

The Better Cotton Fast Track Program

Accelerating the cultivation of
cotton that's better for the people
who produce it and for the
environment where it's grown



1 Introduction

‘Sustainability is a cornerstone in our strategic direction, highly prioritised and serves as a catalyst for further innovation and development within IKEA. To economise with resources and constantly renew and develop is an important part of IKEA’s idea and heritage.’

Mikael Ohlsson,
IKEA Group President
and CEO.
14th November 2010

We all wear cotton clothes. We use sheets, towels and curtains made from cotton in our homes. It’s been grown, spun, woven and dyed since prehistoric times and is a basic part of everyday life. Farmers around the world harvest 100 million tons of cotton every year. Some of them are subsidised¹ but most of them aren’t. Some work on a huge scale and live well but most farmers are smallholders who live in debt and poverty.

The retailers and brands that make and sell clothes share a growing acceptance that the current system of cotton production is not sustainable. There’s a lack of visibility in the supply chain. There are multiple levels of growing, processing and transaction where a short term opportunity can seem more valuable than long term security. For those looking for solutions, the starting point is in the field.

An alliance of multi national companies is now working together on sustainability with civil society organisations and their supply chain partners through the Better Cotton Initiative (BCI). The leading members have taken this work further by forming the Better Cotton Fast Track Program.

You are reading this because the challenge for cotton is a part of your daily work. You may be in farming, ginning, spinning, weaving, trading or making and selling cotton products. You may work to make public policy or seek to influence it. This paper will tell you about the market drivers and the challenges that led to the formation of the Fast Track Program. It has set a goal of a million metric tonnes of Better Cotton lint to be on the market by 2015, of which the participants aspire to buy up to half.

The Program aims to accelerate the implementation of the system of the BCI by encouraging supply and building demand.

¹ According to the Fairtrade Foundation in November 2010, since the World Trade Organisation’s Doha Trade Round started in 2001, cotton has been subsidised by £24.4 bn (USA), \$6.9bn (European Union) and \$15.4bn (China). (www.independent.co.uk/10/11/10). The US set up a technical assistance fund of \$147m/year in April 2010 as a solution to a World Trade Organisation dispute with Brazil over their cotton subsidies. (www.nytimes.com/6/4/10)

2 Market Drivers

2.1 The ethical shopper

Consumer choice dominates the market. Price has always been the key driver, but today’s consumers are becoming better informed and more demanding. They expect authenticity. They consider their purchasing decision as a moral choice. The investment of companies in their own branded consumer products requires a consideration of these higher expectations. To continue to move sales and customer retention forward, companies look for differentiation. For those with their own name on the label, their strategy now considers the ethical shopper as very important indeed.

2.2 Responsible procurement

Understanding environmental and social impact has become a part of daily work for leading companies. Those that accept accountability for the effects of their buying are responding to civil society values of integrity, honesty and objectivity. The policies of leading companies now seek to deliver positive social and environmental outcomes as a result of their business. Their buyers begin their negotiations with an expectation of supplier compliance to those policies.

2.3 Securing supply in an unpredictable commodity market

The volatility of the commodity market means uncertainty for buyers. Vertical integration is one business approach to remove such uncertainty. By actually owning farms and factories, margins are managed through efficiency rather than negotiation. Through the development of mutually beneficial trading partnerships, other similar commodity supply chains such as coffee and cocoa have reduced uncertainty. In cotton, there is a trend towards increasing such integration by building better linkages.

‘Cotton is produced in more than 110 countries around the world, many of which are already feeling the impact of climate change. As temperatures rise and water supplies fall, cotton – like other agricultural commodities – is at risk for crop failure. Meantime, many of the 45 countries in which our products are manufactured are either already feeling the effects of climate change or will soon. In India, China and Nicaragua, this means water shortages. In Vietnam and Bangladesh, on the other hand, it means too much water – in the form of flooding. At risk for us, cotton availability, quality and pricing. Also, long-time sourcing plans. And, ultimately, jobs around the world.’

Amy Leonard,
Senior Vice President,
Levi’s® Men’s Product
Development & Sourcing,
Levi Strauss & Co.
26th May 2010

3 Challenges

3.1 The market

Currency fluctuations, changes in commodity prices and credit risk assessment failures combine to create a tough market where price is an imperative. Meanwhile, costs are increasing for suppliers and it's difficult to borrow money. High cost retailers and niche brands are seeing market share drop. Consumers aren't buying so much and they're also trading down as they look to balance their own budgets.

