



COTTON

Review of the World Situation

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Covid-19 and Disruptions to the Textile Supply Chain in Australia

Cliff White

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Cliff White commenced his cotton career in 1976 with the then Ralli Bros & Coney (now Cargill Cotton) based in Liverpool, England. Following an apprenticeship that covered all aspects of the cotton trade his career has taken him to all corners of the globe, gaining extensive experience in Asia and having lived in Tanzania, Turkey, Hong Kong, USA and Australia. His 46 years in the cotton industry have been a global experience.

Following 15 years with Ralli, Mr White joined Queensland Cotton in 1991 and was responsible for the

buying and selling of the company's Australian, US and Brazilian cotton. In May 2007 Cliff moved to the USA as Senior Vice President (Cotton) for Olam Americas. Based in Dallas, Texas he was responsible for the marketing, ginning and warehousing operations.

Cliff joined Omnicotton Inc in September 2012 and moved back to Brisbane, Australia in January 2013 to establish Australian operations for the expanding company. With headquarters in Dallas and regional offices in Sao Paulo, Brazil and Brisbane, Australia the company focuses its business on the three main machine picked contamination free cottons of USA, Brazil and Australia.

Mr White is a Director and past Chairman of the Australian Cotton Shippers Association, past President of the International Cotton Association, has served on the Boards of the Texas Cotton Association (past President 2012) and American Cotton Shippers Association, and a Graduate of the Australian Institute of Company Directors.

As a supplier of premium cotton to the world, Australia was certainly affected by the onset of the global Covid-19 pandemic and in many ways was one of the first to encounter the supply chain storm. Those first few months of a global shutdown coincided with the start of the 2020 shipment period for Australian cotton. Businesses trading Australian cotton were challenged with cancelled sales, requests to delay shipments and a general sense of 'what next'.

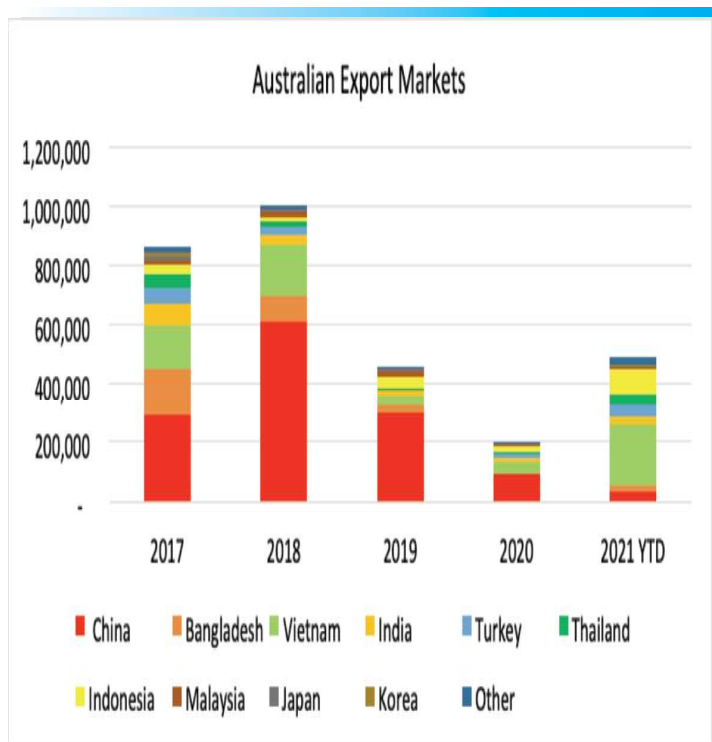
In 2020, Australia grew its smallest crop in more than 30 years due to drought conditions. With only 700,000 bales (500 lb) to export, our very lean crop had a silver lining: Exporters did not have to carry volume, nor were they overly challenged by having to ship such a modest volume.



Like most things at the start of the global pandemic, demand for cotton disappeared and spinners chose to reduce their stocks rather than buy additional supply under circumstances that were very unclear. However, as the world's textile producers reopened their spinning mills in the second half of 2020, fabric production was again in full swing and so resumed the textile supply chain. Unfortunately, this scenario was now playing out in many areas of global trade and suddenly we were all hit with the secondary effect of Covid-19 — a global shortage of shipping capacity to meet this rapidly expanding demand. Ultimately this pent-up demand was close to becoming a panic and freight rates responded in the expected way. To compound matters for Australia, it quickly became apparent that more lucrative freight lanes were taking vessel availability away and that services would be far more restricted.

from using Australian cotton had fortunately been made at the end of 2020 thus giving the industry some lead time for merchants to plan the diversification of markets in 2021. This diversification of markets became even more of a theme as the pandemic-induced freight problems would also require some nimble maneuvering during 2021.

Australians have always been inventive and resourceful and have diversified their markets for cotton a number of times. Cotton that would have normally been sold to China was always going to be acceptable in other destinations — subject to price, of course — but the big challenge has been in being able to export cotton in a timely and cost-effective manner.



Having survived the 2020 crop experience and the lessons learned, the 2021 crop has certainly been a very different situation but it must be stressed that the challenges increased. With good rainfall, Australia will have produced a crop in excess of 2.8 million bales this year but this impressive increase in volume was confronted by the huge impact to Australian exporters of the loss of China as a significant market. China has accounted for more than 60% of Australian cotton exports in the previous two decades and had a clear preference to source our cotton due to the quality of the product but also the convenience of a very efficient supply chain. The Chinese government's decision to dissuade their spinning mills

Australia is no different to any other global exporter in 2021 in that it has been significantly challenged by the availability of shipping services to export destinations and just as importantly, the availability of containers. The subcontinent with so much cotton consumption, became a centre of attention for Australian exports with Bangladesh, India and Pakistan all purchasing 2021 crop early in the season. This diversification success was not fated to last long, however, as congestion problems got worse in all of the traditional transshipment ports and it soon became clear that shipping lines just didn't want to go there. They definitely didn't want their containers being out of service to them for months on end when they could be utilising them on far more profitable routes. First the shipping lines tried increasing their rates and when this didn't work, they simply stopped servicing the destinations. This definitely limited our diversification options and meant that Asian destinations were the focus for the balance of 2021.

In previous years, containers had been plentiful in Australia owing to the large volume of imports from China — and since the shipping companies have a strong preference for these boxes to be returned to China — the situation naturally worked in Australian cotton's favour given the appetite in China for Australian cotton. This is unfortunately no longer the case, with a lot of empty containers simply being returned to China as the soft ban on Australian imports took hold. Australian exporters have subsequently been foraging frantically for available, dry 40-ft containers for alternative destinations.

There is no doubt that this has been the most challenging crop to ship in a long time and the well-publicised global shipping issues have impacted Australian merchants' ability to ship this crop as quickly, and as affordably, as we might have liked. This has been compounded by local issues with ports, in particular Sydney, where industrial action did not help the situation. A number of Australian ports have been hampered by industrial action in 2021, something that we have unfortunately been seeing at Australian ports for decades.

