2007

ORGANIC EXCHANGE

ORGANIC COTTON MARKET REPORT




PRELIMINARY HIGHLIGHTS

Business Office
822 Baldridge Street
O'Donnell, Texas 79351
Tel: 806.428.3411
info@organicexchange.org
www.organicexchange.org

Main Office
2808 Adeline Street, Suite #4
Berkeley, California 94703
Tel: 510.849.0800
info@organicexchange.org
www.organicexchange.org

PRELIMINARY MARKET HIGHLIGHTS

Since 2001, the global organic cotton market has undergone tremendous growth. Consumer awareness of and demand for products made with organic cotton, wool, linen, and other fibers has increased dramatically. As a result, demand for organic fiber has increased significantly. Farmers around the world have responded by planting more cotton on certified organic fields, and expanding the amount of land undergoing conversion from chemical farming to organic cultivation.

While growth has brought significant benefits to consumers, businesses and farmers, continued innovation is essential if we are to create a market where the promise of organic farming can be realized. In this new market:

- farmers are known and celebrated
- product identity is preserved
- consumers have more choices and more information about what is in the products they buy
- great design, wonderful products and stewardship of the land go hand in hand
- healthy and fair returns are shared by everyone in the chain—from farmers to brands and their manufacturing partners to consumers

In the eighteen months since the release of the Organic Exchange's 2006 Global Organic Cotton Market Report, many important steps have been taken by companies and farmers to expand the production and use of organic cotton and build new models of fair, sustainable, transparent, and committed supply chains to make the apparel, home products, and personal care items purchased by consumers around the globe. Significant market changes occurring in 2006 and 2007 are highlighted in the pages that follow.

Information presented in this document is based on primary and secondary research gathered by Organic Exchange about the demand for organic cotton fiber by more than 50 companies with significant organic cotton programs, approximately 1,500 small and medium sized brands and retailers participating in the global organic cotton market and 67 certified organic cotton farming projects.

1. Key Factors Driving Organic Market Development

There are many factors driving the continued and rapid development of the global organic products market. Just of few of these factors are:

- Consumers seeking an organic and sustainable lifestyle
- Companies aligning their business, sustainability, and organic strategies
- Increased access to knowledge about organic program development

Increasing consumer demand for organic cotton products

Consumers in many major markets want more green product choices. A recent study of US consumers conducted by Hartman Group found that 50% of women want mass retailers to carry more green goods. 11% of these consumers see themselves as "extremely green" today, and 43% say that they will be "extremely green" in five years.[1]

Consumer demand continues to grow for a wide range of products containing organic ingredients including food, cosmetics, home textiles and apparel products. The organic food, fiber and personal care - markets in the United States and Europe continue to grow at double digit rates. For example, a recent report by the Soil Association shows retail sales of organic product sales at over $4 billion in 2007, with an average annual growth rate of 22%. In 2006 and 2007, companies including C&A, Eileen Fisher, and H&M report having stronger than expected sales of organic cotton apparel products in US and European markets.[2] Similarly, in the U.S., the overall organic sector grew 21 percent to reach $17.7 billion in 2007.[3]

Alignment between company business, sustainability and organic development strategies

In 2006 and 2007, a growing number of retailers and brands presented integrated business strategies which aligned sustainability objectives and organic program development goals with business goals. These included Marks & Spencer's "Plan A", Woolworths South Africa's Good Business Journey, Wal-mart's Sustainability Plan, C&A's " We Care" Program, and Carrefour's Sustainable Development Program.

Growing support for organic program development

During this same time period, non-profit organizations such as Organic Exchange, Organic Trade Association, Made-By/Solidaridad, Helvetas, Soil Association, Oxfam, Fair Trade Foundation, Technoserve, Roots Capital, Triodos Bank, and Rabobank Foundation as well as development agencies and foundations including ICCO and Shell Foundation have developed new information, tools, and business models for helping companies develop and implement organic cotton programs.

[1] The Hartman Report on Sustainability: Understanding the Consumer Perspective, Published Summer 2007. For more information on the Hartman Group, visit their website at www.hartman-group.com

[2] Soil Association - Organic Market Report 2007

[3] Organic Trade Association's (OTA's) 2007 Organic Manufacturer Survey. www.ota.com.

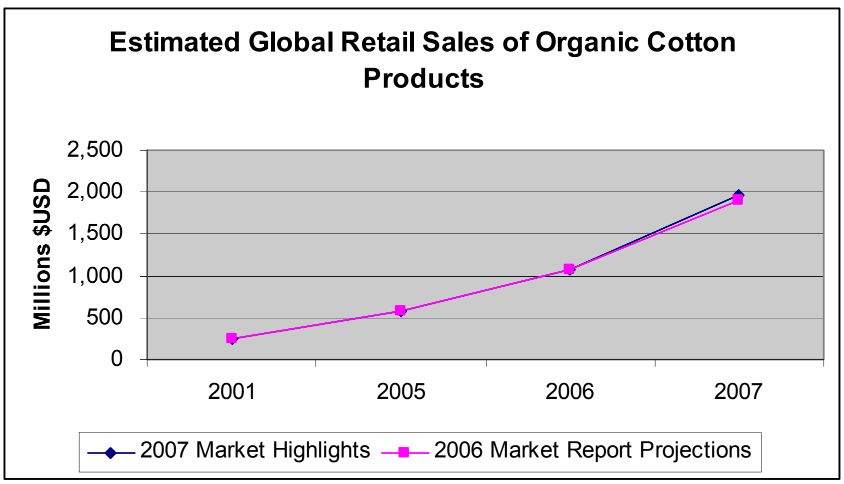
2. Market Growth Continues at Rapid Pace in 2006 and 2007

Retail sales grow significantly

2006 and 2007 retail sales figures for the organic cotton apparel, home textiles, and personal care products segments reflect continued strong growth. Market highlights include:

- 2006 retail sales of organic cotton products reached $1.1 billion globally, and initial estimates project 2007 retail sales of nearly $2.0 billion. The initial 2007 retail sales estimates are 3% higher than those projected by Organic Exchange in the 2006 Market Report.
- 2006 retail sales were 85% higher than 2005 sales, and initial estimates show an 83% increase in sales from 2006 to 2007.
- Apparel currently accounts for 85% of total market demand; home textiles represent 10%; and personal care is 5%.
- The apparel and home textile product mix expanded during 2006 and 2007 to include a greater diversity of knitwear products, a broadening supply of woven products such as men's dress shirts and women's career wear, and the development of new products such as organic cotton canvas shoes.

Chart 1: Estimated Global Retail Sales of Organic Cotton Products



- Many companies – including large and small retailers such as Coop Switzerland, Edun, Gaiam, H&M, Hanna Andersson, Indigenous Designs, Levi Strauss & Co., Loomstate, Marks and Spencer, Nike, Nordstrom, prAna, Under the Canopy, Wal-mart, and Woolworths South Africa – increased their organic cotton programs in 2006 and 2007.

- Several new companies entered the organic cotton market including C&A, NAU, Next, and Target in 2006 and Pottery Barn, Stella McCartney, and Barney's in 2007.

- Other leaders in the organic cotton industry, such as Patagonia, Nike, and Timberland, continued to explore opportunities for increasing the use of other organic and sustainable fibers and inputs, and using more efficient production, transportation and packaging practices.
- The five companies with the largest organic cotton programs accounted for 38% to 50% of organic cotton fiber demand during the past three years. In 2007, 25 companies with the largest organic cotton programs accounted for nearly 75% of total market demand, up from 52% just two years before.
- The companies with the largest organic cotton programs in 2006 are Wal-Mart, Nike, Coop Switzerland, Patagonia and Otto Group. In 2007, the top five companies are Wal-Mart, Nike, Woolworth's South Africa, Coop Switzerland and C&A.

Chart 2: Brands and Retailers with Largest Organic Cotton Programs
Top 5 by Fiber Volume

2005	2006	2007
1. Nike 2. Coop Switzerland 3. Patagonia 4. Otto Group 5. Wal-Mart/Sam's Club	1. Wal-Mart/Sam's Club 2. Nike 3. Coop Switzerland 4. Patagonia 5. Otto Group	1. Wal-Mart/Sam's Club 2. Nike 3. Woolworth's South Africa 4. Coop Switzerland 5.C&A
Fiber use represented by top 5 companies = 39%	Fiber use represented by top 5 companies = 50%	Fiber use represented by top 5 companies = 48%

