

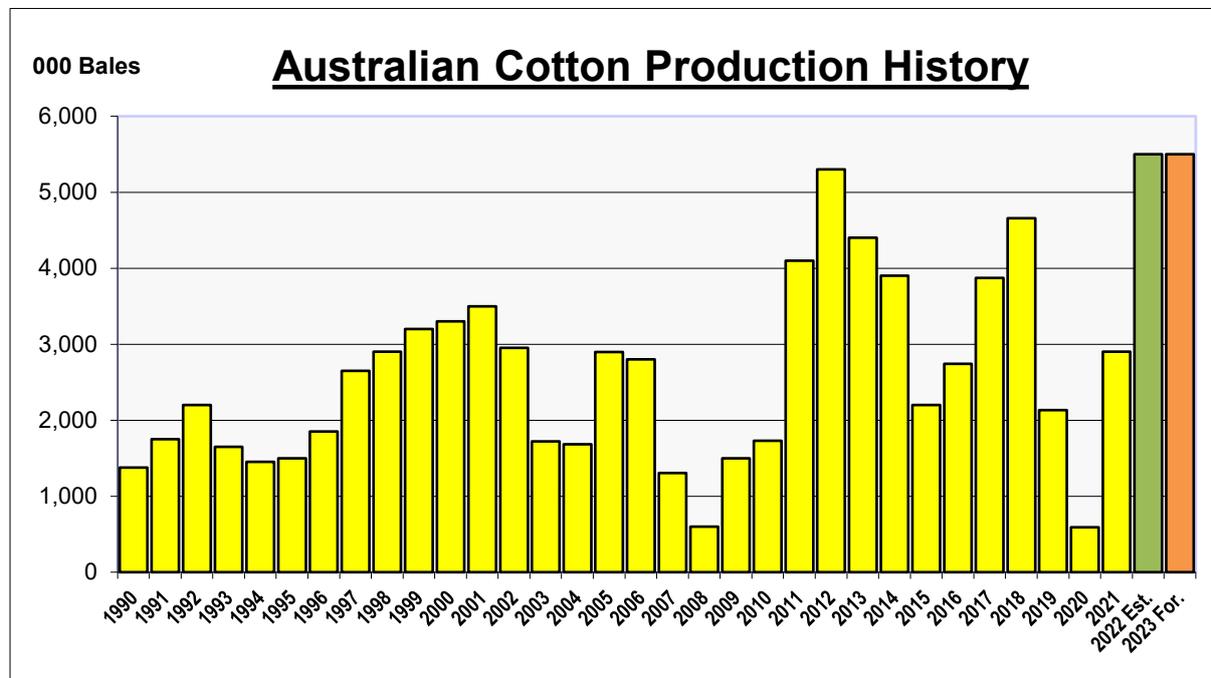
Australian Cotton Supply Chain – is it broken?

By Arthur Spellson, Australian Cotton Shippers Association, July 2022

For many months we have heard about disruptions in global supply chains and the impact these disruptions are having on global commodity flows, including cotton. While global shipping container flows have been greatly affected, and well publicised, it is internal issues, prior to container freight, which are now providing the Australian cotton supply chain with its greatest challenges.

Australia's cotton supply chain has long been touted as the most efficient in the world. This has enabled us to ship our crop in a timely and cost effective manner. It has also helped to underpin the competitive environment in which merchants operate giving growers competitive pricing options. In 2021, even with the small crop, we struggled to execute due to reduced container freight capacity, especially to markets in the Indian Sub-Continent and Europe. While the container situation has eased somewhat since last year it is the gin to warehouse piece which is causing us significant problems in 2022.

The size of this year's crop is certainly a factor. Per the chart below it is estimated that Australia has grown approximately 5.5 million bales of cotton in 2022. If the crop does end up being 5.5 million bales, and it will be a while before we know, it will be our biggest crop ever, with the previous biggest crop being the 2012 crop at 5.3 million bales. The 2022 crop is nearly double the 2021 crop, and nearly 10 times the size of the drought effected 2020 crop. Our most recent large crop was back in 2018 when we grew around 4.6 million bales which was then the second largest crop Australia had grown.



So what issues are we facing and how have they come to bear? According to freight and warehousing operators across the industry, a combination of multiple issues is making execution difficult for some merchants in 2022. Many of these issues have evolved over the three years since we grew a big crop. The main issues include:

- Most gins are operating 24/7 for the first time since 2018
- Upgrades at some gin sites have resulted in increased daily gin output increasing the daily outload requirement. In some cases the increased daily gin output has not been matched by capacity increases outside the gin (such as bigger bale pads and increased outload capacity)
- Lack of experienced staff all the way through the supply chain from admin staff through to machinery operators – and in particular, a lack of experienced loader operators at some gins.
- Change in supply chain structure at some gin sites resulting in reduced loading times for third party trucks
- Cost price squeeze in the trucking industry which has seen multiple trucking companies close their doors since our last big crop. Older drivers are retiring and the next generation of truck drivers is not coming through
- Reduced warehousing capacity and options, especially in Sydney, pushing more cotton to Brisbane and Melbourne
- Reliance on sub-contracted highway trucks (as opposed to trucks dedicated to the task) has meant that trucks have moved to the most profitable work making cotton compete for capacity
- Reduction in rail capacity for up country containerised freight resulting in increased demand for trucks especially on the longer hauls from gins to capital cities
- Restrictive loading and unloading hours at some gins and warehouses. Some gins and warehouses do not operate on weekends while others do
- Increased scrutiny on truck driver hours to manage fatigue

The above issues are affecting execution to different degrees and have a tendency to feed into each other and exacerbate problems. For example the truck shortage is being exacerbated by the fact that trucks are sometimes faced with long wait times to get loaded or unloaded meaning they are doing less loads in a day or a week. With gins operating 24/7 it is difficult to catch up if we fall behind and the problems build.

While it is understandable that individual businesses manage their operations in ways which maximise their own efficiencies and cost structures, the nature of our industry makes it difficult for anyone to operate in isolation. We have been as efficient as we have been over the years due to our recognition of this and our willingness to work together. It is important that we continue to work together so that we maintain our competitive and efficient landscape.

We have a long way to go with the 2022 crop with most gins not even half way through their estimated 2022 throughput. As we move through the season staff will become more experienced and hopefully we will see some improvement in logistics flows. If we do not, we run the risk of losing even more staff in the current competitive labour market, further exacerbating our problem. We need to make our industry an attractive place to work or we will continue to lose good people.

As we move through the 2022 season and look towards 2023, which could be even bigger than 2022, ACSA will be looking to work with supply chain partners to address the challenges we are facing. It is important that we do this not just for the sake of our own businesses but for the sake the whole industry and making sure cotton remains an attractive crop for farmers to grow across the country.

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