These disputes created congestion issues resulting in delays at best, or in the worst case, the total omission of ports. It was extremely frustrating to not know what was going to happen with a vessel. When will it arrive, or indeed will it arrive at all? Shipping schedules were for the most part unreliable.

The issues confronted in 2021 raise the big question everyone is asking: How are we going to ship more than 1 million tonnes in 2022 when it has been such a battle to ship this year's smaller crop? As an industry, Australia has the ability to gin and ship a million metric tons over six to nine months (April to December). We certainly have the operational capacity! But the two key areas that may thwart this endeavour are:

- 1) available vessel space (together with container availability) to relevant destinations, and
- 2) The current imposing cotton market invert in ICE futures (Jul22/Dec22), which will place merchants under additional pressure to ship as much of the 2022 crop as quickly as they can before Brazil and US cotton come online.

The present situation does not augur well for an efficient shipping season in 2022. Once merchants are forced to price Australian cotton based on the December 22 contract, producers will see the decline in value.

Australia is hoping that harvest will have an earlier start in 2022, resulting in gins operating at full capacity, which will theoretically result in reasonable shipment volumes in May and June. With a larger crop, it is hoped that greater volumes of cotton will be shipped out of Sydney and Melbourne rather than Brisbane, which will result in additional shipping capacity.



Increased shipping to various Southeast Asian destinations is a must as it will provide for a mix of direct vessels and trans-shipments through other ports such as Singapore. Australia is also hopeful that a solution will be found for access to the sub-continent, either via direct or trans-shipments. This would help transform the marketing prospects for 2022 and be a significant help in moving the prospective large crop.



Of course, the logistical problems are not just a cotton issue and all Australian exporters and importers have been dramatically impacted by supply chain disruptions and the ever-increasing costs to trade — not just the recent ocean freight situation but also the land-side increases to service costs. As a result of various representations, the Australian government has announced that it will soon commence a review into Australia's global maritime shipping and logistics systems, notably those that relate to competition, industrial relations, infrastructure constraints and technology adoption. Areas for review are thought to include:

- A formal waterfront industrial-relations review to provide immediate and continued business continuity for what is an 'essential service' and our international gateway for major supply chains.
- The scope of the National Transport Commission to be expanded to examine regulation of Terminal Access Charges to force stevedores and empty container parks (and LCL depots) to cost-recover directly against their commercial client (shipping line) rather than via

third-party transport operators.

- Implement measures like the current US Federal Maritime Commission review to ensure fair and reasonable container-detention practices are administered by shipping lines for the desire of empty containers
- A focus on exclusive dealings to ensure that shipping line end-to-end logistics services do not reduce competition.
- International shipping line adherence to acceptable notification periods on service and cost variations, potentially following the US regulation requiring a 30-day notice period.
- Investment in infrastructure to address inefficiencies in the supply chain caused by larger ships, lack of rail access to Australian container ports and shortage of space in empty container parks.

This review is expected to be conducted over the next six months. However, with a Federal Election due by May 2022, there would not appear to be a chance of any material change in 2022. We can of course always hope.



As we approach 2022, the global shipping situation remains in a state of flux but we certainly hope that the bizarre situation of freight rates increasing by 300% to 400% are behind us, that vessels will service the markets we are selling to, resulting in an easing of demand for containers.

In conclusion — and this might be wishful thinking given the current indications from the shipping lines — one thing that has become clear is that despite all the problems in Australia, our shipping performance to date has been better than that of our competitors. Can we maintain that edge in 2022?



Indian cotton & textile impact during Covid - 19

Mohit D. Shah

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Mohit joined the cotton business in 1992 and is the fourth generation in his family business. He is the Director and co-owner of Gill & Co. Pvt. Ltd., which was established in 1886 and is one of the oldest and most reputable cotton companies in India. Today, Gill & Co. Pvt. Ltd. is a Star Trading House. Mohit is a well-known figure in the international cotton trade. At Gill & Co. Pvt. Ltd. he looks after the trading of cotton worldwide and corporate strategy. He is also responsible for Gill & Co.'s other commodity business. Mohit currently serves as a Director of the International Cotton Association and was elected to be the first Asian International Cotton Association President in 2013."

Covid's first wave impact:

- Demand collapsed during the first wave of Covid (April-July 2020), when India was in a strict country-wide lockdown. However, the 2020/21 season witnessed record physical and futures prices for Indian cotton and several factors influenced this dynamic. Indian prices did not increase in isolation to world markets. The big rally in futures and physical prices was a combination of multiple factors that culminated during the world coming out of the first lockdowns in August 2020.
- Global production was lower than expected.
- The main price rally from October 2020 was due to a huge drop in the US crop, from 19 million bales to 15 million bales (480 lb).
- India was carrying record high stocks by July 2020, mainly with the government agencies such as like Cotton Corporation of India (CCI) and Maharaashtra State Federation (Mahfed).
- After being the most expensive bale in 2019, Indian cotton became the cheapest as CCI kept prices low versus world markets leading to continued demand of Indian cotton.



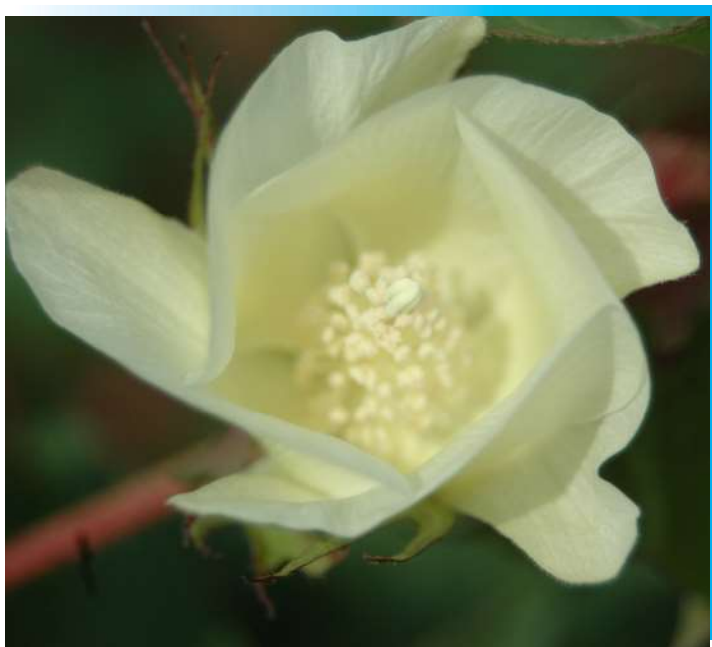
A hike in consumption by Indian spinning mills upon the re-opening of the economy was primarily driven by inventory shortages at the end-user level, caused by the shutdown of manufacturing facilities and a slowdown in logistics sector during Covid. In other words, the hike in consumption was not primarily driven by an increase in demand, but due to inventory shortages and the squeeze in supply chain. This phenomenon played out in neighbouring Asian markets, being regular consumers of Indian cotton and yarns, leading to increased demand. China was an exception because the revival in Chinese

consumer demand occurred at a relatively faster rate, driven by strict enforcement of the lockdown and the fast pace of vaccinations.