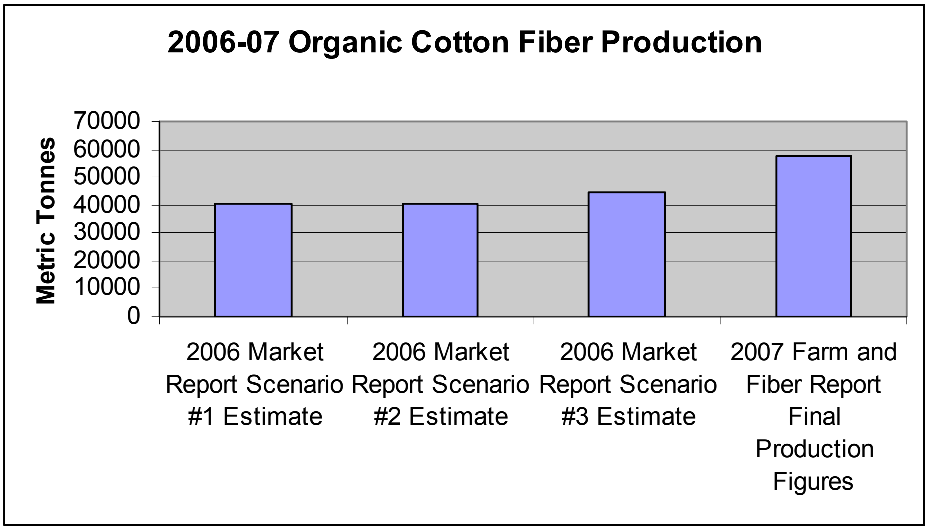
Global organic fiber supply expands to meet growing demand for organic fiber

A growing consumer market is translating into higher demand for and sales of organic cotton fiber. (Note that organic cotton contained in a garment for sale in 2007 is typically produced with organic cotton fiber purchased by a manufacturer in 2006 from a cotton crop harvested in 2006.)

Fiber production highlights include:

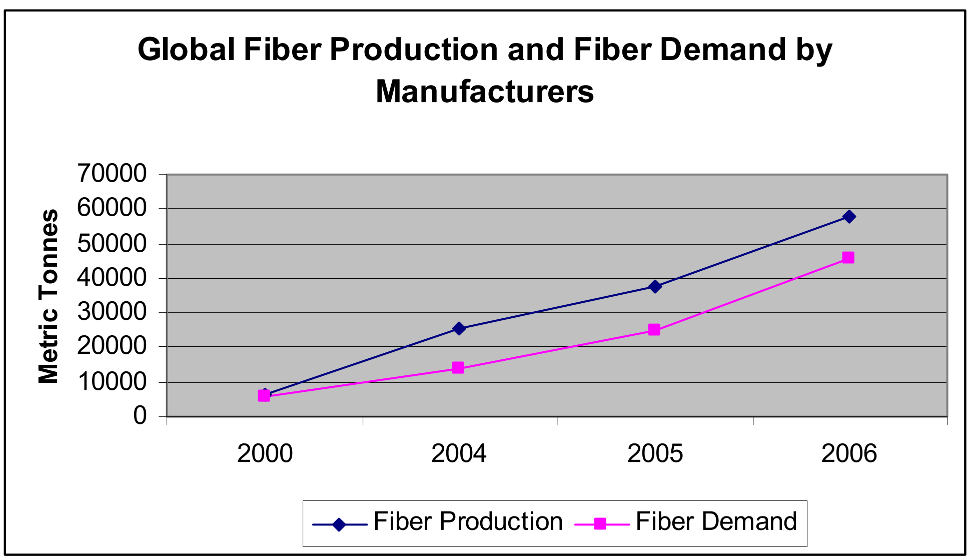
- Manufacturer demand for organic cotton fiber has grown from 13,610 metric tons in 2004 to 45,837 metric tons in 2006, representing an average annual growth rate in fiber demand of 118%.
- Organic cotton fiber production continued to grow during this same time period, with production increasing from 25,394 metric tons in 2004/05 crop year to 57,931 metric tons in the 2006/07 crop year. Turkey, India, China, Syria, Peru, the United States, Uganda, Tanzania, Israel, and Pakistan are the top ten organic fiber producing countries in order by rank. For more details, see the Organic Exchange Farm and Fiber Report 2007.
- Organic cotton fiber production in 2006/07 was nearly 30% higher than projected in the Organic Exchange Organic Cotton Market Report.

