REDUCED COSTS FOR AUSTRALIAN COTTON EXPORTS

by Richard Porter, Australian Cotton Shippers Association

Australian cotton exporters could be forgiven if they were somewhat complacent around container freight rates prior to 2020 with shipping relatively stable and the majority of our lint bound for China. This, coupled with the shipping lines' need to get containers back to a port of the world's largest manufacturing exporter, meant it was a was match made in trade heaven.

As was evident in many markets, the Covid 19 pandemic turned global container freight on its head. With consumers largely stuck at home and cashed up, they looked to replace holiday, dining and pleasure experiences with home luxuries – televisions, sofas, game consoles, etc. This consumer demand fed into the demand side.

On the supply side, the free movement of containers was seriously hampered up and down the supply chain because of the pandemic. From labour shortages at ports, which led to massive congestion all the way to a gap in chassis manufacturing that led to landside delays in container movements in parts of North America, the result was reduced container turns and efficiency. This, coupled with strong demand saw the World Container Index (WCI) jump from 1,386.65 in Sept 2019 to 10,377.19 in September 2021 – a whopping 648% increase.

In the context of Australian cotton, this ocean freight tightness came at a time when our crop size was increasing from drought lows of 630,000 bales in 2020 to the highs of 2022's 5.8 million bales. At the same time, Australian cotton was largely unable to access the Chinese market. Not only was this significant from a demand outlet perspective, but also from a container freight flow standpoint as well.

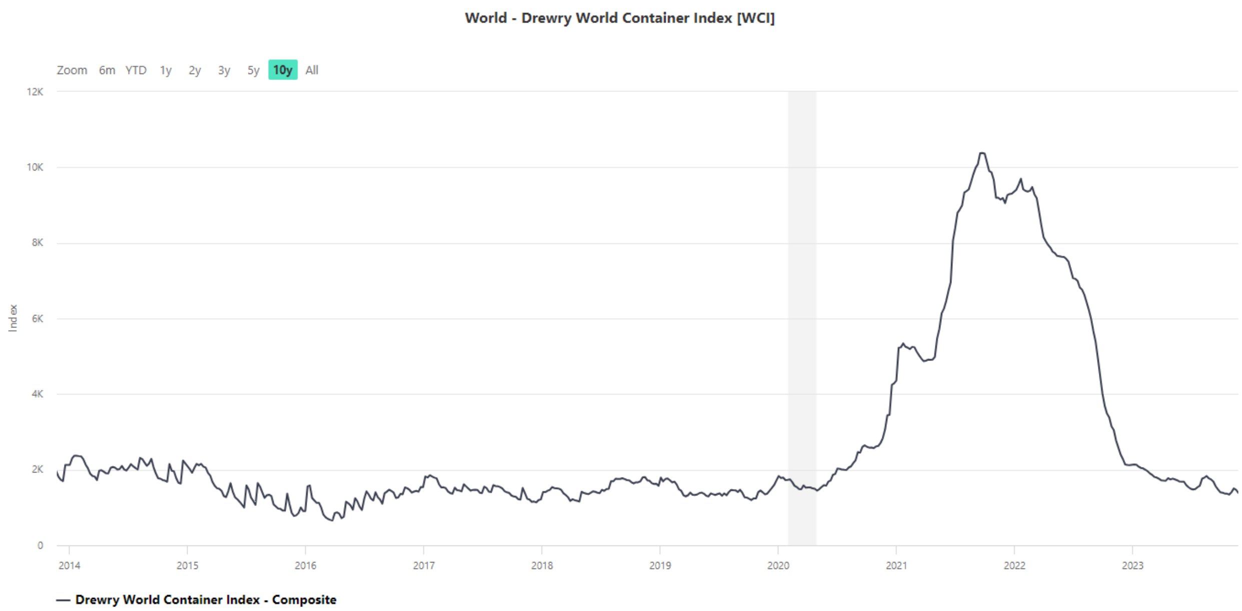
With historically high freight rates (particularly on the China-US and China-Europe trade lanes) shipping lines had their strongest incentive in many years to get a container back to China. Unfortunately, it came at a time when our cotton exports needed to go elsewhere. The result was high rates and poor container freight availability for Australian cotton for much of 2021 and 2022. This had a direct impact on the bottom line for Australian cotton merchants and growers, as the resultant ex-gin basis had to factor in these higher container freight rates.

Fast forward to 2023 and container freight rates are back to pre-Covid 19 levels – and in some cases are lower. Consumers have resumed more normal spending habits (less "stuff" and more experiences). As a result, container freight demand has cooled. At the same time, much of pandemic specific supply chain issues have been alleviated.

From an Australian cotton perspective, this has meant greater control in our shipping programs and a significant reduction in cost to execute from ex-gin to destination markets. This is a positive for both Australian cotton growers and mill buyers at destination.

Here's to big crops, open markets and container and shipping line availability!

Ends


World - Drewry World Container Index [WCI]
Zoom 6m YTD 1y 2y 3y 5y 10y All
12K
10K
8K
6K
4K
2K
0
Index
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Drewry World Container Index - Composite