

# Is Commodity Pricing the Best Model We Can Give Cotton Farmers?

A Background Paper for Buyers and Brands



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**Two events in history – the Industrial Revolution in England and the invention of the cotton gin in the United States – profoundly changed the role cotton plays in world markets. These events led to widespread production of cotton garments and turned cotton into a multi-billion-dollar global industry.”**

- Cotton: Essential Guide to This Staple Commodity<sup>1</sup>

# EXECUTIVE SUMMARY

In a multi-billion-dollar global industry, farmers have become invisible. Though they're integral to world markets — and thus essential to every aspect of our daily lives — they're often forgotten.

Sowing their seeds, hoping for rain (but not too much...), waiting for harvest, and then depending on a commodity market to determine what they'll get paid for their crops creates almost complete uncertainty around their annual income.

## **And to what end? So the rest of us can shop and eat effortlessly.**

In North Carolina, 46,000 farms cover 8.4 million acres, producing commodities such as sweet potatoes, turkeys, peanuts, and cotton. North Carolina Agriculture 2021 says, "Agriculture and agribusiness provide 772,000 jobs, or 17.5 percent of total jobs, for NC residents and have an overall economic impact of \$92.7 billion."<sup>2</sup>

In 2020, NC farmers harvested 330,000 acres of cotton with an average yield of 759 pounds per acre. Their crops commanded \$.661 per pound.<sup>3</sup>

The global outlook for 2021/22 forecasts lower production with higher trade and consumption. Demand in India is lower

than usual, but China, Bangladesh, and Turkey are making up the difference and importing at higher-than-average rates. The demand is predicted to drive the US season-average farm price to \$.75 per pound.<sup>4</sup>

Less than \$.70 per pound one year, \$.75 per pound the next. Farmers depend largely on the forces of supply and demand to determine the price of their products each year, and the uncertainty has them facing monumental stress.

Add to that unpredictable weather patterns resulting from climate change, changing trade and tariff policies, impacts of disrupted supply chains during the 2020 COVID-19 pandemic, rising costs of equipment and production, and more. The result is an extensive impact on the health and well-being of farmers and their families.

Eric Henry, President of sustainable apparel manufacturer TS Designs, explains the plight of farmers, "They're caught on a commodity roller coaster. They have no say on price, and their price is dictated by things they have no control over."

It's time to consider a new model that brings farmers to the table, so they finally take part in the conversation and have a say in their own success.

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**When cotton's planted — like anything in agriculture — you don't know what the final product's going to be. We've got all different qualities that determine a lot about how cotton can be used... Most farmers are much better at producing the cotton than identifying buyers for it, so having a place to sell all those grades is beneficial for them.”**

- Jay Boyette, Commodities Director on North Carolina Farm Bureau's Public Policy Team

# HOW THE COTTON COMMODITY MARKET WORKS

## “IMPACTS OF FARM FAMILY STRESSORS

- Physical and mental chronic health problems among family members
- Depression, anxiety, despair, and suicide
- Injuries
- Opioid misuse, addiction, and overdose
- Loneliness and social isolation
- Inhibited decision-making and adoption of agricultural practices
- Lack of access to health care
- Postponement of preventive care
- Concern of inability to pay for medical care costs
- Juggling on- and off-work to get and pay for health insurance”