Chart 3: Estimates versus Actual Fiber Production Figures



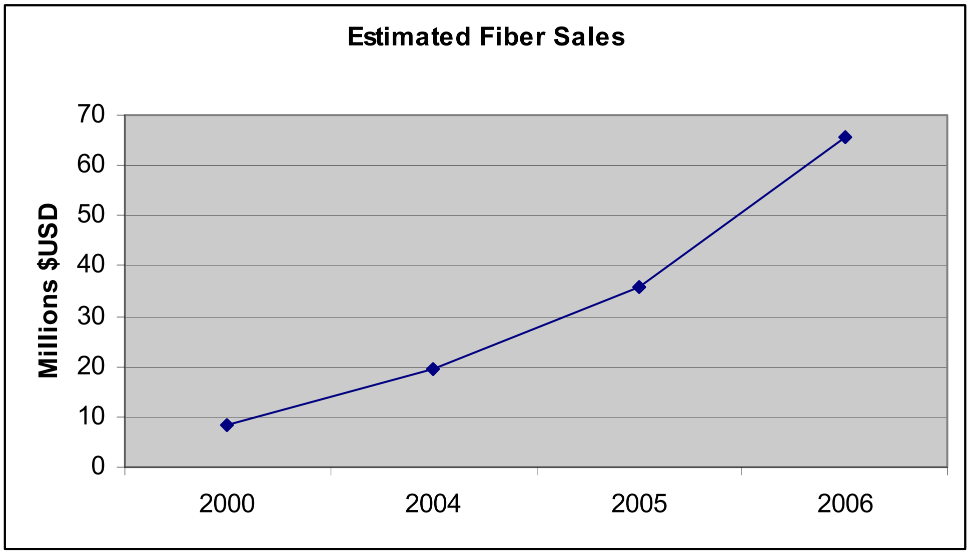
- Total fiber production continued to outpace fiber demand each year from 2004 to 2006.

Chart 4: Fiber Production and Fiber Demand by Manufacturers



- Estimated organic cotton fiber sales increased from $19 million in 2004 to $66 million in 2006.

Chart 5: Estimated Organic Cotton Fiber Sales



3. Innovations Continue in Organic Cotton Market

Product innovations, as well as innovations in business models and practices, continued to appear in the organic cotton market in 2006 and 2007. Some highlights include:

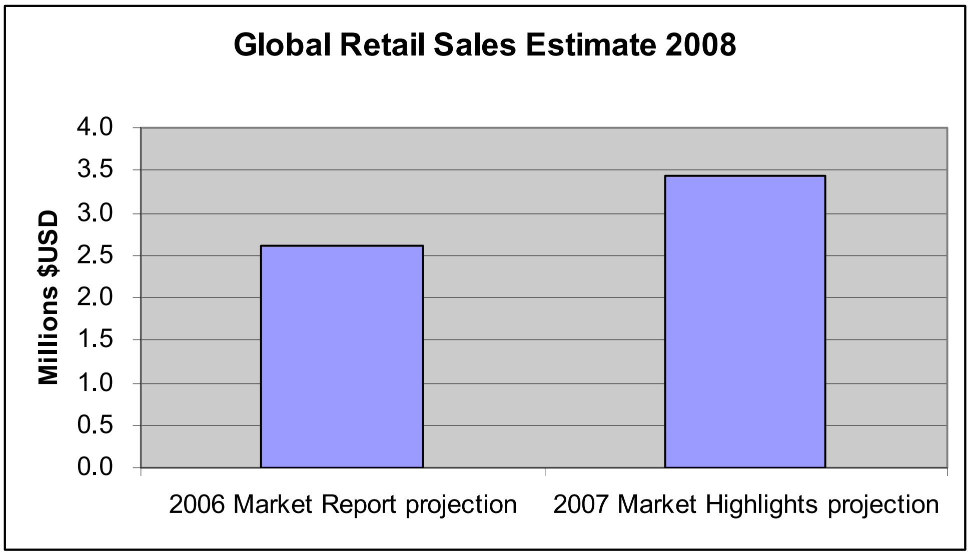
- Brands and retailers such as Marks & Spencer, Nike, prAna, Patagonia and Timberland, as well as designers such as Linda Loudermilk, Stella McCartney, and Katherine Hamnett, are incorporating organic cotton as a core component of a broader sustainable textile collection. Companies are now using organic wool, linen and leather, renewable fibers such as Tencel, soy, and bamboo and recycled polyester and recycled polypropylene in their products. Retailers such as REI are developing consumer facing logos or marks to help customers easily identify organic and sustainable textile products.
- Greater linkage of organic cotton fiber use with organic processing standards such as the Global Organic Textile Standard (GOTS), textile processing standards such as Oeko-Tex, and health, safety, or social standards such as SA 8000 and Fair Trade.
- Brands and retailers and their manufacturing partners are developing new models for securing fiber supplies and supporting farmer development programs
- Greater transparency within supply chains on business planning and problem solving and expanded use of the OE Online Tracking Service, for tracing the purchase, processing and shipment of organic cotton fiber and products.

4. Possible Market Scenarios (2008-2010) Show Continued Growth

Based on primary and secondary research results, Organic Exchange projects global retail sales of organic cotton products will grow to an estimated $3.5 billion in 2008, $5 billion by the end of 2009 and $6.8 billion by the end of 2010.

