

# Memorandum of Understanding

between:

**the producer organisation:**

<name of organisation>

Address

Tel.:

e-mail:

**the trading partner:**

<name of trading partner>

Address

Tel.:

e-mail:

and

**the facilitating organisation:**

<name of facilitating organisation>

Address

Tel.:

e-mail:

## **Concern: Partnership on producing and purchasing organic-fairtrade cotton**

<name of producer organisation> (hereinafter referred to as "the producer organisation"), <name of trading partner> (hereinafter referred to as "the trading partner") and <name of facilitating organisation> agree upon the following:

### **1 Background**

Description of the project, the role of the facilitating organisation, the producer organisation etc.

### **2 Purpose**

The purpose of this memorandum is to establish a long-term partnership between the producer organisation and the trading partner in order to:

- provide the farmers organized by the producer organisation with a reliable market for the organically produced cotton at fair-trade conditions (as specified by FLO),

- provide the trading partner with an assured supply of certified organic and fair-trade cotton (OFTC) of good quality and with a “marketable story” on the social and environmental benefits of the collaboration with OFTC farmers.

### **3 Roles and responsibilities of the partners**

The **producer organisation** commits to fulfilling the following responsibilities:

- To organise the production and the farmer groups in compliance with organic regulations (EU-Regulation 2092/91) and Fairtrade standards (FLO);
- To provide adequate extension services to the farmers and operate a reliable internal control system;
- To take appropriate measures in order to ensure product quality (quality management);
- To provide reliable production data (number of farmers, acreage, production estimates, harvest figures) in a timely manner;
- To coordinate the collection and processing of the seed cotton, in collaboration with the cotton societies;
- To provide the trading partner with a reliable supply of certified OFTC (volumes as specified below);
- To provide information and contacts that allow the trading partner to communicate the social and environmental benefits of the collaboration with OFTC farmers.

The **trading partner** commits to fulfilling the following responsibilities:

- To use all reasonable endeavours to ensure that the agreed volumes (specified below) of fair-trade-organic cotton lint produced by the farmers of the producer organisation are purchased and used in its supply chain;
- To ensure that the producer organisation receives a price that allows them:
  - to pay the farmers the organic-fairtrade minimum price for seed cotton (set by FLO) that covers their cost of production, allows them to make a decent profit and provides an incentive for more sustainable farming,
  - to pay the farmer groups the fair-trade premium (set by FLO) that is used for community development activities, and
  - to eventually cover the costs for the extension and internal control system;
- To participate in joint meetings with other project partners at least once per year or – if possible - whenever mutual agreement is needed strategic questions like volume allocation, new partners etc.

The **facilitating organisation** commits to fulfilling the following responsibilities:

- To continue supporting the producer organisation and the farmers in developing the necessary capacities and systems, at least until the end of 20XX;
- To facilitate the exchange of know-how and information among the partners and other stakeholders;
- To facilitate negotiations among the producer organisations and the other partners involved in the chain (concerning prices, allocation of fibre volumes, supply chains etc.);
- To provide regular updates on the development of the project in order to enable the trading partner to promote the project in marketing and other communication channels.

All partners agree to inform the other parties

- in time on all important changes that concern the scope of this memorandum;

- in advance of all external communication that refers to the cooperation.

#### **4 Supply and purchase agreement**

The producer organisation and the trading partner agree to provide, respectively purchase, at least the cotton lint volumes specified in Annex 1 of this MoU.

The cotton fibre volumes agreed above are subject to the following conditions:

- the cotton lint meets at least the quality specifications defined in Annex 2;
- the climatic conditions permit producing average yields.

The volumes specified in Annex 1 define the minimum quantities that the trading partner intends to consume. If available and not fixed with contracts with other commercial partners, the producer organisation will cooperate with the trading partner to provide additional volumes.

In case the overall cotton production in the production region is reduced due to adverse climatic conditions, the volumes agreed above may be reduced accordingly.

#### **5 Supply chain**

The seed cotton is purchased and processed via the supply chain described in Annex 3 of this MoU. This may be subject to change if a more efficient supply chain is identified, after consultation between the parties involved. In any case, the following principles shall be applied:

- Price setting on all levels prior to spinning (producer organisation, cotton societies, exporter) shall be based on transparent open-book cost calculation.
- Prices paid for the cotton lint shall be set in a way that they can cover:
  - the OFTC minimum price and fair-trade premium set by FLO;
  - the costs of ginning (including a reasonable profit for the cotton society); and
  - an appropriate contribution to the extension and certification costs, eventually allowing for cost-covering production once overall volumes have increased.
- The producer organisation, in collaboration with the partners involved in ginning and export, will ensure that the trading partner is kept updated concerning the possible first delivery dates of cotton.

#### **6 Administrative provisions**

This instrument is neither a fiscal nor a funds obligation document. No party has the authority, express or implied, to create financial obligations on behalf of the other party, to create commitments other than as contained herein, or to take any positions on behalf of the other party without the other party's written consent.

This MoU shall not be either legally binding on any party to this MoU or be deemed to constitute an obligation or commitment of funds by any party. This MoU, nevertheless, reflects the present intention of each party to pursue and implement in good faith the understandings described herein.

The parties shall make their best efforts to settle amicably any dispute over the terms or implementation of this MoU.

## 7 Duration, termination and modification

This MoU is valid until XXX. Thereafter, it shall be re-examined and adjusted as deemed necessary. Any of the parties, in writing, may terminate the collaboration in whole, or in part, at any time before the date of expiration. Adaptations to this MoU can be initiated by both parties at anytime and shall be done in writing. They require approval by both parties concerned.

<b><u>Place, Date:</u></b> ..., / /2009	<b><u>Place, Date:</u></b> ..., / /2009	<b><u>Place, Date:</u></b> ..., / /2009
<b><u>For &lt;producer organisation&gt;:</u></b>  <b>name</b> function	<b><u>For &lt;trading partner&gt;:</u></b>  <b>name</b> function	<b><u>For &lt;facilitating organisation&gt;:</u></b>  <b>name</b> function

## **Annexes to the MoU between <name of producer organisation> (the producer organisation), <name of the trading partner> (the trading partner) and <name of the facilitating organisation>**

### **Annex 1: Volumes of organic-fairtrade cotton lint**

The producer organisation and the trading partner agree to provide, respectively purchase, at least the cotton lint volumes specified below:

<b>Harvest period</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Cotton lint</b>	min: t	min: t	min: t
<b>(in metric tons)</b>	max: t	max: t	max: t

### **Annex 2: Quality specifications**

The producer organisation will only deliver first quality cotton fibre to the ginning factories, so that these are able to fulfil the following quality requirements:

- Fibre length: minimum x.x mm
- Accepted contamination levels:
  - 100% organic fibre only
  - foreign material content < 0.x %
  - foreign fibre content < 0.x %

### **Annex 3: Supply chain**

The seed cotton is purchased and processed via the supply chain described below: