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Unlocking value for growers

What are we protecting

ACIL ALLEN

CRDC

Sustainable cotton: a tale of two markets

Premium niche

Brand differentiation driver

Higher premiums
(but tied to quality too)

Small volume

Mainstream

Regulatory and consumer driven pressure

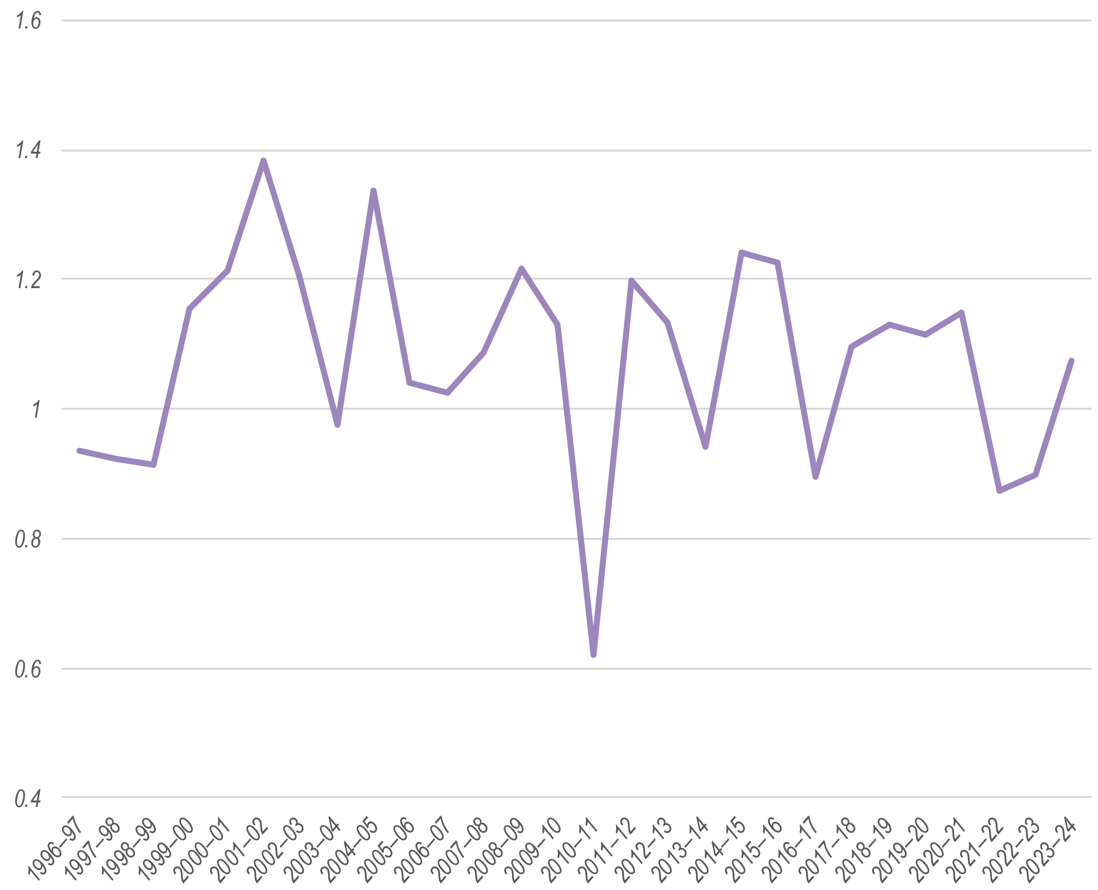
Low premium tolerance
Licence to trade/risk management