Some private economic studies suggest that in India, almost 80% of all income losses in 2020 were incurred by the private sector (household and the corporate sector), with government bearing only 20% of the losses — in sharp contrast to the developed world such as Australia, Canada and the USA, where governments incurred the major share of the losses, eventually transferring net resources to the private sector. Data on unemployment benefits and fiscal stimulus (per capita) in India vs the developed world also reinforce this view.

India's revival of demand from the beginning of 2021 has not been uniform across categories. Knitting fabrics and the apparel sector witnessed a faster pace of demand revival compared to woven (fine count fabrics). Demand from the medical industry increased demand for non-woven textiles (masks), wipes and personal protective equipment (PPE) kits. Home textiles also witnessed better demand revival in India, as did export markets, compared to denim and woven shirting fabrics.

In value terms, India exported \$16.2 billion worth of apparels in 2019, \$12.3 billion worth of apparels in 2020 and \$6.5 billion worth of apparels during Jan – May 2021. Traditional destination wise patterns have not changed much during this period except in India's apparel export basket, the United States and the United Arab Emirates share has increased by 1% and 3% compared to 2019. From an apparel import perspective in the developed world, the gradual shift in imports from China to other exporters became apparent. China's share in the US market dropped by 9% since 2019, whereas Vietnam and Bangladesh's share increased by 3% and 2%, respectively. India managed to gain only 1% since 2019. In the EU market, China's share dropped by 2% while Bangladesh and Turkey increased share by 2% each since 2019. India managed to gain only 1% market share since 2019.



Covid's second wave impact:

The second Covid wave was not as disruptive to cotton consumption even though it was more damaging with the country, with daily cases as high as 400,000 to 500,000:

Mills across the world started reporting record-high yarn margins for a sustained period of time, so much so that capacity utilisations went to record levels. Financially weak mills started operating, increasing consumption in India to record levels. Manufacturing hit a three-month high in July and exports of yarn, fabric, etc. have been robust. New patterns emerged during the pandemic, and home textiles led the way in 2020 to a large extent (bedsheets and towels) which use more cotton than a traditional piece of apparel. Comfort/knit wear generally made of cotton also gained prominence. Exports of yarn and fabric increased as Indian spinners continued to spin the cheapest cotton from August 2020 to August 2021. Many mills covered cheap cotton inventory up to October 2021.

- There were various localised lockdowns and not a national lockdown.
- Industries, transportation and other essential services were allowed to operate.
- The only place that saw a big loss in cotton demand during the second wave was Tamil Nadu, where we estimate that one million bales (170 kgs) were lost due to strict lockdown.
- The first wave was a complete lockdown; the country was not prepared infrastructure-wise and the only option was a nationwide lockdown like any other country did.

- During the second wave, people become more aware about how to manage businesses amid Covid.
- The pace of vaccinations has caught everyone by surprise — at present India has administered 900 million doses — 477 million of which are the second dose.
- Domestic demand seems robust and will increase in the coming days as schools, universities and offices start full operations.
- The Indian textile industry has a positive outlook for the future.
- Government incentives and textile-focussed policies are being implemented over the next five years.
- In 2022/23, it is expected that between 1-1.5 million additional spindles should come operational.
- In absolute terms, the growth in consumption in India is likely to be in the range of 2% to 3% per annum only, notwithstanding the hike in consumption witnessed over the last year. However, India's economic recovery should help general consumer demand gradually.
- The high margins enjoyed by the Indian spinning industry were primarily driven by improved demand from the West, which itself was a result of liberal fiscal stimulus and an increase in wealth (from the investments in equity markets) driven by ultra-loose monetary policies. Such high margins cannot be expected to continue over the medium- to long-term due to two factors:

1. Going forward, consumers in the West might not be able to pay the high prices they are paying today when the respective governments start withdrawing the liberal fiscal stimulus packages to rein in rising inflation. From a monetary policy point of view, the US Federal Reserve System (Fed) has indicated that the central bank is likely to run down bond purchases and may raise interest rates by the end of next year. This will lead to a rise in borrowing costs for consumers and businesses, leading to reduced personal disposal income to spend on discretionary spending items — like cotton apparel.

2. An important reason for the high margins enjoyed by India's spinning industry was the extended period of relatively cheaper prices of Indian cotton, which helped them manage their raw material costs.

The margins enjoyed by the Indian industry in future can be protected by:

- Improving the productivity level of Indian farmers and improving the quality of Indian cotton (from a consistency and contamination perspective).
- Investment in latest manufacturing technologies by spinning and the downstream part of the value chain.
- Favourable trade treaties with major importing blocks such as the EU and USA.



Covid-19 and Its Effects on Indian Exports

On the raw cotton front, India's exports in 2020/21 were the highest in many years and increased to an eight-year high level of 8 million bales (170 kgs) largely due to CCI's maintaining lower prices vs. world prices, going higher during November 2020 to April 2021 in order to reduce its stocks:

- This was largely circumstantial and Indian prices became attractive for every cotton-consuming country.
- India always has ability to export if there is a surplus.
- Markets like China, Bangladesh, Vietnam and other Far East markets always look to buy Indian cotton during the October to March period.
- India has also proved to be effective in timely shipments and logistical advantage in addition to the fact that cotton can land in most consuming markets in short transit times, which will be crucial during the 4th quarter of this year as not many options of other origins are available to land during that period.
- Healthy exports may occur in a phased manner, especially during November-January, when the bulk of the Indian crop arrives. However, carry-on stock was much bigger in 2021 but in 2022 we are walking in with a much smaller carry-in stock.



One future question that remains is, can strong exports be repeated? India has the largest area in the world devoted to cotton cultivation but yields are consistently low by world standards, so production has been at a plateau for several years. The main uncertainties for next seasons are related to the erratic monsoons and growing conditions, lack of good seed technology and production levels have stagnated while demand continues to grow. A turning point will be if Indian area shifts towards beans, corn, pulses etc. — and if the yields don't improve, there will be years when India might be a net importer of cotton. However, there is the potential to grow 43 million bales (170 Kgs), the same amount produced 15 years ago.

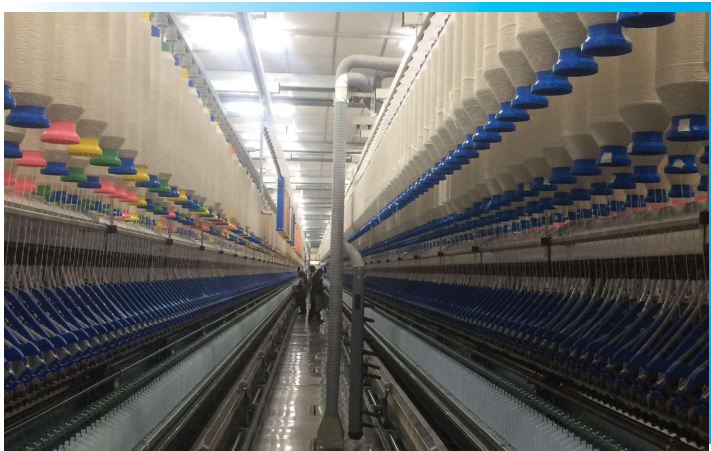
Indian imports & Import duty

The government has maintained that it's giving enough incentives to textile mills. India's consumption in terms of imports is broken up into three categories:

- Extra-long staple (ELS) – Pima and Giza.
- Contamination-free upland cotton or CMIA against specific yarn demand.
- Substituting upland cotton for Indian cotton when Indian prices go high.

