



Sustainable Cotton & Textiles through Cooperation in the Supply Chain

Dr. Reinier de Man
consultant for sustainable business development
Leiden, the Netherlands

I am an international consultant ...



- international consultant for sustainable business development
 - sustainable business
 - sustainable supply chain management
 - partnerships for sustainability (e.g. timber, cotton, palm oil)
 - knowledge and experience in forestry and agri-food sector
 - websites www.rdeman.nl and www.sustainable-palmoil.org
- clients
 - international companies (Unilever, Norske Skog, UPM-Kymmene, Otto Versand, Axel Springer, ...)
 - international NGOs (WWF, Greenpeace and others)
 - government (Germany, Netherlands)
- cooperation with different partners
 - Partnership in Systain network www.systain.de



... working on similar issues since 1992

- Studies on substance chain management for Dutch government 1992-1994
- Studies on substance chain management for Enquetekommission 1992-1994
- Studies on textile chain for Dutch ecolabelling organisation 1993-1994
- Studies and projects on cooperation in the paper chain (Germany-Norway) 1995 -1999
- Project on Freshwater & Cotton in Turkey 2001
- Advice to WWF on Freshwater & Cotton 1999-2001
- Projects on substance chain management for UBA, 1996-2001
- Projects in the paper chain (Finland, Russia, etc.) 1999-2003
- Setting up a roundtable on sustainable Palm Oil 2001-2003

Sustainable Cotton & Textiles through Cooperation in the Supply Chain



Part I cotton, sustainability & cooperation in the supply chain



Cotton is linked to ecological, social and economic problems

- Ecology
 - 11% of pesticides, 24% of insecticides globally
 - serious soil problems: erosion, chemicals
 - disproportionate water use, water pollution
- Social and economic aspects
 - health problems
 - debt problems, poverty
 - no sustainable regional development