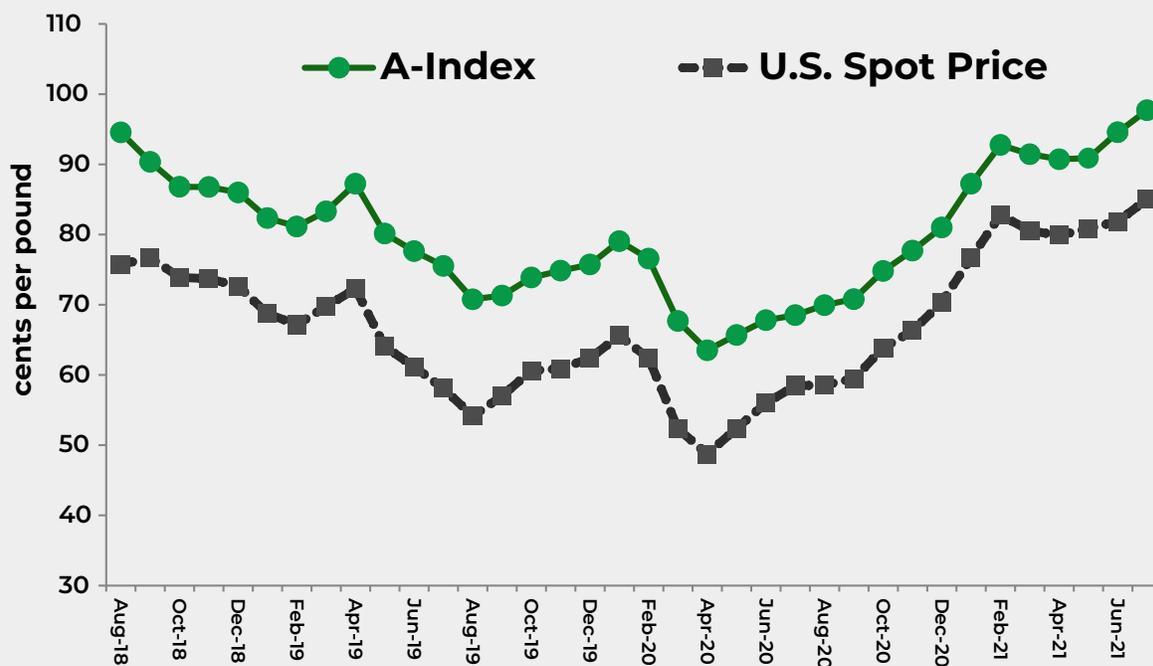
- Bonnie Braun, PhD<sup>5</sup>

Understanding the need for a new model first requires insight into the one we've always used. Jay Boyette, Commodities Director on North Carolina Farm Bureau's Public Policy Team, has an inside perspective. “The majority of the cotton North Carolina growers produce is likely marketed by a third-party organization. There's Staple Cotton Cooperative Association, Carolina Cotton Growers Cooperative — those groups put together a pool of product from many farmers,” he explains.

“When cotton's planted — like anything in agriculture — you don't know what the final product's going to be,” Boyette adds. “We've got all different qualities that determine a lot about how cotton can be used. Depending on the strength and length of the fiber, it can be used for anything from a pair of blue jeans to some 1000-thread sheets you might have for your bed. Most farmers are much better at producing the cotton than identifying buyers for it, so having a place to sell all those grades is beneficial for them.”

Andrew Burleson is a 3<sup>rd</sup> generation NC farmer who sells mostly through marketing co-ops. He agrees with Boyette that it's easier for him to focus on doing what he does well — growing cotton — and let the co-op handle the marketing and selling.

## MONTHLY AVERAGE COTTON PRICES<sup>6</sup>



*TS Designs President Eric Henry calls fluctuating prices a commodity roller coaster. It's easy to see the ups and downs in this image from the US Department of Agriculture. Prices that fluctuate constantly create income uncertainty for cotton farmers. Note the A-Index represents an average global price of cotton. The US Spot Price is the price of cotton at a particular moment in time.*

“We sell mostly through a marketing cooperative,” says Burluson. “So, we’ll get an average price over the marketing year, and we’ll feel like we can survive from one year to the next hitting base hits rather than trying to swing for the fence and pound the market when it’s the highest price. We’re never going to get that right.”

What they can get right is harvesting the crop they’re so good at growing. “When cotton farmers harvest cotton, near the end of the season, they’re putting it in giant modules that go to the gin, and they’re taking samples,” explains Boyette.

“The gin process removes leaves and trash impurities from the cotton and takes the seed out, so they’re left with the fiber. Samples of the fiber are sent off, graded and classed to determine the characteristics of that

particular module of cotton,” he adds. “Before all that happens, farmers have already made an agreement with the marketing co-ops. Unless they’re marketing themselves, the co-op pool will take possession of the cotton and score it. Then it’s easy for someone from China or somewhere else who’s making a certain type of t-shirt or fabric to order the type of cotton they need.”