India's imports have ranged between 1 million and 3 million over the last 4-5 years, which is a range of 3% to 8% of India's total consumption. Manufacturing competitiveness has definitely been dented even after considering the favourable impact of the Remission of Duties and Taxes on Exported Products scheme (RODTEP). However, RODTEP only applies to exported products. In those years when Indian basis is steep compared to rest of the world, leading to import parity situation, a domestic market-focussed manufacturer will be at a commercial disadvantage to a manufacturer exporter.

Certain categories of cotton are not available in India — contamination-free cotton used for manufacturing or ELS cottons such as Giza and Pima. ELS cotton will be needed by the Indian manufacturer. More dialogue is needed between textile industry stakeholders and the government to address such challenges and remove impediments to free trade.



Current Assessment of the International Competitive Position of India's Textile and Clothing Industry

	Unit	China	India	Bangladesh	Vietnam	Ethiopia
Labor wages	US \$ / month	550-600	160 - 180	110 - 120	190 - 200	80 - 90
Power cost	US \$ / KWH	0.15 - 0.16	0.10 - 0.12	0.09 - 0.12	0.08 - 0.10	0.03 - 0.04
Water cost	US \$ / Cubic Mtr	55 - 60	16 - 20	20 - 22	50 - 80	30 - 40
Lending rate	%	6% to 7%	11% to 12%	12% - 14%	7% to 8%	8.5% to 9%
EODB*	Rank	31 (91)	63 (132)	168 (129)	70 (99)	159 (127)

*Ease of doing business

India's exports to EU-28 countries accounts for more than a quarter of India's textile and apparel exports. Garments are the largest category exported to the EU-28, with more than a 60% share in India's total exports. Garment manufacturing hubs such as Bangladesh, Ethiopia and Turkey enjoy duty-free access to the EU, whereas India does not. India has a strong presence in the home linens category in the USA with a share of 40% in the country's total imports.



India's Shipping and Logistics

The transportation of goods has been difficult since the start of the pandemic. Despite all challenges and logistical nightmares, India is still better-managed than most. The current global supply chain crisis may present an advantage to India for increased cross-border trade to Bangladesh, as its nearby and accessible by land. Shorter transit times to China/Far East vs. USA/West Africa is also an advantage for India. The same story holds true for yarn. Indian ports are well equipped to handle large volumes in short times and have done so in the past. Additionally, interior logistics are very strong in India and are becoming seamless, and e-invoicing and the goods and services tax (GST) have enabled faster movement of goods.

Whilst all of the above factors are still advantageous to India, ocean-freight rates have skyrocketed and India is not immune to this dramatic increase in costs.

Exporters from India, with its shorter transit time to markets — such as Bangladesh, Far East and China — have benefitted from the supply-chain bottlenecks. As those bottlenecks ease, the advantage enjoyed by Indian exporters will cease to exist.



Changes derived from the pandemic concerning maritime and land transport in the United States

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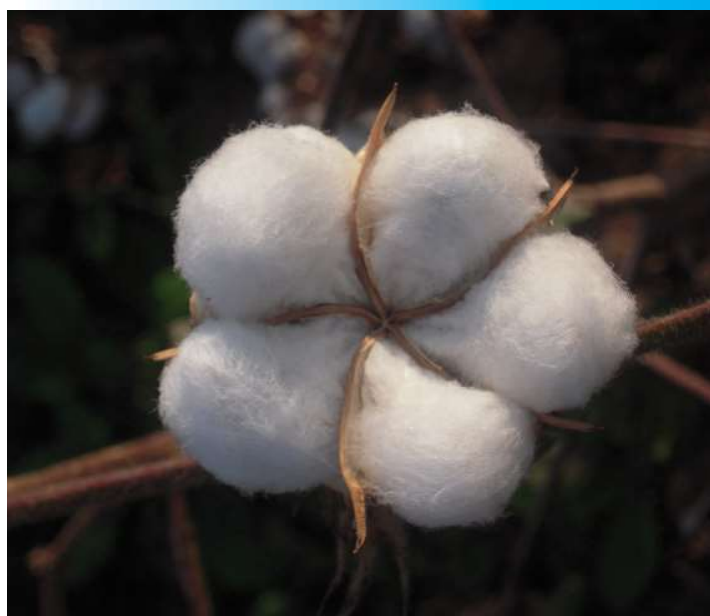


Mike has been a communications professional for more than 30 years, most of it spent running variety of trade press magazines, including Cotton International magazine and The Cotton Yearbook. At the ICAC, he is responsible for marketing, all external and internal

communications including the Annual Report and organising World Cotton Day events. The International Cotton Advisory Committee-ICAC is an organisation of currently 29 members with an interest in cotton and the textile value chain. The ICAC, formed in 1939, is the only inter-governmental body for cotton producing, consuming and trading countries and is one of only seven International Commodity Bodies recognised by the United Nations. The ICAC was formed by government consensus to deal exclusively with technical, statistical and policy matters related to cotton.

When it comes to shipping and logistics concerns in the cotton industry, not all situations are created equal. Many countries — including giants like China and India — are both producers and consumers of cotton. Much of the domestic production stays in-country to feed the needs of the local textile industry, providing at least some relief from the land-and-sea traffic jam that plagues so much of the world.

