Sometimes It's Better to Be Lucky Than Good

by Luke Wills, Australian Cotton Shippers Association

There's an old saying, “sometimes it's better to be lucky than good”.

Most growers would probably agree. You can make all the right decisions - choose the right variety, irrigate perfectly, manage staff and contractors impeccably and then watch a hail storm undo months of hard work. Equally, favourable prices or a bumper season can sometimes disguise costs that are quietly building beneath the surface, or in the case of this year, rapidly increasing.

Australian cotton growers have enjoyed a remarkable run over recent years. Strong world prices in relative AUD/bale terms, excellent yields and a reputation for producing some of the world's highest quality fibre have combined to deliver profitable seasons for many businesses. But beneath those healthy gross margins, the cost of producing a bale has been steadily climbing. Fuel, fertiliser, crop protection products, labour, machinery, irrigation infrastructure and finance amongst others have all become materially more expensive for a whole host of reasons.

For many growers, the increase has been gradual enough to absorb while cotton prices remained supportive. The real test comes when prices inevitably retreat toward their long-term averages, or where new pricing cycles influenced by the latest heavy weight title bout between some of our neighbours leave us all a little dazed and confused as to what the direction the market is actually taking (if it is indeed taking one!).

It's tempting to assume Australia's challenge is unique that we're burdened by higher wages, tighter regulation and rising operating costs while competitors enjoy a cheaper path to production. But conversations with growers and merchants around the world suggest something quite different.

Brazil, now arguably Australia's largest competitor in export markets, is wrestling with many of the same economic pressures. Input costs have risen sharply, imported fertilisers remain expensive, machinery replacement costs continue to climb and financing large farming operations has become increasingly costly. While some Brazilian farms benefit from enormous scale, that scale brings its own financial challenges. And so I think we would all agree that it is too simplistic for an Australian producer to just assume scale would solve the problems we presently face.

And this should give Australian growers some confidence. With the economics of cotton production changing globally it once again creates an opportunity for Australian producers to decide where they want to position themselves.

Australia's competitive advantage has never been about being the cheapest producer. It has been about producing more cotton per megalitre, more lint per hectare and fibre quality that spinning mills consistently value. As production costs continue to rise worldwide, those strengths become even more important.

The challenge for the decade ahead is unlikely to be simply producing more cotton. It will be producing each bale more efficiently than the last. Precision agriculture, improved genetics, automation, better water management and disciplined cost control will increasingly separate profitable businesses from the rest.

Perhaps that's where the old saying needs updating. Luck will always play a role in farming. Rainfall and markets will always remain outside anyone's control. But as the cost of growing cotton rises around the world, good management will matter more than ever. Those businesses that relentlessly improve productivity - not just yields - will be the ones best placed to prosper, regardless of where they farm.

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