Not all cotton is sustainable



Cotton contributes to irreversible destruction of ecosystems

1960

1985

1986

1987

1988

1989

1990

1991

1992

1993

1994

1995

1996

1997

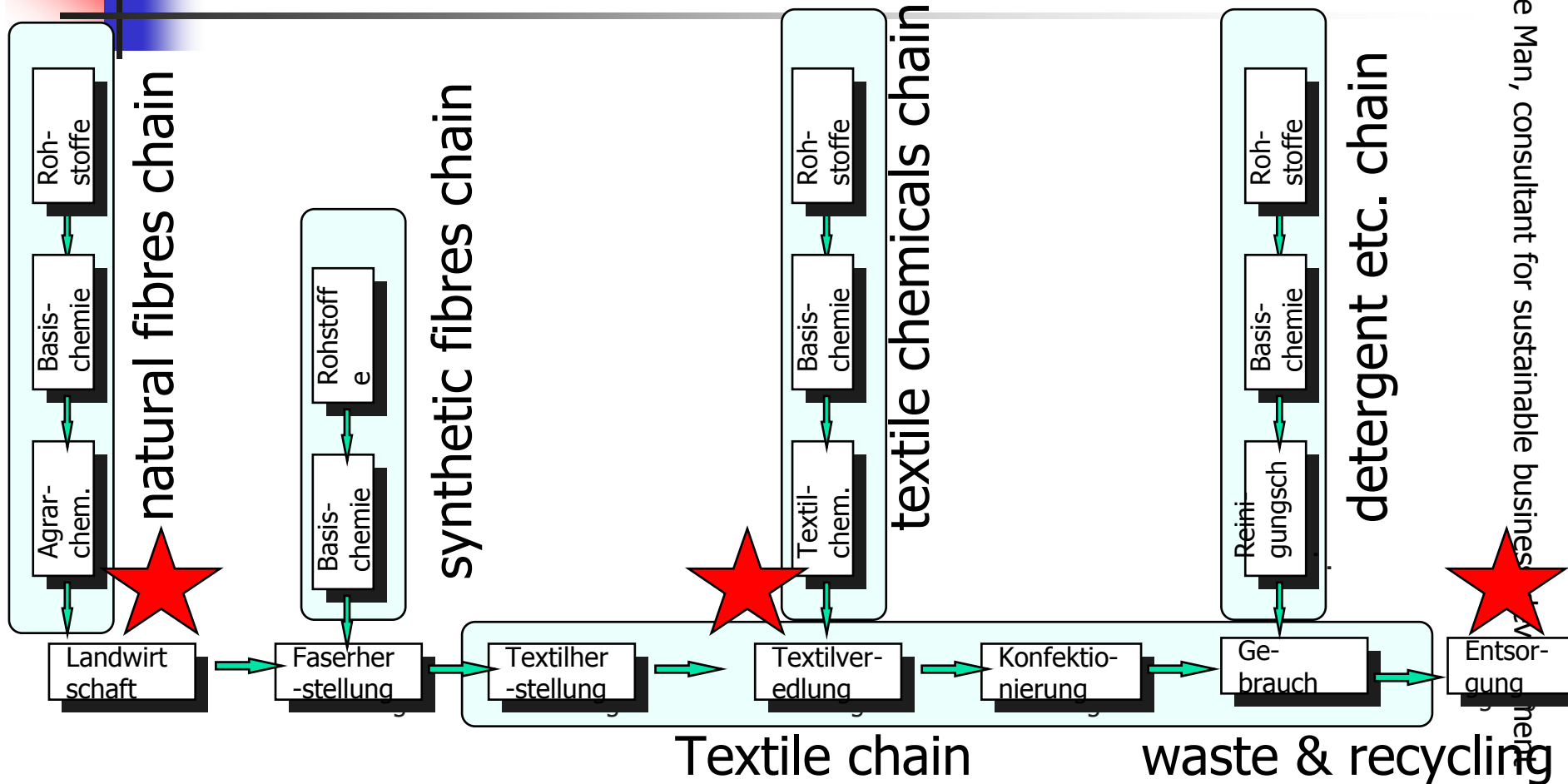
1998

2010

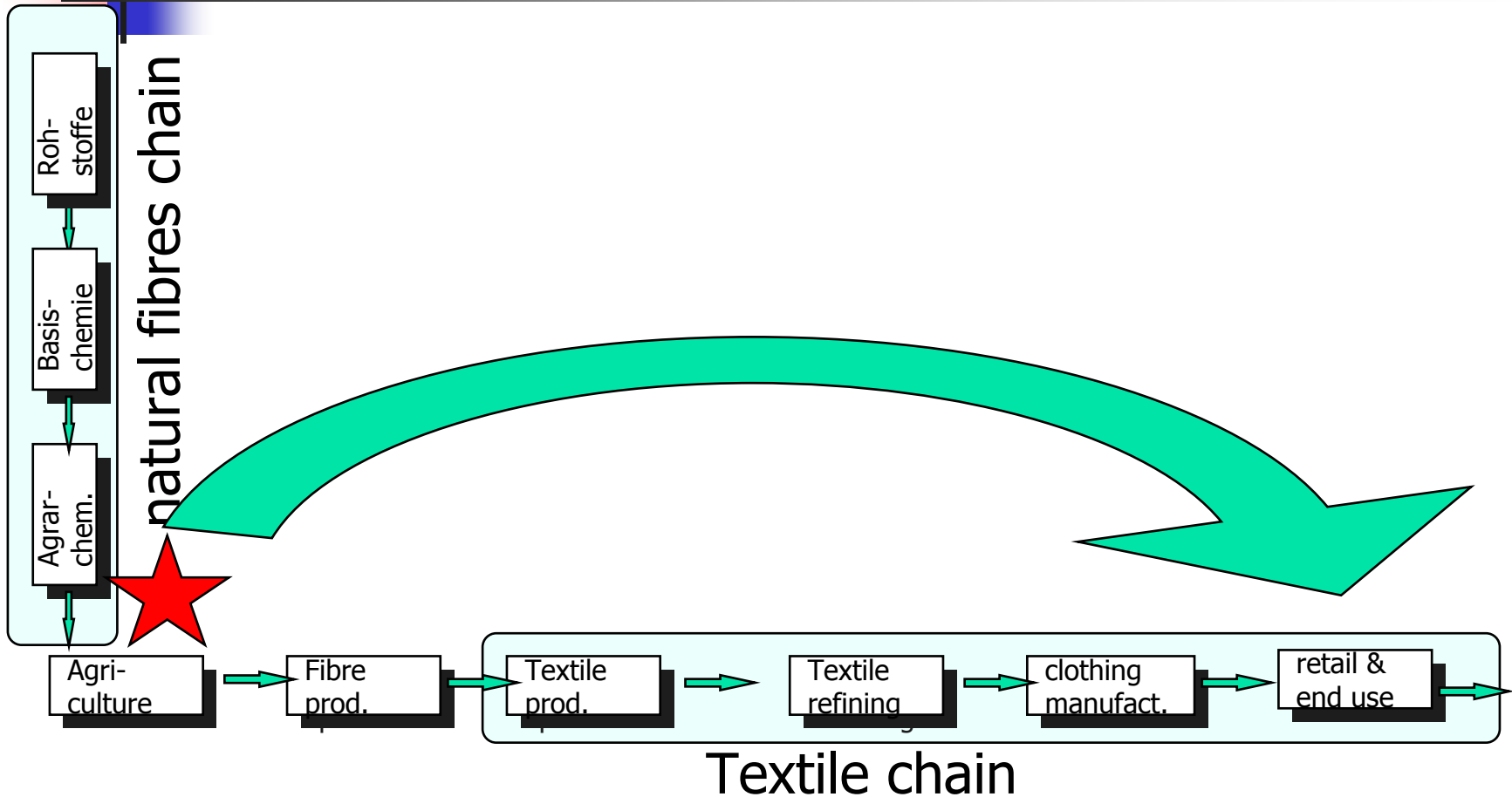
In 2015, one of the largest lakes in the world will have permanently disappeared ...

Würzburg, Septer
10, 2003

There is a need for optimisation of the entire textile chain(s)

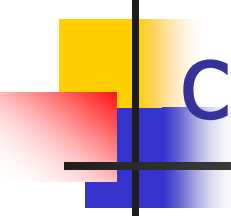


There is a need to communicate sustainability of raw materials



Würzburg, September
10, 2003

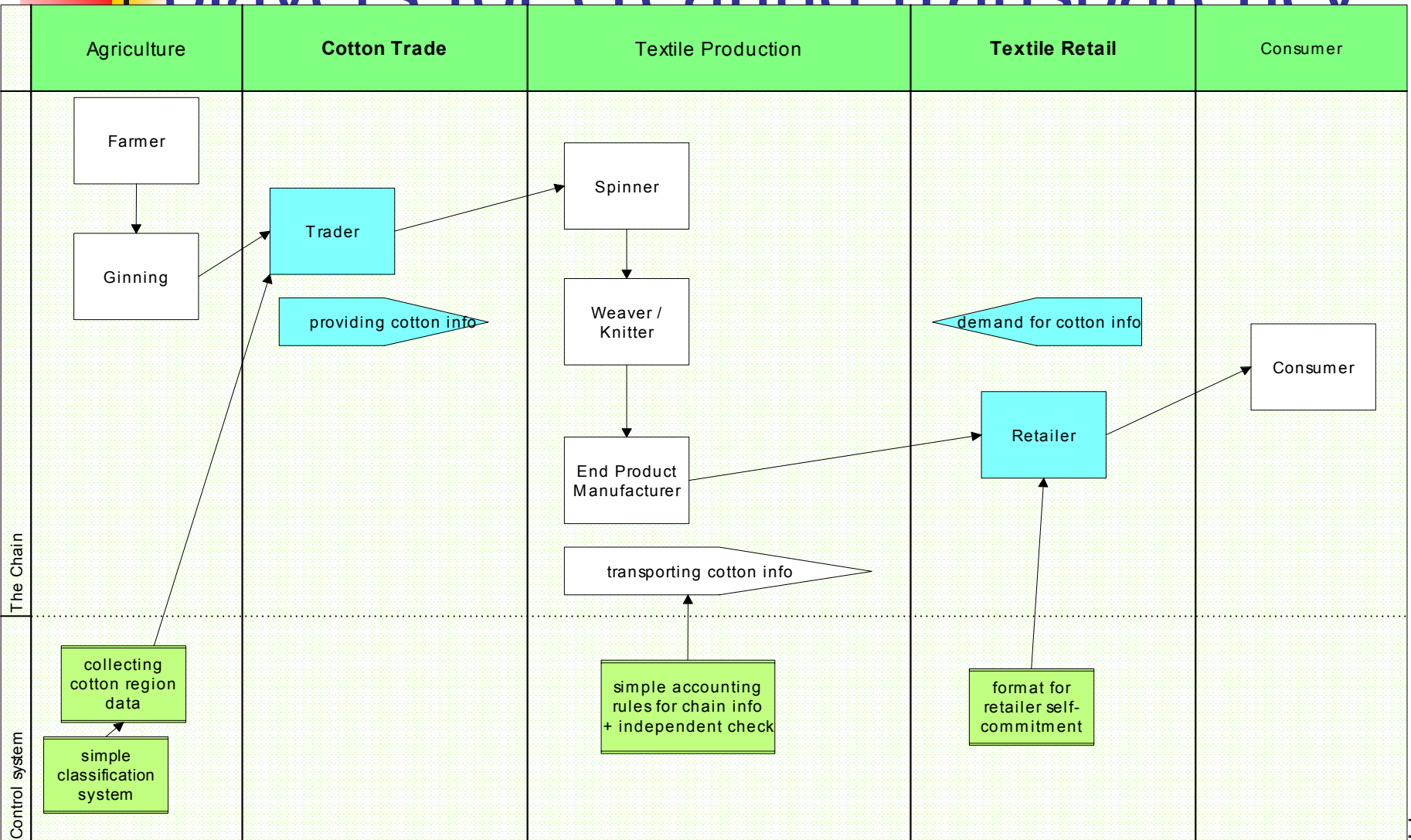
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Cooperation in the supply chain can contribute to sustainability

1. Cooperation for joint optimisation of the entire supply chain
2. Cooperation for creating transparency in the supply chain

Traders and retailers are key players for creating transparency



Cotton traders and retailers are the gate keepers

- cotton traders are connecting the world of cotton growing with the industrial world
 - they should feed field-based data on sustainability into the textile chain
 - generate value on the basis of this additional service
- retailers connect the emotional consumer world with the technical industrial world
 - they should demand guarantees for sustainability from their suppliers
 - create new markets, whilst optimising costs through 'chain management'
 - inform and educate the consumer

