

# FACT SHEET AUSTRALIAN COTTON PRICE



**Cotton fibre is a commodity that is bought and sold in a world market. Like any commodity, the price paid will depend on many factors, including the world cotton price, customer buying power, the forces of supply and demand and additional cotton certifications.**

Compared to many other cotton-producing countries, Australian cotton can cost more because it is a higher quality fibre. Australia produces some of the most consistently high-quality cottons in the world, which is why it commands a premium on the world market. Our main competition is high-quality cotton from the U.S. and Brazil.

However the decision to use commoditised Australian cotton should not make products substantially more expensive. The raw material costs as a percentage of a finished garment are sufficiently small that much higher quality raw material (or more expensive raw material production) could be used without significantly affecting retail prices\*. Cotton Australia's experience with brands and retailers has been that because the raw material (cotton) is such a small part of the overall cost of the product, switching to Australian cotton has had little effect on the overall price of the final garment, particularly at higher volumes. That said, Cotton Australia believes its farmers should be rewarded for the high quality fibres and investments they've made in sustainability over many decades.

## WHY CAN AUSTRALIAN COTTON BE MORE EXPENSIVE?

Australia has an enviable reputation on the world market as a reliable supplier of very high-quality cotton and can therefore command a premium price. Varieties from the CSIRO's cotton plant breeding program have higher yields, premium quality characteristics and demonstrate superior textile performance attributes. Because of our relatively dry climate and mechanised production processes, Australian cotton has almost zero contamination. It also has superior dye uptake as it offers spinners pure white lint, low breakages and stoppages, good throughput efficiency and uniformity of yarn. Because of this reliability in meeting spinner and consumer needs, Australian cotton is in high demand.

The cost of production in Australia is high due to the mechanised, high-tech nature of the industry and relatively high labour costs compared to other cotton-producing countries. Australia is also the world's most efficient producer in terms of water and land use: irrigated lint yields are the highest of any major cotton-producing country in the world.

## FACTORS IMPACTING WORLD PRICES

The price that a grower receives for each bale of cotton produced is set by the world market, which is dependent on a number of factors including the world economy, the weather in major global cotton producing regions (especially the USA), natural disasters, agricultural politics, global fashion trends, synthetic fibre price (affected by the price of oil), and cotton supply and demand. Some cotton sustainability certifications also add a premium to the fibre price.

The price of Australian raw cotton is based largely on the Intercontinental Exchange (ICE) cotton futures prices. ICE gives prices for cotton with delivery in the months of March, May, July, October and December each year. The most relevant months for Australian cotton are May and July as that is the time when we are delivering our cotton to the market. Speculators operating in the market, like hedge funds, can also have an effect on the futures price for cotton, but this is more likely to be reflected in volatility rather than an underlying price trend. The underlying price trend is usually driven by cotton supply and demand fundamentals and then speculators have the potential to exaggerate or intensify the day to day movements within the overall trend.



More than 99% of Australian cotton is exported.

\* Source: Well Dressed, University of Cambridge, Institute of Manufacturing 2006

## AUSTRALIAN COTTON VS COMPETITORS

The premium price Australian cotton achieves in the market can vary from year to year depending upon various supply and demand factors including:

- > the size and quality of the Australian cotton crop (a bigger crop can mean a smaller premium due to ample supply and vice versa),
- > the size and quality of crops from competing countries like the USA and Brazil,
- > global economic conditions and demand for high-end textile products,
- > global trade conditions including government policy and trade restrictions (like cotton import restrictions in China, and Trade Wars).

The price premium for Australian cotton often widens due to the timing of our harvest (April) when compared with 90% of the world's cotton, which is produced in the northern hemisphere. Northern hemisphere cotton is harvested in October/November when Australia is just starting to plant. Australian cotton comes into the market in May-September each year, a time when northern hemisphere supplies, especially for high-quality cotton, can start to get tight. In this situation, the price premium for Australian cotton can be exaggerated, as it is the only good quality cotton available and strong demand can push up the price.

Regular users of Australian cotton who follow the market and in particular, the differentials, will have a purchasing program that ensures they have reliable supply at workable prices. Regular buyers often lock in supply of Australian cotton one to two years prior to delivery to manage price and supply fluctuations.

Whatever the reason for price movements, brands need to be aware that prices and differentials do fluctuate. **Drawing comparisons at any one point in time can be misleading, especially when working with spinning mills who are not regular users of Australian cotton.**

The premium for Australian cotton depends on the product category and the type of cotton the customer is currently using. The key point for sourcing managers and buyers to remember is that a 5-10% premium for raw material will most often be diluted down to a negligible premium once at garment or finished product stage.

It's all relative. If the customer is high-end and using SJV (San Joaquin Valley) or Pima cotton, they will be looking at a discount for Australian cotton. If they're a lower-end spinner, they may pay anything from a 5-10% premium for the raw material when compared with standard American cotton, or 10-20% compared to Brazilian, for example.

Buyers need to investigate their cotton supply chains and find suppliers who can deliver what they require without margins being continually added as the cotton makes its way through the supply chain. Bigger brands have bigger buying power in this regard. Cotton Australia is working with many brands that have managed to source 100% Australian cotton into their products with little or no effect on the overall cost of the garment. Smaller brands may find it does add to the end cost although often in these cases there's more margin to play with.