“There’s a deadline when we have to sign up in the pool, and then they start marketing in April,” says Burluson. “They’ll market a crop for probably 16 months. So, for example, for the crop that we grew in 2020, once it was ginned, graded, and possibly sold, it was out of our hands, and we won’t know what we’ll get for that crop until September of 2021.” Payment is spread throughout those 16 months. “Once they make the initial payment, depending on how the marketing

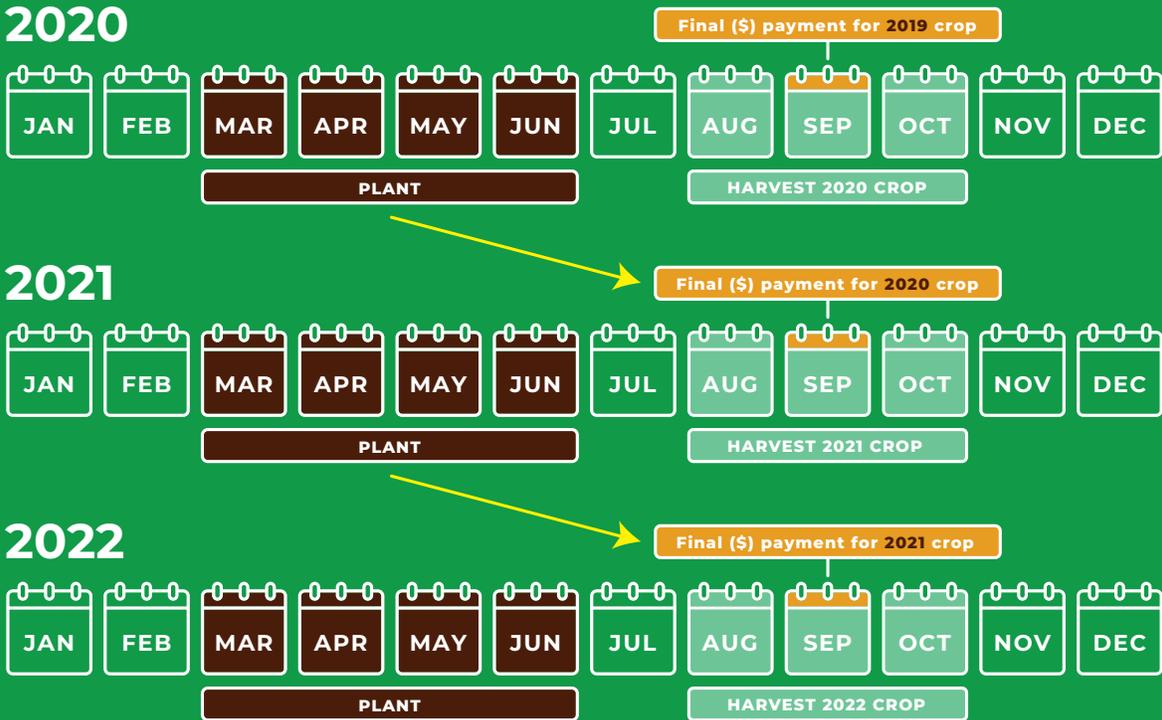
year and sales go, they'll also pay you a little bit, three or four times throughout the year," Burleson adds. "The final payment comes in September, so it's almost time to harvest the following year's crop before we know what we actually got for the previous year. That's the model we're currently working with."

Boyette explains the pricing a little more in depth. "Pricing — just like with any other product you're producing — depends on quality," he says. "The lower the quality, the lower the price. The higher the quality, the higher the price. It's often to the farmers'

advantage to be in that pool because now a buyer can easily get what's needed. If you're a large shirt manufacturer, for example, it's simpler to deal with Staple Cotton and meet all of your needs rather than interact with 400 different farmers to get the volume you need for what you're trying to accomplish."

From a farmer's perspective, it's not all bad. Burleson explains, "It's hard to be an expert at everything, and we're certainly not," he says. "So, I'll just say that's one less headache. We'll put the cotton in the pool and let somebody else manage it."

## SCHEDULE FOR PLANTING, HARVESTING AND RECEIVING FINAL PAYMENTS



*When farmers sell their cotton through a marketing cooperative, they're essentially giving the co-op full responsibility for marketing and selling their crop, with the understanding that the price they'll get is an average over the course of the marketing year (about 16 months). They won't know the final price of — or receive the final payment for — a given crop until they're already harvesting the next year's cotton.*

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**The current structure that brands use to source their product — a tiered sourcing model with a lot of subcontractors — makes it so easy to ignore the human impact of the decisions a brand makes. Even a small decision such as choosing to make an item only 50% cotton ramifies down the supply chain. But because each layer of that tiered model is so separated, the human connection gets lost.”**

- Sarah Kelly, Common Threads Consulting

# CHALLENGES FROM A GLOBAL MARKETPLACE OF COMMODITY COTTON

Allowing cooperatives to manage cotton crops and letting the market determine the price is just how business has been done. But to say this model presents challenges for farmers is a gross understatement.