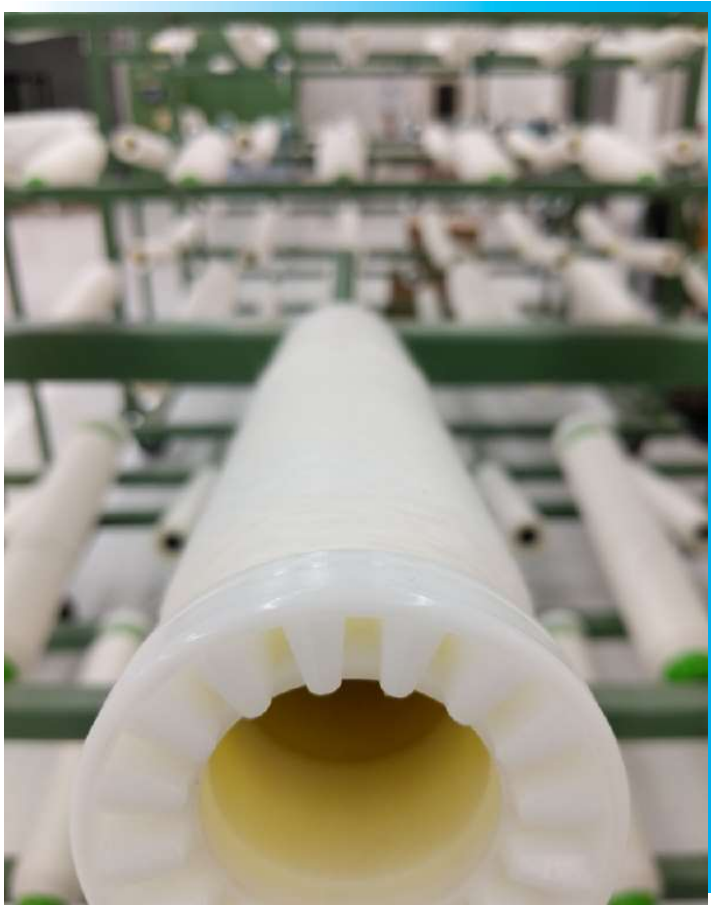
Countries like the United States — which is the world's top cotton exporter because the domestic textile industry never recovered from the offshoring it did over the prior decades — and Bangladesh — one of the top cotton importers each year because there is very little cotton grown domestically — are completely reliant on international shipping remaining stable and predictable.



Massive Congestion at US Ports

When a US industry suffers persistent challenges, it doesn't always become a political issue — but sometimes when the problems are pervasive and painful enough, they do. This is one of those cases.

The supply chain disruptions are a political problem now because no one is spared from the struggles. The frustrated and suffering aren't only the businesses that can't get their products to market but also the consumers who can't get the products they've grown accustomed to having at their fingertips. Services like Amazon prime, which offers free, expedited shipping on most products — some of which can be delivered the same day they're ordered — have only exacerbated the discontent and anger of American consumers.



In addition, ocean shippers are also looking ahead, trying to figure out how to best navigate the challenges while maximising profitability, according to Neely Mallory, president of one of the largest US logistics companies, Mallory Alexander International Logistics in Memphis, Tennessee. 'For exports of cotton from the US, many ocean carriers have chosen to send empty containers back for another high-paying, trans-Pacific, eastbound load', he said. 'Eastbound loads can pay six times more than westbound loads, so carriers would like to get one more east bound load on every box if possible'.

Help is believed to be on the way, with President Joe Biden announcing a bipartisan infrastructure deal that includes an unprecedented \$17 billion to improve infrastructure at coastal ports, inland ports and waterways, as well as land ports of entry along the border. While some of the projects in the plan could provide some short-term relief — for example, \$8 million in funding will allow the Port of Savannah in Georgia to create five pop-up shipping yards that will free up some of the critical real estate closest to the port itself — most of the benefits it offers will take years to be felt on the ground.

Problems Exist Far from the Coasts

With the ports get a lot of attention — justifiably so, which huge, heavily laden, oceangoing freighters packed dozens deep outside the docks for weeks at a time — the problem in the USA is even more challenging because most of the cotton shipped from ports in coastal cities is actually grown further inland, primarily in the southeast and southwest. That fibre needs to get from the fields to the gins and then to the ports, but the trucking industry's issues are as much of a problem as the ports.

In November, President Joe Biden ordered two southern California ports, Los Angeles and Long Beach, to operate 24 hours a day, seven days a week, in an attempt to alleviate the congestion. Its impact was muted, however, because the problem wasn't only the congestion at the ports. In fact, shortly after the 24/7 order went into effect, global shipping giant Maersk said on one recent Friday that it had 2,000 available openings for truckers, half of which went unused.

There are four primary reasons for that:

1. Warehouses are full so there's nowhere to store the products coming into the port.
2. There's a severe shortage of available chassis the trucks need to carry the cargo.
3. Truckers have nothing to do with their empty containers because the ports, where they would normally be stored, aren't accepting them.
4. There just aren't enough truckers.

'One of the big issues facing intermodal shippers is the supply of container chassis. There is a shortage at virtually every rail hub and port in the US. The Georgia Port Authority at the Port of Savannah have authorised shippers to use any chassis for any load', Mallory said.

He added that the shortage of drivers, trucks, and chassis has put pressure on intermodal drayage rates, with fuel price increases adding to the cost of drayage as well. 'Each of these increases in rates adds to the landed cost model of U.S. cotton in the competitive world markets that we compete in daily,' he said.

The USDA is expecting a big year for US exports to many destinations. The crop, which is a little late this season, will put added pressure on the supply chain beginning in January, with additional pressure mounting for the second half of the year's exports.



Ultimately, it appears there aren't a lot of good options for the United States to take to mitigate the impacts of its logistics challenges. Smaller ports like those in Oakland, California and Charleston, South Carolina, were alleviating the pressure by taking some of the overflow from larger ports when the crisis began but they aren't immune to labour and availability challenges, so they quickly fell behind, too. And once the delays start to pile up, it's a very painful and time-consuming process to catch up. For every day of business lost at a port, it takes a week to catch up, pushing a return to normalcy ever farther into the future. Mallory said that most industry sources believe logistics will be a challenge until the third quarter of 2022 at the earliest.

In the end, it's important to remember that this is a global supply chain problem, not a domestic one, so cleaning up its own ports won't help a country if the ports where the fibre is being shipped are still struggling and can't accept the cargo.



However, as frustrating as they are, the delays provide an opportunity to rethink how things will be done in the future, offering businesses the chance to evaluate issues such as relying so completely on supply chains that stretch thousands of miles around the globe. Just-in-time inventory, for example, offered many advantages but can't really handle the volumes seen today, in which businesses return to maintaining inventory so they have residual stock on-hand when needed. A means of properly incentivising truckers and warehouse labourers would go a long way toward ensuring that cargo, once delivered, can quickly be loaded onto an outbound ship or onto trucks for delivery to a country's interior.



Like so many other challenges and problems that have arisen during the Covid-19 pandemic, the best many businesses can do is use this difficult time to get ready for action the moment the inevitable recovery arrives — and more importantly, figure out how to be better-prepared and have more resilient business practices in place when the next global disaster strikes.



An opportunity to reassert the value of Brazilian Cotton

Júlio Cezar Busato

Cotton Grower and President of the Brazilian
Cotton Growers Association (Abrapa)
ABRAPA

www.abrapa.com.br/Paginas/default.aspx



Júlio Cézar Busato was born in Casca, Rio Grande do Sul, 60 years ago. He is descended from a long line of farmers, which inspired his training as an agronomist, and he graduated from the University of Passo Fundo. In 1987, he moved to Bahia where, with his family, he founded the Busato Farm/Busato Group, which produces, in addition to cotton, soybeans and corn, in

the municipalities of São Desidério, Serra do Ramalho and Jaborandi. He is a class leader active and recognised in Brazil: he was president of the Association of Farmers and Irrigators of Bahia (Aiba), the Bahian Association of Cotton Producers (Abapa), the Agribusiness Development Program (Prodeagro) and the Fund for the Development of Cotton Agribusiness (Fundeaagro). Since 2011, when he began to devote himself to class representation, he has had and has sat in various forums, councils and chambers of the agricultural sector. Among these, he was vice-president of the Instituto Pensar Agro (IPA), presided over the Thematic Chamber of Agricultural Insumuary (CTIA/Mapa), and, from 1 January 2021, directs the Brazilian Association of Cotton Producers (Abrapa), for the 2021/22 period.