It's also important to remember that like everything, you get what you pay for. Australia's cotton growers produce sustainable, very high-quality crops with almost zero contamination, making the product very attractive to spinning mill customers. While switching to Australian cotton shouldn't make a huge difference to the overall cost of the garment, paying that little bit extra means you will get superior quality garments that we know consumers love to buy.

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## AUSTRALIA'S COTTON GROWERS PRODUCE VERY HIGH-QUALITY CROPS WITH ALMOST ZERO CONTAMINATION



This contract price chart shows the fluctuations in cotton price over five years, driven by the supply and demand factors outlined above. Source: <https://www.barchart.com/futures/quotes/CTR19/interactive-chart>

## COSTING COTTON PRODUCTS

There are a large number of cost components in any cotton product and understanding these is critical in understanding your raw material component cost and therefore how this should affect the overall product cost.

- > Raw cotton fibre
- > Yarn production
- > Fabric production, dyeing and finishing
- > Cut, sew and trim
- > Shipping, duties and commercial costs
- > Other costs, such as product marketing

A rule of thumb used by many brands is that costs roughly double at each major production stage.



### EXAMPLE PRICE STRUCTURE OF A FAIR-TRADE COTTON T-SHIRT

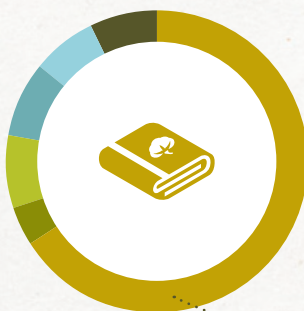


\*Does not include local business costs such as salaries, overhead, design and marketing.



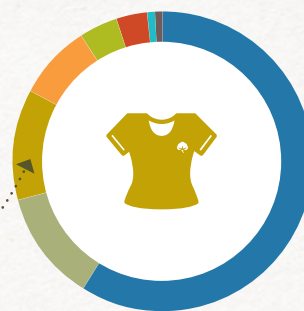
\*Source: Sustainably Chic, 1 August 2020

### FABRIC COSTING



- 66% Raw material
- 4% Size & Chemicals
- 8% Protection cost
- 8% Worker wages and salaries
- 7% Interest on investment, loan, working capital, depreciation
- 7% Overheads and administrative expenses

### FINISHED GARMENT COST BREAKDOWN



- Retail
- Brand profit
- Material cost
- Transport cost
- Intermediary
- Factory profit
- Overheads
- Worker pay



## DEALING WITH SUPPLIERS ON COST OF AUSTRALIAN COTTON

Brands and retailers wanting to use Australian cotton must demand it through their supply chains by making the request to suppliers. It is the responsibility of brands to have systems and processes in place to ensure that what they are buying is what they are paying for. Australian cotton can and is being sourced into a wide range of products including apparel, homewares, yarns and fabrics – without significant increases in cost. Suppliers that want your business can demand that your products be 100% made from, or blended with Australian cotton.

Often price becomes part of the negotiation with suppliers. As this fact sheet points out, you can expect to pay a little more for Australian cotton but using Australian cotton should not be cost prohibitive and you will likely see an improvement in quality which is worth paying for. Suppliers often want to avoid adding complexity or extra steps to their operations, so may try to discourage you from sourcing a different kind of cotton from the one they are familiar with using.

### Difficulties can arise when:

- > Suppliers and/or supply chain partners refuse to change or do something differently
- > Suppliers or supply chain partners drastically increase cost without good reason
- > Suppliers or supply chain partners are reluctant to reveal where they are sourcing from

### Some responses you may hear from suppliers:

- > Australian cotton is significantly more expensive than what you're currently sourcing
- > Your order is too small (*this can be true*)
- > There is no Australian cotton available at this time of year (*myth!*)
- > Australian cotton must be spun much more slowly and that's why it's more expensive (*myth!*)  
Possibly the case if you use it to produce better quality yarn than you were producing before.
- > I don't know where the yarn for your fabric is made (*this can be true, but the information can also be found*)

## KEEPING TRACK OF WORLD COTTON PRICE

Cotton Australia recommends that brands committed to sourcing Australia cotton for the long term access regular world cotton price and market information that can help inform decisions. These are usually on a subscription basis.

- > Cotlook has a range of subscription services to help businesses navigate the cotton commodity market. ([www.cotlook.com](http://www.cotlook.com))
- > Cotton Compass is a weekly subscription market wire tailored for the Australian cotton industry and its markets. ([www.cottoncompass.com.au](http://www.cottoncompass.com.au))

## TIPS FOR MANAGING SUPPLIERS WHEN NEGOTIATING PRICE

The best way to negotiate the cost of using Australian cotton in your garments is to ask lots of questions, so that you have a thorough understanding of where the additional cost is supposedly incurred. That way you can question the calculations, and get to a price point that you're happy with. Cotton Australia can assist by acting as a sounding board for brands to check the legitimacy of claims made by suppliers around price.

Sometimes this is not possible, and there are real barriers such as minimum order requirements or lack of supply chain relationships and visibility. The good news is that Cotton Australia has worked with many brands who've been through the process and have successfully delivered superior quality products with a traceable supply chain to customers that respond very positively.

Refer to How to Source Australian Cotton fact sheet for more information and tips.



AUSTRALIAN  
COTTON



### MORE INFORMATION

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