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Part II

the contribution of organic cotton projects to sustainability

There is a market for certified organic products

- There is a market if and only if the consumer is ready to pay the additional costs for organic
- In the food sector (milk, vegetables):
 - farmers switch to organic methods
 - there are additional costs
 - in production
 - certification and logistics
 - additional value justifies higher prices
- Increase in volume can reduce costs for organic, but they remain substantial

Organic cotton projects took the lead



- The organic cotton projects in the 1990s
 - were important to address the ecological issues related to cotton
 - were useful as a learning process for all involved
- They were based on
 - sourcing cotton, not from the 'market' but from special projects
 - subsidising the project, certification and logistic costs in one way or another

Remei & Coop set a benchmark for partnerships



BioRe and Coop Naturaline Organic Cotton plus Fair Trade



Lead: Coop and Remei AG

Web: www.biore.ch

Main Partners: Farmers' groups, spinning mills, garment manufacturers, textile traders in India, Tanzania, Latvia and Lithuania, International Development Enterprises - IDE, GTZ, Helvetas, Swissaid, Max Havelaar



Jeans, T-shirts, underwear, shirts, socks - cotton garments form a substantial part of most people's wardrobes but few people stop to consider how that cotton is produced and the effects such production might have on the environment and the producers.

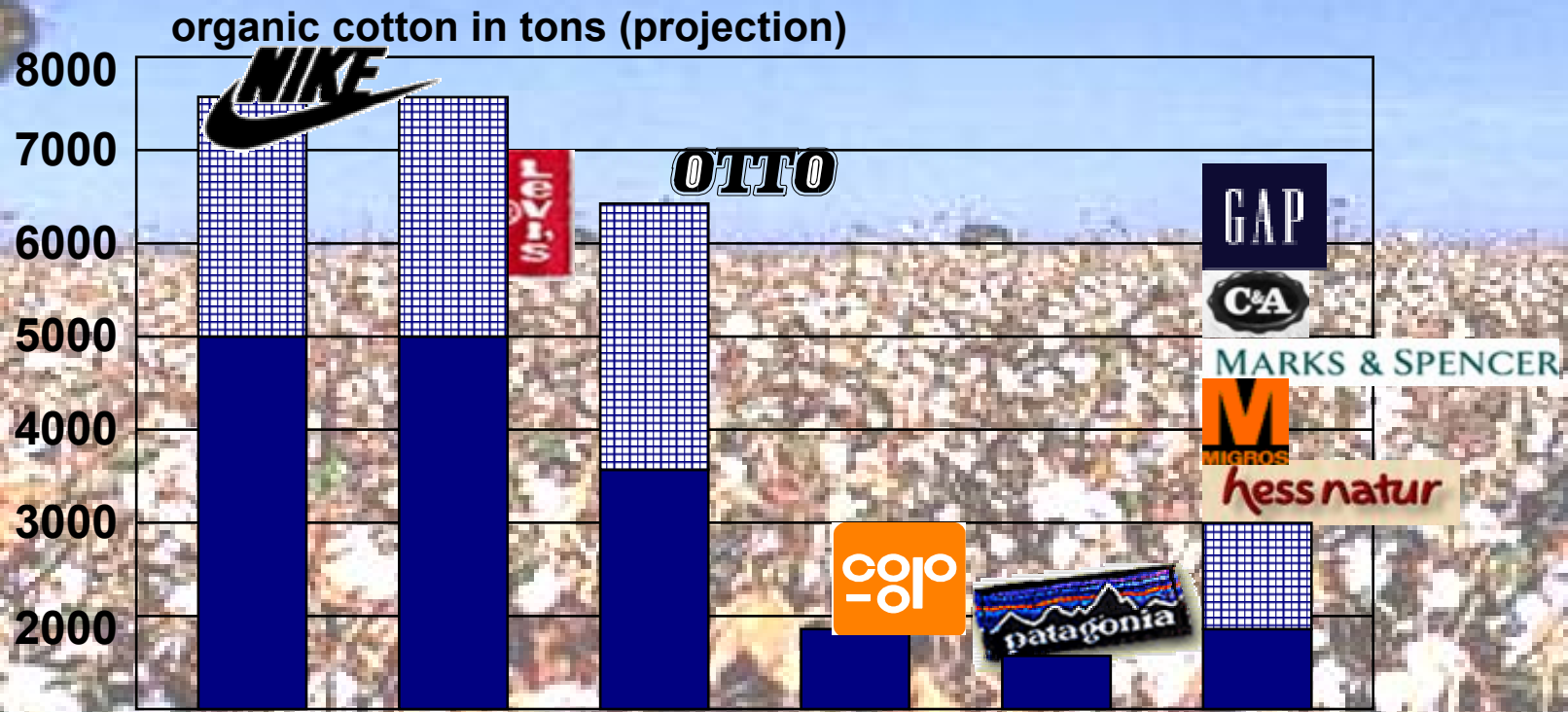
Cotton is grown on only 2.5% of the world's agricultural land but 25% of all pesticides are used on this crop.