3.2 The cost of failure

As consumers hold brands accountable for problems with people and the environment, products with negative associations can affect reputation. The indirect costs in lost consumer confidence can be very serious. An extra challenge is that accountability is unclear. Companies and their suppliers struggle to apply legislation in countries where regulations are not effectively enforced by public authorities. To make things tougher, there are many hidden agents and sub contractors within the supply chain.

3.3 Unsustainable farming

Globally, cotton is grown on 2.5% of arable land and accounts for 6% of pesticide usage². In developing countries, this figure climbs to 50%³. Cotton farming can involve high usage of manufactured nitrogen. This increases the carbon footprint and can have negative environmental impacts through contamination of watercourses. There's also a question about water usage for irrigation that has contributed to water depletion in some regions of India.

For the people working in cotton farming there are challenges as well. Living in poverty, with high rates of illiteracy combined with the use of toxic pesticides and child labour mean that many pay a high personal price to grow and pick cotton.

Water use in cotton production:

- Cotton production uses 3.5% of world wide water use for crop production
- It takes 11,000 liters to make 1 kg of final cotton textile
- That means 2,700 liters to make 1 T-shirt of which:
 - 45% is irrigation water consumed by the plant.
 - 41% evaporates from the field during growing
 - 4% dilutes the waste water flows that result from the use of fertilizers in the field and chemicals in making fabrics.

World Business Council for Sustainable Development:

'Sustain' Issue 29, Page 7

Their source: www.waterfootprint.org; (the WBCSD recognizes that these are estimates that will vary by region and does not endorse them as official.)

4 Solutions

4.1 The Better Cotton Initiative: Setting the standard

The Better Cotton Initiative (BCI) has been formed to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future. It is the only initiative of its kind that has mass-market transformation as an explicit goal. It has the support of enough leading companies to become the standard for sustainable cotton production in mainstream markets.

4.2 The Better Cotton Fast Track Program: Driving supply and building demand

To support and strengthen the implementation and success of the BCI, the "Better Cotton Fast Track Program" has been founded by a group of market leading private and public organisations. They will work together until 2015 to drive change, with the following objectives:

To support the long term objectives of the BCI

- By demonstrating the business case for economic, social and the environment
- By increasing supply chain traceability
- By facilitating collaborative learning on the effective implementation of the BCI system

To accelerate the implementation of the BCI System

- By building supply and availability of Better Cotton
- By building demand for Better Cotton

It's a demand driven strategy based upon the financial commitment of leading retailers and brands, supported by a group of funders. They believe it represents a big step towards their vision of a sustainable cotton industry. The Program invests in farmer projects around the world and initiates the procurement of the Better Cotton that is produced.

The Program is a pre-competitive collaboration that is supported by stakeholders from the cotton industry and civil society. The benefits of this activity are shared by farming communities, governments, regulators, traders, investors and consumers. It will work with a million farmers to achieve its goal of a million metric tonnes of Better Cotton lint on the market by 2015, of which the participants aspire to buy half.

The objectives and system of the Better Cotton Initiative

The BCI has identified the following long-term objectives:

- To demonstrate the inherent benefits of Better Cotton production, particularly the financial profitability for farmers
- To reduce the impact of water and pesticide use on human and environmental health
- To improve soil health and biodiversity
- To promote Decent Work for farming communities and cotton farm workers
- To facilitate global knowledge exchange on more sustainable cotton production
- To increase the traceability along the cotton supply chain



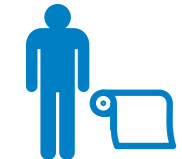


Source: Better Cotton Initiative.

Note: The BCI system ends with a bale of Better Cotton lint that has a specific code (the Unique Bale Identification Code)

² Cotton's share by value of global pesticide consumption declined from 11% in 1988 to 6.8% (US\$3 billion) in 2008. Similarly, the share of world insecticide use (insecticides are a subset of all pesticides) on cotton declined from 19% in 2000 to 15.7% in 2008. Data provided by Croprosis, a private company in the UK to The International Cotton Advisory Committee (ICAC) Expert Panel on Social, Environmental and Economic Performance of Cotton Production (SEEP), August 2010.

