

## Lessons for Australian cotton supply chain and logistics

By Tony Geitz, Australian Cotton Shippers Association

My last article for ACSA back in June started with the following statement - “2020 will remain as one of the biggest Australian supply chain shocks we will probably see in our lifetimes ...”. Well, those shocks keep coming!

A cotton business guru told me quite a few years ago that it takes 100 lessons to learn this business, but the problem is you can only have one lesson a year. So what did we learn in 2021?

We have been fortunate in 2021 in that we learnt some supply chain lessons which will become even more important as we approach 2022 and a cotton crop that that will be at least 70% bigger than in 2021.

The extraordinary structural change going on in the ocean freight market is real and may even be accelerating. Australia’s position as a peripheral but convenient secondary freight market is changing. Southbound freight has always subsidised the northbound return to China and with much of Australia’s exports previously bound for China, shipping companies liked the quick circulation of containers back to the global manufacturing powerhouse and accordingly provided a subsidised rate. An Australian export container is now taking the long road back to China back via the subcontinent or Europe and in doing so, the full cost must be paid. The ramifications of these changes continue to reverberate through the trading and export departments of all Australian exporters.

Although not a record crop, in 2014 Australia exported its highest ever single month exports in June at 928,000 bales and July at 976,000 bales. That same export year averaged 338,000 bales per month with a total volume of 4.062 million bales for the year. In 2018 our biggest export months were June at 771,400 bales and July at 741,700 bales, average monthly exports for the year were 381,900 bales and total exports for the year 4.5 million bales. The table below provides some comparisons to 2012 (our biggest crop year) and 2021 (YTD).

<b>Crop Year</b>	<b>Shipments in June</b>	<b>Shipments in July</b>	<b>Avg Monthly Shipments</b>	<b>March to July Shipments</b>	<b>Total Season Exports</b>
<b>2012</b>	772,600	704,900	472,200	2.277 M	5.666 M
<b>2014</b>	928,000	976,000	338,000	2.518 M	4.062 M
<b>2018</b>	771,400	741,700	381,900	1.977 M	4.583 M
<b>2021 YTD</b>	234,000	505,200	*218,600	*1.040 M	*2.623 M

\*includes assumptions and all 480lb bales

So what is the take away from the comparison of these four years? The most obvious is that in 2021 China was not our biggest market (China has held this position since 2005). That position will be taken by Vietnam in 2021, followed by Indonesia and Turkey. Despite 2021 being the smallest of the four years analysed, it is unique in that it has one of the lowest rates of execution despite being significantly smaller than 2012, 2014 and 2018.

So the lesson for 2022 will likely be execution. How quickly are we going to be able to sell and ship a crop that has the potential to have a five in front of it? Where are the bottle necks going to be and what

amber lights are flashing? And going back to the 2021 notebook we have to remember that this export year is not yet finished and therefore the lesson hasn't been completed.

Ocean freight and labour availability both have a profound effect on our supply chain and are reoccurring themes in the lesson notes. The disruption that COVID has brought to our regional labour market has been very significant. The ABS in their June 2021 Provisional Overseas Travel Statistics noted that temporary work visas decreased from 19,000 applicants to a staggeringly low 270 granted between Jun-19 and Jun-21 - a decrease of 98.6%. Sourcing and then attracting a casual labour force into agriculture continues to be extraordinarily difficult.

Moving forward and preparing for our next "lesson", in the context of possibly one of our largest crops ever, the loss of our largest customer for the past 16 years and a significantly inverted Jul/Dec-22 Futures, the tone is set and is literally screaming out for Australian cotton to be delivered in Q2.

There are a lot of important balls in the air with six months remaining of this "export" season and head into an almighty 2022.

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