Environmentally friendly cotton products were a niche market until seven years ago when Coop, a Swiss retail trading company, and Remei, a cotton yarn trading company, joined forces to bring ecologically grown, fashionable cotton garments to the mass market.



The organic cotton market develops steadily, but ..

The future of organic cotton (Arnt Meyer, HSG) Market Leaders in 2010?



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... there is only a niche market for organic cotton and ...



- costs for certification and identity preservation are high
- organic cotton products does not present a substantially higher value to the consumer in most markets

... organic cotton's contribution to sustainability is minor.

Würzburg, S
10, 2003

Symbolic projects may be an efficient marketing tool, but ...

Pressemitteilung vom 13.07.01 Helvetas, Migros und Switcher starten gemeinsames Bio-Baumwoll-Projekt in Mali

In jedem Dorf gibt es eine Bio-Baumwoll-Sammelstelle. Hier wird die Qualität beurteilt und die Baumwolle gewogen bevor sie per Lastwagen zur Entkörnungsanlage transportiert wird.

Die Entwicklungsorganisation Helvetas, Migros und Switcher unterstützen afrikanische Kleinbauern in Mali bei der Umstellung von konventionellem auf biologischen Baumwolle-Anbau. Migros und Switcher garantieren die Abnahme von je 60 Tonnen Rohbaumwolle aus dem Projekt. Sie zahlen dafür einen Viertel mehr als auf dem Weltmarkt für konventionell angebaute Baumwolle bezahlt wird. Das Interesse der Bauern, in das von Helvetas initiierte Projekt einzusteigen, ist gross.



60 tons of organic cotton

... are no major contribution to sustainable cotton development

- This is also true for the emotionally appealing projects of Coop and Migros
- It is true for Otto Versand's organic cotton project

The screenshot shows the Otto Versand website interface. At the top left is the 'OTTO' logo. To the right, it says 'Einkaufen bei » www.otto.de'. Below this is a navigation bar with links for 'Home', 'Über uns', 'Umwelt', and 'Job@otto'. A green banner below the navigation bar says 'Willkommen bei otto.com' and 'English' with a UK flag icon. On the left side, there is a search box labeled 'SUCHE' with a dropdown menu 'Unsere Rubriken'. Below the search box is a list of categories: 'Otto und Umwelt', 'Überzeugungen', 'Erläuterungen', 'Aktivitäten', 'Produkteinkauf', and 'Textilien'. Under 'Textilien', it lists 'Schadstoffgeprüft' and 'Bio-Baumwolle'. The main content area features a large image of a person standing in a field of green cotton plants under a blue sky. Below the image, the text 'ALLES ÖKO' is displayed in large blue letters. To the right of the image, there is a section titled 'Produkteinkauf/ Textilien' with a sub-heading 'Bio-Baumwolle'. The text below reads: 'Vor fünf Jahren startete der Otto Versand ein Baumwollprojekt an der Westküste der Türkei – mit möglichst wenig Chemie, aber mit viel Engagement.'

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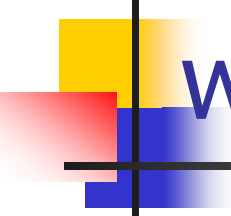
Part III

Problems with the dominant organic / FSC model



Sustainable commodities create value along the entire chain

- the business case for sustainability:
 - ecological and social improvements
 - whilst creating economic value
- the 1990s cotton model:
 - contributed to some ecological and social improvements
 - but costs were not offset by value creation



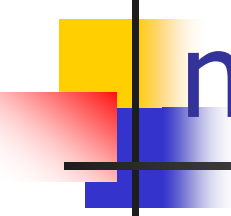
In the 1990s the dominant model was based on two elements:

- standard
 - the standard is required by the end of the chain (e.g. retailer in coalition with NGO)
 - there is a clear ecological standard for the raw material (forestry/timber, cotton, etc.)
 - the production of the raw material is certified against these standards
- chain of custody
 - the chain from raw material until end product is certified
 - there is a physical separation between certified and non-certified products



Project on the 1990s were based on organic market and FSC, but ..

- organic market: additional costs offset by additional consumer value in food market (milk, vegetables, meat)
- FSC: chain-of-custody certification is an efficient marketing tool, of which costs are justified



... for cotton, the model did not work

- additional costs for certification / identity preservation do not result in sufficient market value
- the model does not work for complex multi-input products
 - it is problematic for complex timber products
 - it is hardly feasible for textiles, etc.

Product certification is expensive for multi-input products

- textile
 - complex clothing with different parts
 - rapidly changing production sites, suppliers
- bakery
 - only less than 3% palm oil in cake
 - rapidly changing exchange of different fats
- timber products
 - e.g. more than 60 parts from 15 factories
 - changing suppliers



Economies of scale will not solve the problem

- Product certification on the basis of identity preservation will always produce considerable costs
 - costs of certification
 - costs of inflexibility
 - costs of two-tier markets
- Sustainable cotton projects within this model
 - will hardly contribute to sustainable cotton
 - will hardly contribute to sustainable business

There is a need for a different model

- FSC certification
 - has contributed to the recognition of forestry issues world-wide
 - has resulted in some markets for non-complex timber products
 - did not stop unsustainable use of forests
- Organic certification
 - has resulted in some organic food markets (with up to 15% market share)
 - has not stopped unsustainable agriculture
 - was not successful outside the food sector

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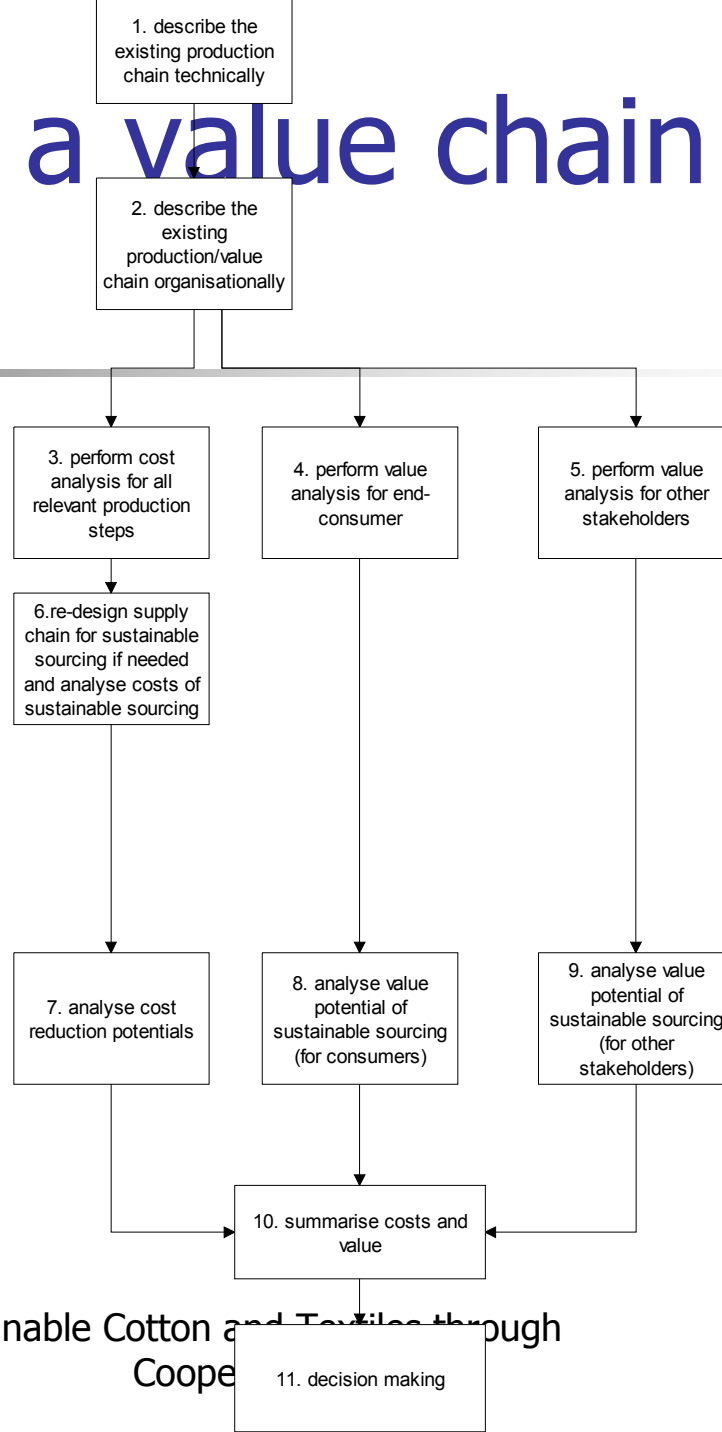
Part IV cooperation for sustainable commodities

The goal is sustainable development of commodities

1. Optimising ecological and social factors in the production of the commodity
 - for major commodity production markets
2. Minimising costs/maximising value in the entire commodity chain from field to producer [see next slides]
 - seeking increased value and/or reduced costs of production
 - avoiding any costs in the entire chain that do not produce additional
 - consumer value
 - stakeholder value
3. Organising stakeholder participation sustainably
 - recognising the own responsibility of commodity producers
 - recognising the legitimate role of external stakeholders

The basis is a value chain analysis

- 1, 2 = description of the chain
- 3, 6, 7 = costs
- 4, 8 = consumer value
- 5, 9 = stakeholder value
- 10, 11 summary and decision making





