Moreover, it requires support for a good seed supply, as well as appropriate extension and research. The trading system necessitates the integration of seed cotton supply into ginning, trading and marketing, while the consumer might expect farmers to make investments in the environment and their communities.

Africa has suffered more than many regions due to its high dependence on fiber exports and inability to offer fiber at the low prices coming from India. The Middle East and USA have also been affected. Latin America has been partially shielded by having regional markets for organic textiles to absorb some production, and by vertical integration of fiber production and manufacturing. Peru is helped by being a supplier of specialist products based on long staple fibers. India, while superficially the winner in the growth stakes, has had issues to addressing regulatory weaknesses of the Accreditation Body of the Govern-

Waller, Helga and Kitcher, Lukas. (Eds.) (2010)  
The World of Organic Agriculture - Statistics and Emerging Trends 2010.  
IFOAM, Bonn, and FIBL, Frick

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<sup>2</sup> These are Bangladesh, Benin, Brazil, Burkina Faso, China, Egypt, Greece, India, Israel, Kyrgyzstan, Mali, Nicaragua, Pakistan, Paraguay, Peru, Senegal, South Africa, Syria, Tanzania, Turkey, Uganda, USA; Argentina, Kenya, Zambia, Togo, and Ethiopia have trial or non-certified production.

## ORGANIC CROPS: COTTON

ment of India, which is part of the Agricultural & Processed Food Products Export Development Authority of the Ministry of Commerce and Industry of the Government of India (APEDA)<sup>1</sup>.

Production decreased in some countries such as Turkey and Peru, due to market and climatic factors, and production in China has been discounted due to lack of reporting or verification of some production numbers. Some Indian production reports have also been discounted due to conflicting reporting or absence of verification of numbers.

**Table 10: Organic cotton fiber production in 2008/09**

Region	Production 2007/08 (Metric Tons)	Production 2008/09 (Metric Tons)	Change (percent)
SE Asia	73'908	107'800	46 %
Middle East	52'753	49'450	-6 %
Africa non-CFA	5'455	6'610	21 %
China	7'354	3'849	-48 %
USA	2'716	2'729	0 %
West Africa	1'069	1'612	51 %
Latin America	1'590	1'614	2 %
North Africa	761	936	23 %
Central Asia	194	428	121 %
EU	72	85	18 %
<b>Total</b>	<b>145'872</b>	<b>175'113</b>	<b>20 %</b>
<b>Total in Bales</b>	<b>668'580</b>	<b>802'601</b>	

Source: Organic Exchange

The area certified for organic cotton is estimated at 253'000 hectares in 2008/09, with some 222'000 farmers involved. This suggests an average yield of organic cotton fiber per hectare of around 690 kg per hectare. This figure is some 86 percent of the global conventional average yield, perhaps lower than one might expect. This can be explained, at least partly, by the large number of farmers recently converted, whose yields will be expected to drop. Nevertheless, average yields remain a cause for concern; all the indications (from observing experienced organic cotton farmers) are that a well-supported organic cotton sector can achieve much better yields.

### Market trends

Since 2004/5, the profile of buyers has changed dramatically. There are more traders involved in the sector, and the committed social enterprises and small number of larger, committed brands have been joined by mainstream brands and retailers. Growth is positive in that it can drive business towards producers, but organic cotton has no common set of guidelines for best practices in cotton production and trade, thus the benefits may not be evenly distributed.

The problems caused by over-supply and low price offers are clear in the sudden drop in production growth. Growth in the three seasons until 2007/8 was 48 percent, 53 percent

<sup>1</sup>In 2010 APEDA will introduce a web based Traceability System, called TRACENET, that will require all organic farm and farmer details to be made available online, and through which they hope to have increased traceability.

and then an astonishing 152 percent, before dropping back to 20 percent in 2008/9. The next season may see even lower or stagnant growth.

This is the first time there has been a major, lasting over-supply in organic cotton. Stocks may be as high as 30'000 metric tons, or over 17 percent of total fiber production for 2008/9. Previously, stocks have tended to reflect planned and contracted production that was not yet processed, surplus production grown for spot sale, production from small and uneconomic projects or stock not sold for quality reasons. Previous stocks have run below 10 percent in 2 of the previous 5 growing seasons and below 15 percent in others.