Brazilian cotton growers, the textile industry and retailers have felt the impacts caused by the coronavirus pandemic which broke out in late 2019 and took hold worldwide in 2020. Today, as we look toward 2022, and having adjusted to a new reality in the business environment, we saw that this threat has turned out to be a fruitful development opportunity for the cotton sector.

The Covid-19 pandemic influenced many aspects of our social lives and in addition exposed to the world the serious international logistics bottlenecks that we had already been experiencing. In this second year of sanitary restrictions, social distancing and adaptations to production methods, the mismatch between supply and demand for goods has widened and more attractive transport routes, such as Asia, the United States and Europe, are being prioritised.



The tightening of logistic bottlenecks reached an unprecedented high point in the second half of 2021. We are experiencing a worrying shortage of containers, an unprecedented escalation in freight costs and huge line-up at ports around the planet, compromising the flow of imports and exports.

Even after the expansion of port operations in the United States and despite seeking alternative routes, the fact is that we now operate with continuous daily rollovers of shipping dates and booking cancellations. Economic recovery, promoted by the financial aid packages adopted by several countries, together with mass vaccination, has amplified these difficulties even more.



It's important to note that historically, logistics challenges have been a very costly economic aspect for the Brazilian production sector. We are not dealing with a new problem here — on the contrary, it is a scenario that we have been living in for decades and which is mainly due to the high concentration of shipping companies. If we are now facing logistical issues, it is worth remembering that Brazil cotton supply chain achieved feats that deserves commemoration: Brazil is now the second-largest cotton exporter in the world. In the 2020/21 cycle (during the height of pandemic), we exported 2.4 million tonnes of cotton. We were the second-largest exporter, second only to the Americans who exported 3.6 million tonnes and forecasts indicate that for the 2021/22 season, the current ranking will not change.

This position reflects Brazilian cotton growing's capacity to produce and export sustainable, high-quality cotton that can meet the global demand after supplying our own domestic consumer market. This capacity has led to the transformation of the public health crisis into a time of possibilities and improvements. Producers faced the challenge head on by adapting to the new limitations and reviewing on-farm processes and practices. Adjustments were made and targets were reviewed. But throughout the challenges, we remained focused on our aim of supplying Brazil and the world with traceable, sustainable, high-quality cotton in high volumes. Adverse weather conditions in the main Brazilian growing regions and the appreciation of other commodities, such as corn, resulted in Brazilian cotton growers opting to reduce the growing areas.

BRAZILIAN COTTON PRODUCTION		
SEASON	Production (1)	VARIATION % (2)
16/17	1,530	
17/18	2,006	+31%
18/19	2,779	+38%
19/20	3,002	+8%
20/21	2,326	-22%
21/22	2,710	+16%
(1) In thousands of tonnes		
(2) Annual percentual changes		
Source: Conab and Abrapa (21/22 Forecast)		

For the 2021/22 crop season, the official estimate indicates a 16% performance improvement compared to the previous cycle, reaching a projected production volume of 2.71 million tonnes. If this forecast is confirmed, we will then have the third-best year in the history of Brazilian cotton growing and we will maintain our status as the fourth-largest global cotton producer.

BRAZILIAN COTTON EXPORTS		
SEASON	VOLUME (1)	VARIATION % (2)
19/20	1,945	
20/21	2,397	+23%
21/22	1,700	-30%
(1) In thousands of tonnes		
(2) Annual variation from one season to another		
* Estimated volume for the period from August 2021 to July 2022		
Source: Secex/MDIC/Anea		

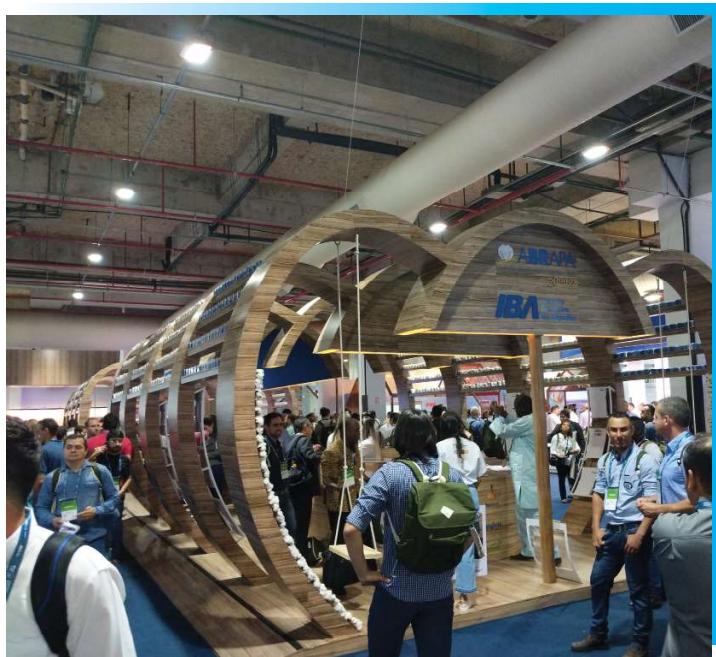
Another contribution the pandemic has made to the cotton market, which we should keep in perspective, is related to consumer purchasing behaviour with regard to cotton clothing and items. With people spending more time at home and many working from home, there has been greater demand for more comfortable clothes, which is a favourable development for us. After all, cotton is a natural fibre that is not harmful to our bodies and allows for natural ventilation in which perspiration can occur unhindered.

Environmental care of consumers about what they are buying, as well as concern with labour and social justice aspects, have been further strengthened following the coronavirus pandemic. There is a growing desire among citizens to know more about the product they are using, starting with its origins in the primary sector, to the production practices adopted by the clothing industry.

We welcome with optimism these winds of change driven by the desire for more aware and sustainable consumption. We understand that when purchasing a product made with cotton it is more than just a simple choice: People are joining a cause that is in complete alignment with current times.

The awareness is in the Brazilian consumer market too. In 2016, Abrapa launched the Sou de Algodão ('I am made of cotton') movement, which brings together companies that produce items containing at least 70% cotton, reached 800 clothing brands and members. The programme is run in Brazil by the Brazilian Cotton Growers Association (Abrapa) and involves the spinning, weaving, knitting and clothing sectors as well as retail chains, social projects, non-governmental organisations, artisans and micro-entrepreneurs.