³ WWF "Cleaner, Greener Cotton: Impacts and better management practices". 24 October 2007.

5 The business case for getting involved

	For the farmer You grow and sell cotton. Better Cotton means you can farm better while reducing your costs through the adoption of good agricultural practice and decent labour standards.
	For the ginner You buy cotton from farmers and process it into lint. Better Cotton means you can expect that farmers will be able to sell you a crop in the long term that is cleaner and easier to gin.
	For the spinner You buy cotton lint from the ginners. Better Cotton means you can manufacture yarn that includes an increasing blend of fibre that will be wanted by manufacturers because it comes from sustainable sources. You can become a preferred supplier.
	For the manufacturers You make cotton based products and sell them to retailers. Better Cotton means you can deliver for your customers because you have used yarn that includes a blend of fibre that has been produced sustainably.
	For the retailers and brands You sell your products to consumers. Better Cotton means you can sell goods that meet their expectations for the people that grow and harvest the cotton and for the environment.
	For the funders You have a vision to support sustainable development, reduce poverty and protect the environment. Better Cotton means you can engage with a global network of other organisations that share your vision.

For everybody
You are all a part of the global cotton industry and its future is your future. Better Cotton means you can meet each other, find out about working together and share knowledge so it can be used.

6 Frequently Asked Questions

6.1 Why is there no premium for 'Better Cotton'?

Better Cotton is not about creating another market niche; it is about sharing and promoting good practice for mainstream cotton production in markets around the world.

There's a business case for the farmers, with positive outcomes for pesticide and water usage, soil health and biodiversity. That makes Better Cotton good for the environment and good for the people whose livelihoods depend on growing it. There's no market premium for good farming. Instead, there's a business premium for the farmers because they're efficient.

6.2 How far up the supply chain does the Better Cotton system go?

The BCI system starts on the farm and stops at the bale with the BCI unique code. The rest is left to the market through already existing arrangements. This gives flexibility and enables growth.

There are issues elsewhere in the supply chain, both for the environment and for people. In the future those later stages could be a logical challenge for the industry to tackle. However for the present, the BCI system works on the land where there are many wins for farming communities.

6.3 Why are so many retailers and brands that are members of BCI not involved in the Fast Track Program?

These companies all have their own policies. Although most of them aren't involved in the Fast Track Program, there are many other ways that they may be investing in farmer support. However, they have committed to support the objectives of the BCI, which are all supported by the market leading participants in the Fast Track Program. In due course some of them may decide to also join the Program. It's their choice.

6.4 How does the Fast Track Program consult with civil society organisations?

One of the civil society organisations that drove the creation of both the BCI and the Fast Track Program was the Worldwide Fund for Nature (WWF). Another that has been a key contributor is Solidaridad. They've helped design both approaches.

The Council of the BCI, which includes members from civil society, ensures a clear strategic direction. The Fast Track Program has an Executive Board which is bound to support that strategy. The Program also has an Investors Committee that decides on which projects to fund around the world. That committee appoints advisors from civil society. There are also advisors in the Fast Track Program's various working groups.

6.5 The term 'Better Cotton' implies that there's something wrong with mainstream cotton. Anybody involved in the industry will recognise that there are problems but will also know that a lot of cotton is already of very good quality. How do you explain this negative implication?

The meaning of the word 'better' is that something is improved. Good, better, best. So the interpretation of this title expresses a journey of improvement. Of course there is cotton of quality in markets all over the world. However, the understanding of quality is changing, driven by consumers. It's not just about physical quality, it's also about emotion. Consumers don't want products that have had negative effects on the environment or the people involved in making them. So 'Better Cotton' is about a new quality that includes product integrity.

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The participants in the Better Cotton Fast Track Program are:

Private Partners

Adidas - Germany
H&M - Sweden
Ikea - Sweden
Levi Strauss & Co. - United States of America
Marks and Spencer - United Kingdom

Funders

ICCO - The Netherlands
Dutch Sustainable Trade Initiative (IDH) - The Netherlands
Rabobank Foundation - The Netherlands

Implementing Partners

Solidaridad - The Netherlands
Worldwide Fund for Nature - Pakistan, India

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