As a rule, identity preservation is not an option for commodities

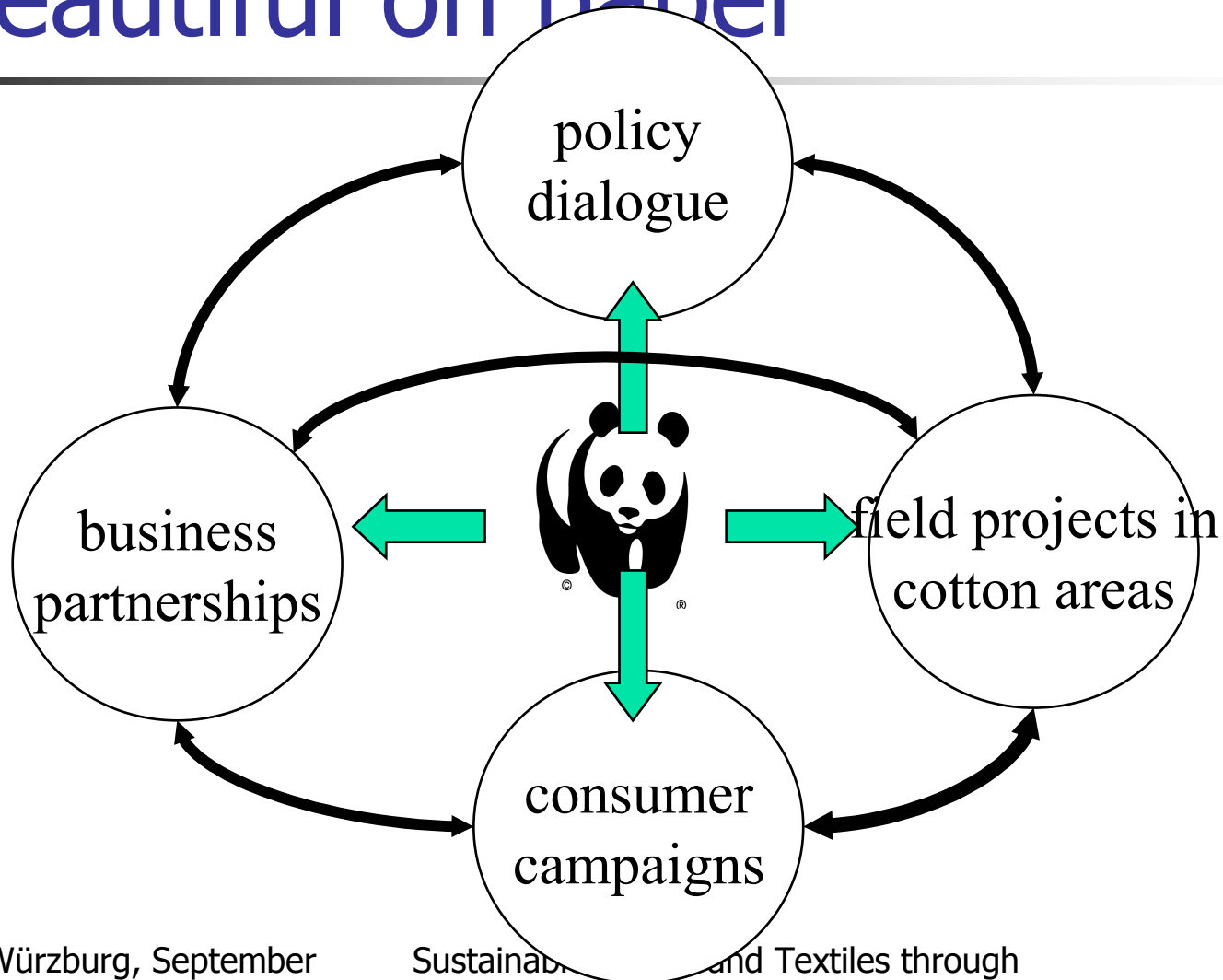
- For multi-input products in mass markets
 - costs for identity preservation do not result in higher market value of the product
 - a two-tier commodity market is too costly
- Transparency can be realised
 - on the company rather than product level
 - on the basis of an input-output ('green electricity') model
 - in that case, labelling without physical separation can be feasible in certain markets



Growers are responsible for defining and implementing standards

- Sustainable agriculture should be in the own interest of the growers
- Sustainability standards should not be dictated by the market:
 - standards should be defined in a stakeholder process
 - growers belong to the centrally important stakeholders

WWF's FW&C strategy was beautiful on paper



Würzburg, September 10, 2003

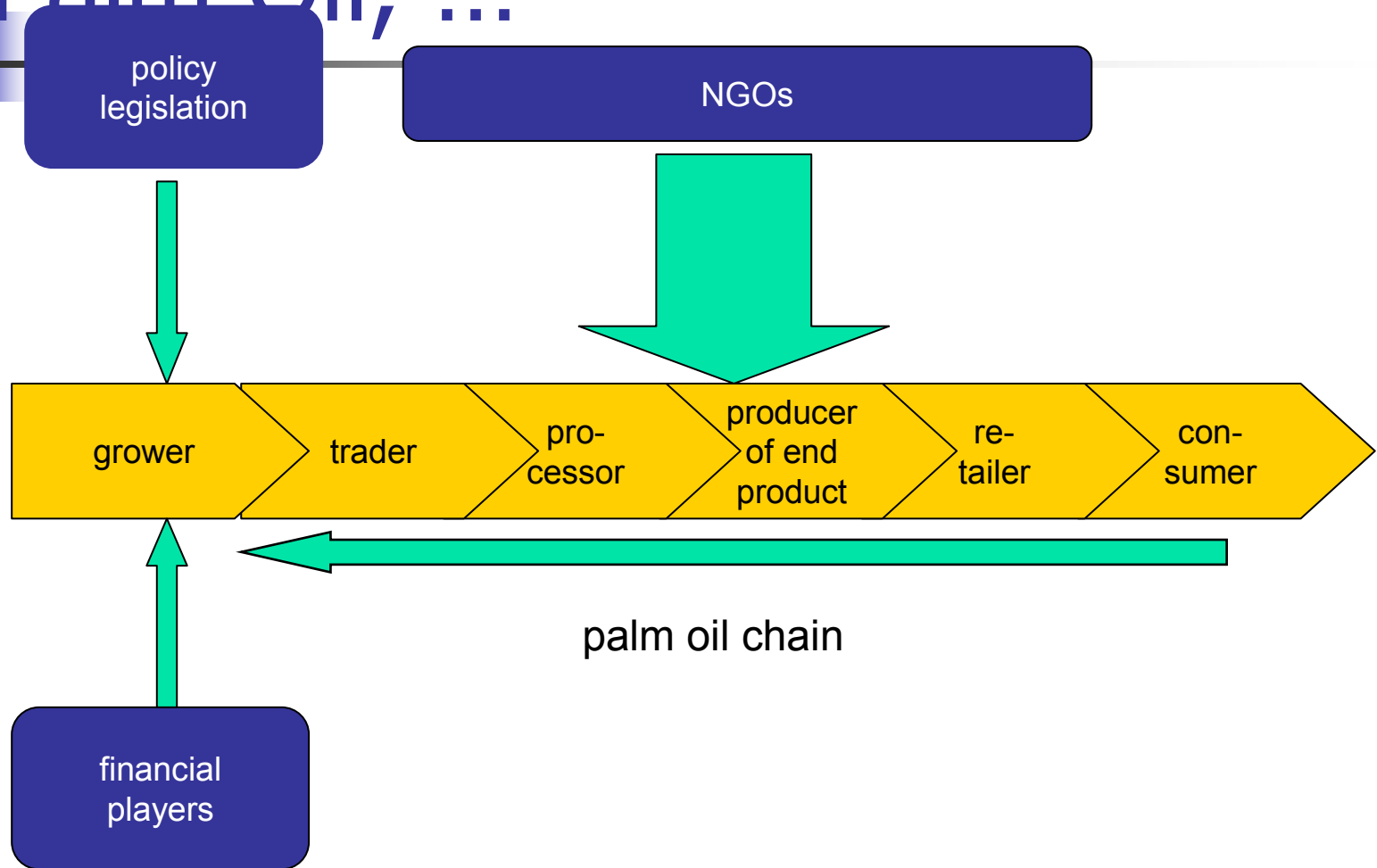
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... but it was based on the wrong model

- it was assumed that sustainable cotton would create value for the entire chain
 - the assumption was not tested
- it was assumed that the commodity market could be controlled from the demand side
 - in reality the chain was much too complex and fragmented
- it was assumed that a coalition between retailers and NGOs would do the job
 - without seriously including the growers as a stakeholder in the process
- it was assumed (by many) that the organic standard would be the logical starting point

We had a similar problem with Palm Oil, ...



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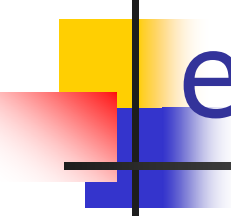
... but chose a different model

- Roundtable is a business initiative in cooperation with WWF
- It is not a green initiative, but a sustainability initiative
- It deals with the bulk commodity market
- It was started as an informal initiative of a number of companies
- It recognises the growers' responsibility to define their own standards
- see www.sustainable-palmoil.org

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Part V governance models for commodity initiatives



We can learn from our experience with FSC

- FSC

- was set-up as a multi-stakeholder initiative,
 - with full participation of NGOs, but
 - did not manage to include the central stakeholder, the forest owner.
- is not successful with regard to complex products



We should re-think the NGO-business relationship

- Business partners should have their own responsibility
- NGOs should have an external critical watch-dog function
- Governance model should guarantee that NGO-industry conflicts are made productive



In order to be successful, a sustainable commodity initiative

1. should have simple and clear quantifiable objectives .
2. should focus on global markets rather than local niches
3. should be based on a partnership with commodity producers
4. should be a partnership of players who belong to the best in their sector



(continued)

5. should involve an optimal mix of smaller innovative players and big players
6. should be at the advantage of all players but should not aim at complete harmony
7. should strengthen the critical role of NGOs and make conflicts of interests productive
8. should make use of a neutral external facilitator