Projected 2008 sales are 32% higher than the estimate of $2.6 billion contained in the 2006 Market Report. The increase in sales is due in part to faster than expected ramp-ups of organic cotton programs by retailers including C&A, H&M, and Woolworths South Africa.

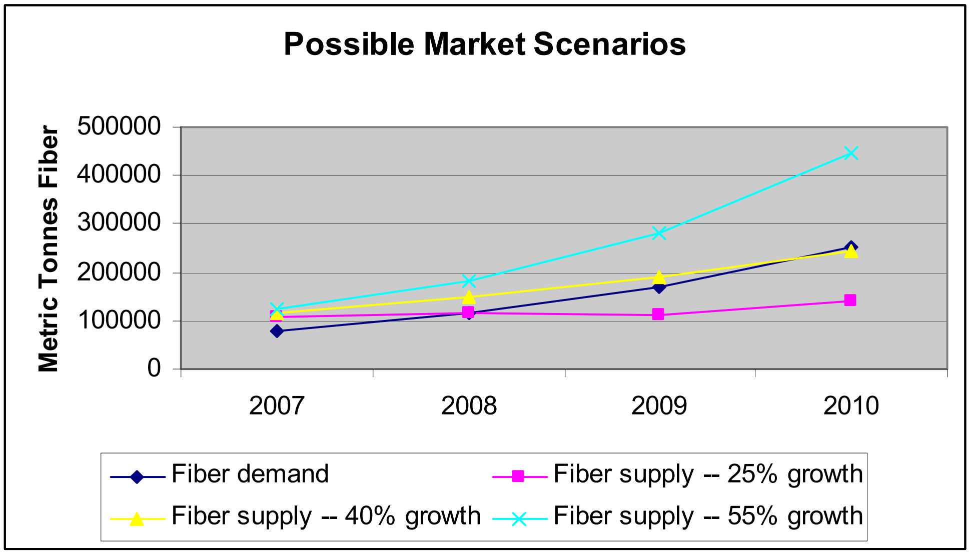
Chart 6: Estimated Organic Cotton Product Retail Sales



Organic fiber production is harder to predict, as it is based on the level of communication and commitment between brands, their business partners and organic farming projects prior to the planting season, and weather and pest conditions during the growing and harvest seasons. Given this, OE has prepared three possible scenarios for fiber production, which reflect growth rates of 25%, 40%, and 55% respectively. In addition, OE added ending stocks and available fiber inventories to estimate total fiber available for use in manufacturing in each year. More detailed information is available in the Organic Exchange 2007 Organic Farm and Fiber Report.

The market scenarios with 40% and 55% growth per year show supply exceeding demand. Fiber shortages could occur in 2009 and 2010, if fiber production growth rates drop to 25%. Organic Exchange does not anticipate shortages, particularly if brands and retailers continue to plan with their business and farming partners, secure long term fiber agreements and support farm development as discussed in the recommendations section of this report.

Chart 7: Possible Market Scenarios



5. Conclusions and Recommendations

Significantly more products made from organic cotton and other organic fibers are becoming available to consumers, presenting the opportunity for securing a long term strategic shift in consumer buying patterns in the apparel, home textiles, health, and personal care markets. To support this shift, organic fiber production must continue to increase at a rate of 40% per year to meet projected demand for organic fiber. In addition, continued attention must be given to ensure that organic fiber purchases and use can easily be traced through the supply chain from field to finished product. This is an essential part of ensuring the integrity of organic cotton products.

The next two years will be a critical time in the development of the global organic textile markets, as well as regional and country-specific markets. As such, Organic Exchange recommends that brands and retailers continue their efforts to plan for organic fiber as a strategic material in their supply chain. OE encourages them to work closely with their manufacturing partners to determine their fiber needs for the next two to three years, and to work with farming projects and/or fiber merchants and brokers to secure fiber supplies through long term contracts and other financial and business arrangements.

In addition, Organic Exchange encourages brands and retailers to work closely with their business and farming partners to design appropriate farm development programs. These programs can focus on developing organic farming skills and business management skills, facilitating access to markets for rotation crops and evaluating opportunities for value added businesses at the farm or community level. In addition, Organic Exchange encourages brands and retailers to explore opportunities for the purchase and use of crops while they are in conversion to full organic certification.

Lastly, Organic Exchange recommends that brands and retailers bring their manufacturing and farming partners together on a regular basis to undertake ongoing business planning, quality management, traceability and measurement of the social, economic and environmental impacts of the transition to organic farming practices. These efforts will help brands bring great products and the stories of the people behind those products to their customers.

Together we make a world of difference.