

Diversification Challenges

July 8, 2021

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When China introduced its soft ban on the import of Australian cotton it was initially greeted with some trepidation as we had unquestionably become reliant on one market taking over 65% of our production and the subsequent loss of such a market was therefore going to be a huge challenge to the industry. It was somewhat fortuitous, combined perhaps with some bad timing from China, that they introduced the ban during our smallest crop in over 30 years, thus giving the industry time to consider and evaluate how we would handle the movement of a much larger 2021 crop. Had they waited until the start of 2021 to introduce the ban then the consequences would have been far worse than we could ever have imagined, particularly now in the light of the current supply chain issues to all destinations except China.

No matter the timing, the industry was faced with a huge challenge to diversify markets in the midst of a global pandemic and all the uncertainty that it has introduced. A pandemic that has thrown the world on its head and presented all businesses with situations that would have been unimaginable at the beginning of 2020 and unfortunately situations that continue to evolve. If we thought 2020 was bad then 2021 has managed to surpass it in terms of a logistical nightmare.

Despite all of this the diversification away from being reliant on the China market is well underway and suffice to say that is not just for the cotton industry. This dramatic shift to global trade has seen supply chains being stretched and tested in a way that very few foresaw, and it will no doubt take a number of years before things truly settle down and new trade lanes become established. This applies to all exporting commodities and businesses but in our sphere the textile supply chain is definitely changing as the global brands seek to spread their risk across a number of markets as opposed to one. This has to mean better consumption prospects in markets such as Pakistan, Bangladesh and Turkey as some of the China consumption is dispersed around other destinations.

ACSA and its individual members have both worked hard over recent months in promoting the advantages of Australian cotton to the world's many spinning nations but competition is fierce and in many instances we have had to start to tell the story again about the advantages of Australian cotton. The weaker basis has made our prices attractive and we have never been more competitive but it is still a battle to recover markets from the USA and Brazil after many years of being absent.

As we have mentioned in a previous article one avenue ACSA is pursuing is the appointment of a specific resource to promote and enhance Australian cotton in these previously established markets and the new and emerging. You will hear more about this venture in the coming weeks.

In light of the above it is now extremely disappointing and frustrating to note that just when it appeared market diversification was beginning to gather pace with sales of Australian cotton being noted into markets such as Bangladesh, Turkey and even India, along came the global shipping lines to stymie a lot of the progress that had been made. While it must be acknowledged that it is not just Australia being impacted by these developments, we are perhaps more vulnerable than most countries due to our location and size. The big shipping companies are being drawn to the more lucrative shipping lanes of Asia/Europe and Asia/USA where they are making significant margins and they certainly do not want containers being tied up on less appealing freight lanes like Australia to anywhere!

Obviously the supply chain disruptions mentioned above do not only impact Australia they are having huge implications around the world and the oft talked about “just in time” management is a thing of the past as everyone grapples with a shipping situation that looks set to be a problem well into 2022. That means we have to live with it, adapt and continue to trade under these new and difficult conditions. It does however make it extremely difficult to put a price on cotton for forward shipment when you don’t know how much it is going to cost you, let alone know if you can find space on a vessel.

It certainly won’t be without some pain but the Australian cotton industry will get through these challenges and we will come out the other side a much stronger industry. In the long term it was never going to be sustainable to rely on one market and the future looks far brighter when we have a range of markets to sell into. Now if we can just get this pandemic sorted out.

Finally turning our attention to the current market conditions it is pleasing to note that demand remains strong across the spectrum and the pent up consumer demand is definitely supporting prices at current levels. As we enter the Northern Hemisphere summer period, which typically brings more focus on crop prospects, primarily the US crop, the cotton market which becomes a “weather market” for the next few months appears to be searching for direction in the eighty cent range. Do we move higher on what is perceived to be a relatively tight supply position over the coming months or is the prospect of an 18 million bale US crop enough to keep the market contained? It’s never a dull moment in the cotton world and that’s not going to change.

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