Our aim for this movement is to discuss with Brazilian society the need for more sustainable and responsible consumption, with cotton as an essential ingredient. In addition to providing information and constant interaction with consumers, Sou de Algodão widens the debate to include universities and fashion influencers, thus connecting the textile industry with academia and the professionals of the future.



This open debate is in the DNA of Brazilian cotton production. After all, we have 84% of all our production certified by the Brazilian Responsible Cotton (ABR) program and licensed by the Better Cotton Initiative (BCI). Brazil is the country that supplies the most responsible cotton to BCI and we know that we can expand our contribution to this even further.

In the midst of the pandemic, we maintained our schedule and launched the socio-environmental certification program for cotton gins. The challenge of implementing a project of this magnitude amid the restrictive measures imposed to combat Covid-19 was overcome. In addition to implementing the Brazilian Responsible Cotton in Gins (ABR-UBA) programme, we achieved a remarkable level of 46% adherence by cotton gins which are now at the preparation, auditing or certification stages. This is a clear signal that the priority is to make each link in our production chain even more sustainable.

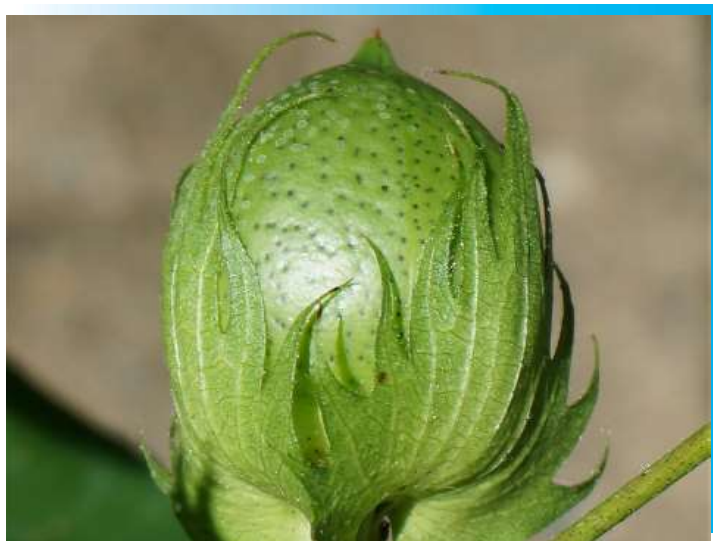
This year, we also included a QR Code on the labels that are affixed to bales for export. Although we had previously been using barcodes, we have further increased the ways of ensuring transparency of information on the cotton grown in Brazil. We now have an online system that allows buyers to consult data on the quality, origin and certifications of our cotton whenever they want.

Abrapa has coordinated efforts to support Brazilian cotton growers in maintaining a high level of care in their production systems to further improve the final product — which is shipped mainly to the Asian market — and which accounts for 99% of the national exports. In addition to conducting laboratory analysis via high-volume instrument (HVI) technology on 100% of shipped consignments, we have increased our reliability rate from 91% in 2017 to 97% now.

Throughout 2021, this improvement was noted and attested to by a strategically important market of interest: the Asian textile industry. In the 2021/22 trading year, the main buyer of Brazilian cotton was China with a 30% share. In second place was Vietnam, followed by Pakistan and Bangladesh. Among other countries with the largest market shares are Turkey, Indonesia, Malaysia, South Korea, Thailand and India.

We hold events (virtual and face-to-face), form partnerships with Brazilian ambassadors and agricultural attaches, make technical cooperation agreements with the main textile industry entities in the Asian market and, month after month, we are continuously making new inroads into the competitive world cotton environment. In each of the nine priority countries, we have established partnerships and held business roundtables and events in a hybrid format (online and/or in person) to identify commercial requirements and preferences that would allow us to increasingly deliver what the buyer's market actually wants.

However, this prospecting and dialogue with the domestic consumer market would not have been effective if we did not provide cotton that is produced with responsibility, traceability and quality. The way cotton is produced in Brazil has a number of differentials that result in important assets that make a difference for buyers. An example of the Brazilian way of producing is the fact that 60% of our cotton is grown in the same area used for soybean growing, another commodity in which Brazil also plays a leading role worldwide. In other words, this means there is more intelligent and more sustainable use of the soil leading to environmental gains.



This group of nine nations is the focal point for Cotton Brazil, a market development and promotion programme for Brazilian cotton conceived by Abrapa and conducted in partnership with the Brazilian Trade and Investment Promotion Agency (Apex Brasil) with support from the National Association of Cotton Exporters (Anea) and the Ministries of Agriculture and Foreign Affairs.

The project was developed in 2020, still at the height of the pandemic, with the opening of a Cotton Brazil representative office in Singapore. This was the official kickoff for actions to promote our cotton and the beginning of a successful prospecting strategy supported by the exchange of qualified technical information and the establishment of high-level commercial relations.



In addition, less than 8% of the 1.6 million hectares of Brazilian Cotton is irrigated at the second stage of the production process. This is a very different reality in other countries, where irrigated growing methods predominate throughout the entire farming cycle. The rational use of this very valuable natural resource — water — also generates significant environmental dividends for the entire cotton production chain and specifically for the Brazilian fashion industry. Another unique factor of the Brazilian cotton industry is the fact that our cotton is free from contamination because the picking process is 100% mechanised.

The Brazilian way of producing cotton is not only a responsible way, it is also efficient. Adopting good management practices and techniques, as required and recommended by the ABR certification program, we have become one of the most productive countries in the world. Data from the United States Department of Agriculture (USDA) from November 2021 show that despite all the climate challenges Brazil faced in 2021, we were still ranked third in global cotton yield. In first place in the ranking is Australia with a yield of 1,923 kg/ha, followed by China (1,879 kg/ha) and then Brazil (1,751 kg/ha).



AVERAGE COTTON YIELDS

COUNTRY	INDEX	RANKING
AUSTRALIA	1,923 kg/ha	1
CHINA	1,879 kg/ha	2
BRAZIL	1,751 kg/ha	3
Source: USDA (Nov/2021)		

We are aware of the logistical, market and environmental challenges that we will face. We are aware of the impact the pandemic has had in all human lives. But, in Brazil, this critical period has required important decision-making by cotton growers whose results, so far, indicate that the future will be focussed on more sustainability, responsibility, efficiency, and stronger than before. For Brazilian cotton, this is welcome.



Taiwan's Textile Sector, Logistics and Maritime Transportation amid Covid-19 pandemic

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Mr. Alex Liao has served as director general of the Department of International Cooperation (ICD) since August 2020. As the ICD director general, he is responsible for all matters pertaining to Taiwan's participation in the International Cotton Advisory Committee. Mr. Liao has a wide range of roles in his current office, such as Taiwan's representative on the Asia Low Emission Development Strategies Partnership's Steering Committee, at bilateral economic cooperation meetings with various countries, etc. Mr. Liao's career in public service spans more than 25 years, during which he has been posted overseas in several countries, including Russia, the U.K. and Indonesia. He graduated from National Chengchi University.