Large volume

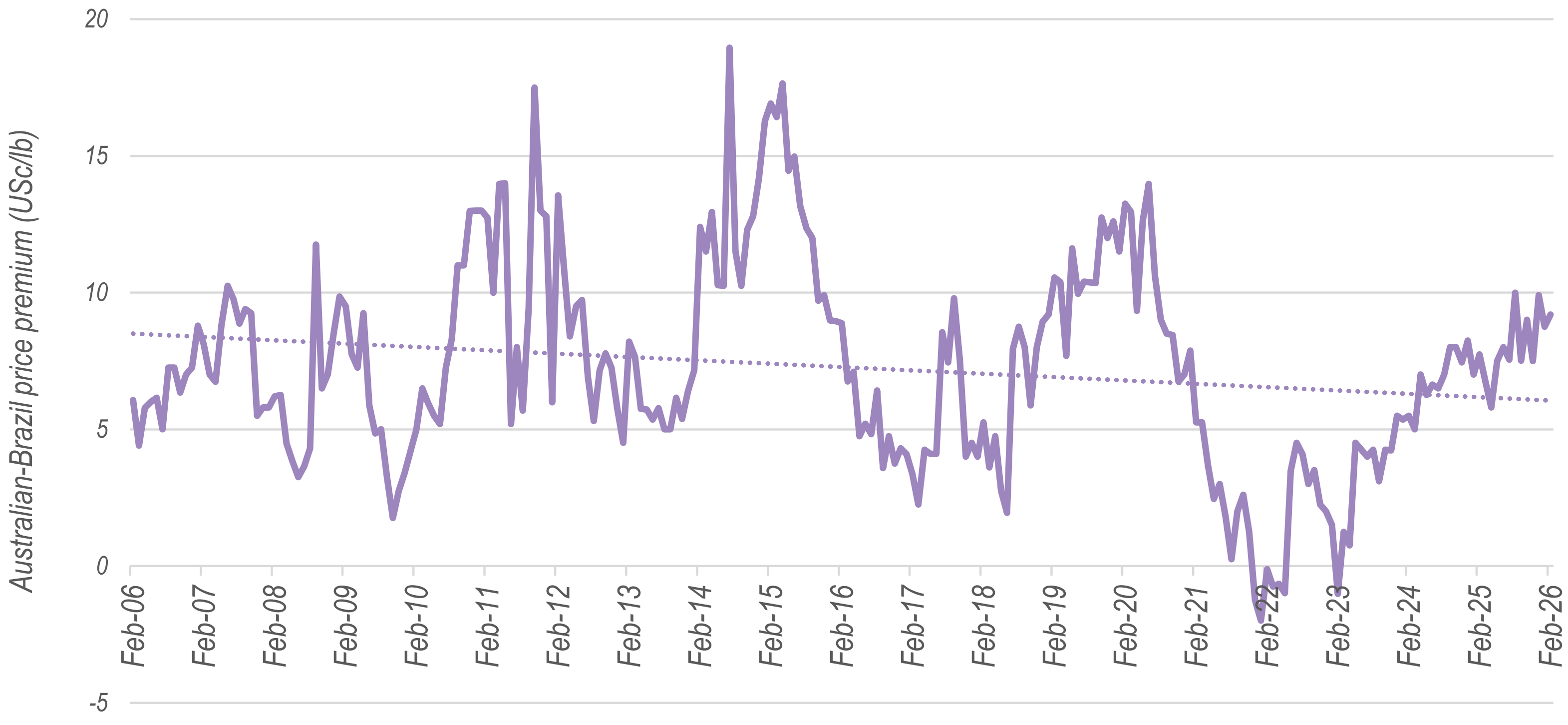
The Australin cotton premium

10 year moving average of the ratio of **Australian to US** spot cotton prices

10 year moving average of the ratio of **Australian to Brazilian** spot cotton prices



What drives the premium? **Quality** and reliability



- *Australia has built sustained investment in quality, reliability and production systems despite having high variability*
- *But the long run trend in our premium is in decline*
- *This is consistent with the competitive improvement of Brazil over time*
- *High correlation between Australian and Brazil bases confirms substitution*
- *Buyers treat the origin as interchangeable at the margin*

Does sustainability command a premium?

- *There is* **no statistically significant price premium** *attributable to sustainability for Australian or US cotton*
- *Brazil showed a weak positive sustainability premium whilst transitioning from near-zero to 100% BCI coverage*
- *Decades of sustainability credentials are already embedded in Australia's market position meaning that any transition has already passed*
- *Quality is the dominant driver for the Australian premium, 1% improvement in premium staple length is associated with a 0.22% price increase*
- *This needs to be defended*

What does this mean for the future?

Most Australian growers sell into mainstream channels, where sustainability credentials are becoming an enduring market expectation, not a price differentiator

Premium niche markets offer some upside, but remain small in volume and still reward quality first, ESG second

Market expectations continue to evolve, but it's clear that the industry needs to demonstrate it can meet a variety of different market requirements

The response should be a fit for purpose industry-as-a-whole traceability effort

Investment should stay flexible, allowing the industry to adapt as market expectations continue to evolve

Key findings

1

Australian premium is ***real and commercially material*** *over both Brazil and the US*

2

This has been ***earnt*** *through decades of sustained RD&E and other investment*

3

But the premium is ***fragile*** *and compresses under supply shortages and is* ***subject to erosion***

4

Protecting the Australian premium depends on ***traceable evidence***

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