## 1. Uncertainty and pressure stemming from market-driven prices

TS Designs President Eric Henry is a champion for farmers, and he's watched the uncertainty of the cotton industry take a toll on those who grow the crops that are at the beginning of the world's apparel supply chain.

"There's some uncertainty as to how I'm going to produce not only the amount of cotton, but also the specific grade of cotton buyers need," says Farmer Andrew Burlison. "There's also always going to be uncertainty with weather and other factors. That's the nature of farming."

Aside from the uncertainties inherent in producing a crop, unpredictable prices fuel further anxiety.

"The global market dictates the price of cotton, but over the years, it's become

more and more volatile," says Henry. "Farmers have lost their ability to negotiate price because the marketplace determines it. But the cost of farming is going up, the cost of equipment is going up, the cost of doing business in general is going up, and farmers are feeling more and more pressure competing in a global marketplace. They have no say whatsoever in the price they get paid, so it becomes impossible for them to plan out their businesses while addressing the increasing cost of land and equipment and dealing with Climate Change."

"Because of the pressures, they have some of the highest rates of suicide and the highest rates of bankruptcies," Henry adds. "Many are farming at an older-than-average working age. They experience pressure on top of pressure on top of pressure."

## 2. Human component getting lost in a tiered sourcing model

Sarah Kelley, Principal of Common Threads Consulting, reminds us of the human component that gets lost when we forget about the people at the source of the goods we buy.

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“The current structure that brands use to source their product — a tiered sourcing model with a lot of subcontractors — makes it so easy to ignore the human impact of the decisions a brand makes,” Kelley explains. “Even a small decision such as choosing to make an item only 50% cotton ramifies down the supply chain. But because each layer of that tiered model is so separated, the human connection gets lost.”

### **3. Limited options for farmers**

Henry points out that some companies are forging a new path, but they’re rare. “Red Land Cotton is probably the biggest company that’s doing things differently. They’re in Alabama, and they make sheets and towels,” says Henry. “The family grows the cotton, and they take it all the way up to the sheets and towels. Their business is definitely growing, but that’s not the norm. It’s just not how business is done.”

“The way business is done is brokers have contracts and agree to buy cotton. The cotton farmer sells to the brokers, and the brokers sell to Parkdale. Parkdale spins the cotton into yarn. And then somewhere along, the brands pick up the yarn or fabric,” he adds. “So, the marketplace is controlling the farmer, and right now, the farmer has no other choice.”

### **4. Increased competition rising in a global marketplace**

“From a farmer’s perspective your competition was once in your own county and state,” adds NC Farm Bureau’s Jay Boyette. “Now, it’s whatever happens in the entire rest of the world, so if you go to other places that produce cotton, they may not have all the same environmental standards or the same worker safety standards, and yet they may have

different prices of labor. So as US farmers, we're competing against all those other factors."

### 5. The cheapest price often gets the win

"At the end of the day, people who make clothes are in a competitive business, so if brands can buy the same quality of fiber in country X and it costs 60% of what the fabric from the United States costs, that becomes a business decision," explains Boyette. "Unfortunately, all the things we do for the environment and other factors sound really good to us as consumers. But at the end of the day, a lot of times business people look at it and say, 'yeah

but my profitability will be twice as much if I use this fiber from this country.'"

"In general, the direction of the industry has been to emphasize price," says Common Threads Consulting Principal Sarah Kelley. "Then things go on sale, so you always want it even cheaper. The competition and emphasis are on price. We've set this expectation that products are cheap, and by the time we've factored in the brand's markup, and all the different markups, we've got this tiny little piece left over."

And that leaves little for the farmers who planted the seeds and grew the cotton long before the finished apparel went on the market.



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**Ultimately, the desired outcome is demand that could flex at a price that's attractive to the farmers. The ideal world would be a company with a flexible program, willing to buy transitional or organic cotton. And they would make a commitment for so many pounds if it was available.”**

- Kelly Pepper, *Staff Manager*  
Texas Organic Cotton Marketing Cooperative

# A DIFFERENT MODEL FOR THE COTTON INDUSTRY

Eastern NC farmer and crop consultant Bert James says local circular economies can provide a solution. “I’m so happy just being on the farm and making a living,” he says. “This isn’t a get rich proposition. This is just ‘let me pay the bills and pay the people that work for me and do it again next year.’ It’s such a simple equation, but it’s gotten lost.”