Growth remains strong in some regions. However, India's growth is what one might describe as residual a remnant of the speculative production that anticipated overheated demand from 2007/8 would continue. Production growth in regions such as West Africa owes much to the funding provided by donors, and not always on strong buyer commitments. Declines in the Middle East reflect a combination of the price and oversupply situation and climatic factors. Production figures from China have been revised downwards as previous production reports have not been reconfirmed and verified.

Latin American growth figures reflect a situation where global slowing of demand is partly offset by local demand, and planning is based on real demand rather than speculation or availability of external funding. The region is perhaps the most realistic indicator of real trends in this sense, especially when one looks at stock levels, which are lower here than for example in Africa (which suffers from being a fiber exporting region rather than having a proportion of local consumption).

While growth is still present, but sharply down, producers are likely to face another year of tight conditions. The second half of 2009 showed some signs of renewed demand although real impacts on sales and thus reduction of stocks may not occur until later in 2010. Adverse weather and drought conditions in some regions such as India may help prices stabilize and rise as stocks are used.

## Prices

Offered prices at the beginning of 2010 were between 64 and 82 percent of the long term trend floor (or low end)<sup>1</sup> price of recent years (the price where all parties in fiber production can cover costs) and even lower compared to what might be considered a 'sustainable' price, such that farmers, traders and service providers involved in farming might be able to cover costs and make a fair return. This leaves producers and supporters of organic cotton dangerously vulnerable and over-reliant on support from donors.

However, the market is volatile and real prices paid by buyers (for extra quality, for more assurance of integrity, for good relations) may be higher, between 10 and 50 percent above 'baseline' in some cases.

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<sup>1</sup>The author and his team have been observing prices and working with producer groups in different regions (India, Turkey, USA, West Africa, East Africa, Latin America) to identify the price levels where producers and traders report they can cover their costs and/or make a fair return since 2005. These price levels remained relatively stable for most of that time until pressures became apparent especially from 2008.

## Prospects

Analyzing past demand numbers and current supply, there is a clear lag between use of organic cotton in a year and actual production, which due to the constraints of textiles production will under normal circumstances tend to be the case. However, the combination of speculative over-supply and reduced demand due to the global economic situation means that the difference between consumption and production has widened, and in 2008 production was already 40 percent higher than consumption.

The continued emergence of new consumer markets, such as Eastern Europe and East Asia may well further improve the supply/demand balance in 2010 and 2011. Established markets such as the UK continue to show strong continued demand with the market estimated to nearly triple between 2008 and 2012.

Still, the organic cotton sector must meet several internal and external challenges in the coming months and years.

The sector must address the protection of the farm and fiber business model to ensure farmers and those who work with them receive sufficient returns to maintain investment in farmer development and productivity. Among the tools for this are understanding of best practices in different farming systems, better traceability and integrity of fiber certification as well as monitoring of the real impacts of organic cotton in different producer groups and value chains.

Externally, organic cotton must respond to many global sustainability challenges over soil fertility, water use and management, climate change, food security and competition for land with food and biofuel crops, as well as growing cities.

As a cotton crop, organic cotton must also demonstrate how it stands up against the growing number of other so-called 'sustainable' cottons, such as Better Cotton and Fairtrade Cotton, as well as those arguing that Biotech cotton is also a sustainable crop. It must show it is socially and environmentally responsible and able to compete on productivity. Organic cotton also faces competition from so-called sustainable synthetics, such as recycled polyester.

The current situation has exposed weaknesses in the regulatory and self-governance structures in the organic cotton sector, as well as the need to implement better pricing mechanisms, better communication of the differences of the organic cotton system to investors and buyers in the sector. Issues relating to consumer understanding and messaging around organic cotton, its aims and real impacts present another important area for further development. Organic cotton could use a clear label such as the Fairtrade '*Guarantees a better deal for Third World Producers*' – and make sure it delivers this.

So what will the future bring? The world of organic cotton is full of bright, hard working and long established pioneers and idealists, those who shaped the initial vision of organic cotton as a solution to the severe problems of conventional cotton, who helped set organic cotton on its journey from niche to the mainstream. It is on a restatement of these same values that we will strengthen the sector. Crises lead to reconstruction and innovation, and the difficult year we have just faced is leading our industry to do just this. While challenges remain, the future remains bright