



TextileExchange

RWS and Pricing



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Introduction

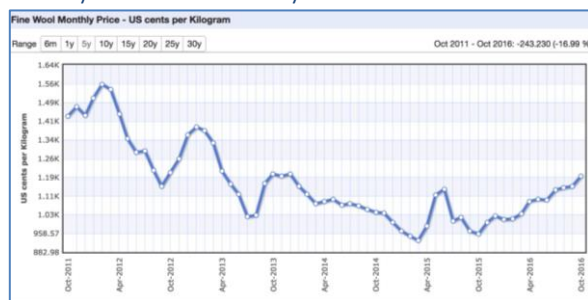
The RWS has been developed to meet the needs of brand and companies wanting to have a single effective tool to source wool from farms that are caring for the welfare of their sheep and their land.

Wool is a globally traded commodity fiber, where prices fluctuate throughout the year based on supply, demand and currency values. This creates economic uncertainty for farmers, and uneven pricing for brands.

8-month Price History for Wool



5-year Price History for Fine Wool



In the beginning years, RWS wool will not have enough volume to trade like a commodity: instead the supply chain will respond to the demand signals from brands, and book the amount of wool they need to fill that demand. This means that prices will be set at the time that the orders are made, which offers increased certainty to both brands and farmers, but also reduces the opportunity for the supply chain to blend wool that has been bought over different time periods, at different prices.

For the RWS to be successful, it is important that everyone does their part. Brands can play their part by setting and sharing their multi-year purchasing goals, being willing to pay a fair cost for the fiber, and encouraging others to use the RWS. We also hope that supply chain partners will soon move to holding stocks of certified fiber, so that they can be responsive to increases in demand, and enable more blending options.

Factors Affecting Costs

It is helpful to understand the factors that impact costs along the supply chain, and in many cases there are opportunities to work together to minimize the price increases for certified wool.

CB: Certification Body ICS: Internal Control System TE: Textile Exchange

Growers

Costs

- Certification: audit fees, TE fees, compliance costs

Comments

- Growers are price-takers: they are selling a commodity, and therefore cannot pass on their cost

Opportunities

- Market access
- Possibility for longer term, stable pricing
- Reduced risk of regulation
- Reduced risk of activist campaigns
- Confidence on compliance to legislation
- Access to information on best practices around the world
- Global recognition of the grower's practices

Actions to take

- Consider joining a Farm Group for group certification to reduce the cost of certification.
- Get examples or quotes from CBs on actual certification costs, so that these can be factored in accurately. You may be able to get quotes from more than one CB.

Brokers

Costs

- Certification: audit fees, TE fees, compliance
- Cost to set up ICS and do internal audits for group certifications

Opportunities

- Can establish long term stable relationships with brand and/or supply chain customers
- Same advantages as farmers
- Added value to provide to growers

Actions to take

- Get examples or quotes from CBs on actual certification costs, so that these can be factored in accurately. You may be able to get quotes from more than one CB.

Supply Chain

Costs

- Certification: audit fees, TE fees, compliance
- Costs of transaction certificates
- Lost ability to price average over time (until the RWS reaches critical volume)
- Lost ability to blend for quality and cost (until the RWS reaches critical volume)

- Smaller volumes: increased processing costs (until the RWS reaches critical volume)

Comments

- Top-makers will buy and inventory wool fiber continually over the year, allowing them to cost-average and manage quality mixing of their inputs to meet the specifications of the yarn spinners

Opportunities

- Leverage CCS certification for other standards (RDS, RCS, OCS etc.)
- Enhance relationships up and down the supply chain
- Can establish long term stable relationships with brand and/or supply chain customers

Actions to take

- Get examples or quotes from CBs on actual certification costs, so that these can be factored in accurately. You may be able to get quotes from more than one CB.
- Contact Integrity@TextileExchange.org to get a copy of the Certification Toolkit – Supplier’s Package

Brands

Costs

- Costs of certification: audit fees, TE fees, compliance

Comments

- When a brand asks for a future price on the wool, there are a number of things to take into account:
- Prices fluctuate throughout the year, based on supply and demand and currency changes.
- The price that you are given for the RWS will likely be based on the current market price, which can result in a higher costs, but may also turn into an advantage
- Until RWS wool is moving in volume, suppliers will be working with a limited supply and no inventory, which will increase their risk
- Supply chain members that have not yet dealt with certified materials will typically add a larger margin to cover anticipated costs and risks: the more that they understand the real costs, and can get firmer long term buying commitments from their customers, the less risk they will have to cover.

Opportunities

- Efficient sourcing to CSR goals
- Reduced brand risk
- Get what you ask for and pay for
- Enhanced relationships with the supply chain and a connection to farmers
- Long-term stability for raw materials
- A means to better engage with consumers: messaging and story-telling

Actions to take

- The more that brands can reassure their supply chain that they are interested in building long term strategic relationships, share their longer term plans, make commitments to purchase in larger amounts over time, then supplier will have the confidence to spread their anticipated costs over a longer timeframe.
- Consider pulling from philanthropic budgets to support farm-level certification and/or training. TE can help to facilitate this.
- In the beginning, look at using blending strategies (eg: 20% RWS wool) to address margin but keep volumes high
- Look at joining the RWS Kick-starter Club.

A look at Certification Costs

There is a lot of uncertainty about the costs that RWS certification will add, and while it is not possible to give accurate costs estimates in this document, we can explain how the costs come into play.

Supply Chain

Compliance

The costs to change practices and systems can vary greatly for each site that is certified. All high quality supply chain members will already have effective systems in place to manage their inputs and outputs, so the only significant compliance costs will come from running RWS fiber through in batches: this cost will decrease as volumes increase, and the more that processors can time their RWS runs with their regular machine clean-outs, the better.

Certification

If a site is already certified to another TE standard or GOTS the cost of adding the RWS scope will be minimal, and a separate audit may not even be needed. Future certification audits can be done at the same time for all of the standards.

Transaction Certificates (TCs)

There will be a cost associated with TCs, and these will vary depending on the pricing of the certification body. Given that wool is already a fairly expensive fiber, TCs should be minimal per order. The greater the size of the order, the less significant the TC cost.

TE Fees

Textile Exchange charges \$250 per unit certified.

Farms

Compliance

Good farmers will already be meeting the spirit of the RWS, but some may need to adjust some specific practices or change some of their equipment or facilities. The greatest change for most will be the document and record keeping required by the standard, however we have created a lot of tools to make this as simple as possible.

Certification

Most farms will be certified to the RWS through a group certification scheme: they will have their own internal control system, and the certification body will audit this system, and conduct physical audits on a sample number of farms (typically the square root of the total number, although this may be adjusted up or down to account for risk factors). This will significantly lower certification costs.

Transaction Certificates (TCs)

TCs will be a negligible cost for farms, as they typically only ship out their wool once per year.

TE Fees

For farm groups, Textile Exchange typically charges \$250 group scope certificate fee plus \$200 per auditing day. If an individual farm is certified, the cost is \$250.