“We really need to go to each little town and community, plant a smaller seed, and create little circular economies — convince an area or a group of people to not go and scrape the bottom of the barrel to find the cheapest thing they can buy,” James adds. “That’s really going to be a more local effort than a global one.”

Keeping it local and keeping it personal are keys. “There are so few people that derive their entire living from agriculture,” says Burleson. “If we can just be in the conversation and be able to say, ‘Here are the challenges we face.’ If we can talk about some of the issues of green space and urban sprawl and how that affects what I do as a farmer. If I can stay in business and stay profitable, then any farmland I own stays farmland. It doesn’t get paved over with a big box store placed on it. There are just so many interconnected things that if we all talked, we’d learn something from one another.”

Sarah Kelley also believes in keeping the farmer in the conversation. “Bringing farmers back to the table connects a brand to the very beginning of its supply chain tier at the growers’ level,” she says. “Hopefully, it also helps remind everybody that there are people all along the supply chain.”

“Instead of me standing here and all I know is I see a commercial for one brand on television and see the merchandise for another in a store — if that’s all there is, whether those brands make a profit or not, or whether they go out of business or not isn’t all that relevant to me,” adds Burleson. “At the end of the day, I don’t have a connection with them. But if I was in a room with those people more than once, and there was a relationship, that changes things.”

“If I know this guy, this guy, and this one in the supply chain and there’s a problem of some kind, I’ve got this guy’s cell number because we’ve met,” Burleson explains. “We’ve had conversations over a meal. Now I can call this person, and maybe we can work out a solution. The connections with people are as important as anything. You’re going to have some folks who don’t care about Andrew — he’s a little guy here, so they’ll squash him and go buy cotton cheaper somewhere else. There’s probably going to

always be some of that, but if you can build relationships....”

And that’s the goal Eric Henry and TS Designs are pursuing — brands and farmers in relationship.

“The apparel brands need to meet the farmer before the seed goes in the ground,” says Henry. “We want to agree to a price farmers negotiate instead of a price the marketplace dictates. And we want to do that to get the farmer off the commodity roller coaster. We’ve got to get them out of every year having a whole new pricing structure with no say so in it.”

“When we get farmers off the commodity roller coaster, we’re helping them create a more stable long-term business plan,” he adds. “We’re also giving them some ownership of where their cotton goes. Right now, it could be a t-shirt in the US or a pair of socks in China.”

Kelley echoes the sentiment. “Why is it the expectation that growers are the price takers?”

Why do we have a system set up that requires them to be the commodity — the taker of the price — while the value resides at the brand level? Let’s be willing to question all the elements of the current costing model, not just price. . . If we don’t blow that expectation up, then we’re just always going to nickel and dime at that table even with the grower right there.”

Let’s get the grower to the table. Let’s start the conversation and keep farmers in it... from farm to finished product.

“The whole textile industry — everything it takes to get products from fiber to finished good — is really invisible to most people. The entire processing chain in the middle tends to get highly overlooked,” Kelley adds. “We could have the best conversation at that table between the growers and the brands and the best conversation on price. But the processing chain from beginning to end has to maintain value and traceability and be financially healthy for us to see the full benefit for growers and the rest of the community.”



# ENDNOTES

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# CREDITS

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# WHAT'S NEXT?

To learn more about how your business can bring more farmers to the table, join TS Designs ...



**As buyers,**

think beyond price when you're buying commodity agricultural products — from the fast food chicken sandwich to the cheap tshirt in the big box store. Know that the farmer has no say in the pricing, so buy from sources where there's a connection to the farmer supplying the agricultural product.



**As apparel brands,**

meet the farmer in the field before the cotton seed goes in the ground. Agree to a price that's mutually beneficial to both of you. This will give farmers a chance to build a pathway to a more stable and resilient future.

**For more information about TS Designs' sustainable apparel, visit [www.tsdesigns.com](http://www.tsdesigns.com).**



**TS Designs is a certified  
B corporation located in  
Burlington, North Carolina.**

Eric Henry, President