Taiwan's economy is export-oriented and the textile industry is Taiwan's fourth-largest foreign exchange earning sector. In 2020, textile exports totaled \$7.53 billion, while imports amounted to \$3.37 billion, for a surplus of \$4.16 billion. Taiwan's textile production combines the advantages of natural and synthetic fibres, focusing on product innovation, design and refinement as it has gradually shifted to non-price competition.

With the onset of the Covid-19 pandemic from early 2020, lockdown measures in many US and European cities led to mass closures of retail outlets, which in turn severely impacted the global apparel market and industry. International apparel brands and retailers either delayed or cancelled order placements. As part of the international textile supply chain, Taiwan registered a significant 37% decline in textile exports in the second quarter of 2020 compared with the same period the previous year. Meanwhile, the shipping industry also experienced stagnating business.

With the increase in vaccination coverage rates in major markets, consumer demand has also begun to rebound. Taiwan's textile exports for the first 10 months of 2021 grew 20% year on year and are expected to return to pre-pandemic levels for the whole year. However, amid the gradual economic recovery, importers and exporters are now facing disruption in global maritime transport and logistics.



Pandemic restriction measures have led to labour shortages and slowed logistics operations at ports around the world, resulting in port congestion and container shortages. The nascent economic recovery has only worsened the situation and freight rates have inevitably soared. The government of Taiwan has established a task force to help local businesses and industries cope with these challenges.

High freight rates have become the new normal in the second half of 2021 and are expected to remain until at least the Lunar New Year holidays in February 2022. However, the emergence of the Omicron variant of Covid-19 has added uncertainty regarding the direction of international freight rates.

Disrupted maritime transportation and higher shipping costs

Asia is the main manufacturing hub for many global companies. As 90% of goods are transported by sea, port congestion has significantly disrupted the global supply chain. While shipping companies have worked to accelerate the return of empty containers from western ports to Asia, struggling logistics operations at harbours caused by labour shortages have slowed this process. What used to be done in one or two days now takes a week or even longer, which has only exacerbated the container shortage problem.

The pandemic has caused imbalances in supply and demand in the shipping sector and pushed up freight rates. For instance, calculated for standard 40-foot containers (FEUs), the global FBX (Freightos Baltic Index) rose from \$1,461 at the start of 2020 to a high of \$11,109 in September 2021 (see Figure 1), before dipping to \$9,351 on Nov. 26, with the latter figure representing an increase of 1.6 % over the previous week.



Figure 1 Global Container Index
Source: <https://fbx.freightos.com/>

The FBX Asia-US even surged to more than \$20,000 at one point in September, during the end-of-year peak shipping season, and has since been easing slightly. On Nov. 26, the FBX China/East Asia-US West Coast stood at \$14,677, an increase of 3% over the previous week (see Figure 2), while the China/East Asia-US East Coast reached \$16,633, up 3% from the previous week (see Figure 3), and the FBX China/East Asia-Europe was \$14,368, up slightly by 0.2% (see Figure 4).

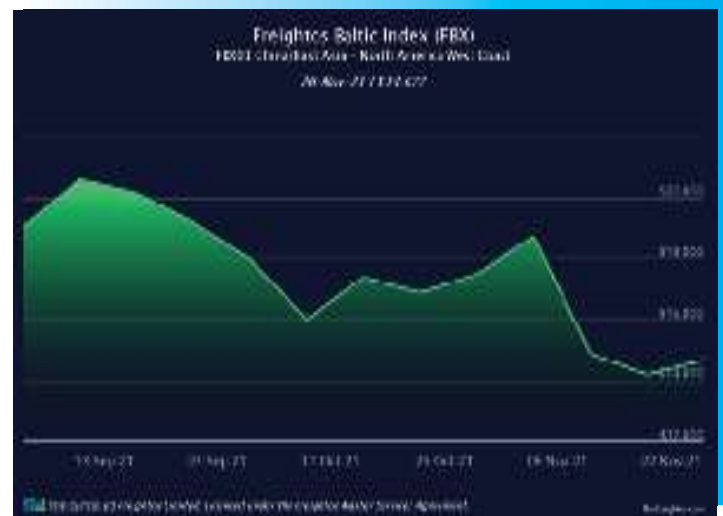


Figure 2 China/East Asia - North America West Coast
Source: <https://fbx.freightos.com/>



Figure 3 China/East Asia-North America East Coast
Source: <https://fbx.freightos.com/>

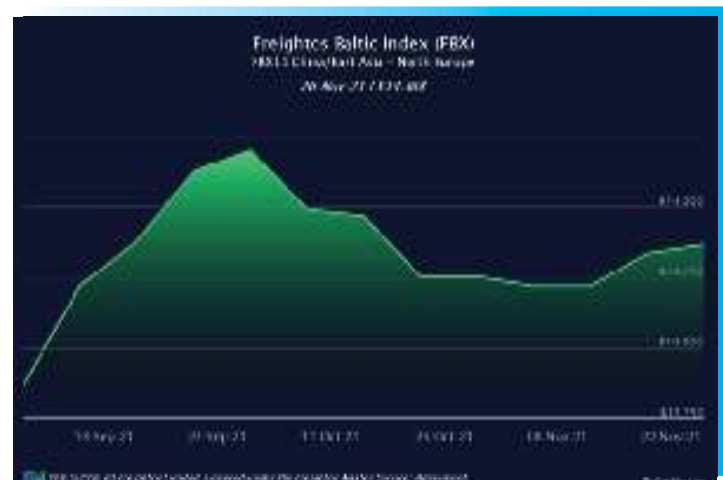


Figure 4 China/East Asia-North Europe
Source: <https://fbx.freightos.com/>

Shipping lines actively expanding their fleets and container capacity

According to data published by the French database and solution provider in liner shipping Alphaliner, as of November 2021, global total container shipping capacity had reached 25,201,886 TEUs (twenty-foot equivalent), an increase of 498,793 TEUs from the first half of 2021. Meanwhile, the total number of container vessels reached 6,289, an increase of 69 from the first half of 2021. In view of rising consumer demand driven by relief and stimulus measures in various countries, the shipping sector is expected to continue thriving. However, the limited increase in the number of new vessels in the past two years will not be sufficient to meet short-term market demand.

The global maritime transport market has entered into a speed-oriented age. While ship-building costs have soared threefold in the past year, the market outlook is still very positive. Facing new international regulatory measures to be implemented in 2023 to reduce ship pollution and improve their energy efficiency, shipping companies are likely to lean toward purchasing new ships given the high costs of refitting and upgrading their existing vessels' engines and equipment.

Investment plans for Taiwan's three leading shippers

Taiwan's top three container shipping companies — Evergreen, Yang Ming and Wan Hai — are among the world's 10 largest, according to Alphaliner. Following its major order in March 2021 for 20 containerships of 15,000 TEUs each, Evergreen plans to invest \$1 billion to add 24 new builds. As for Yang Ming, it plans to order 15 neo-panamax containerships of 15,800 TEUs each, as well as five or six ultra-large fully cellular containerships of 24,000 TEU each.



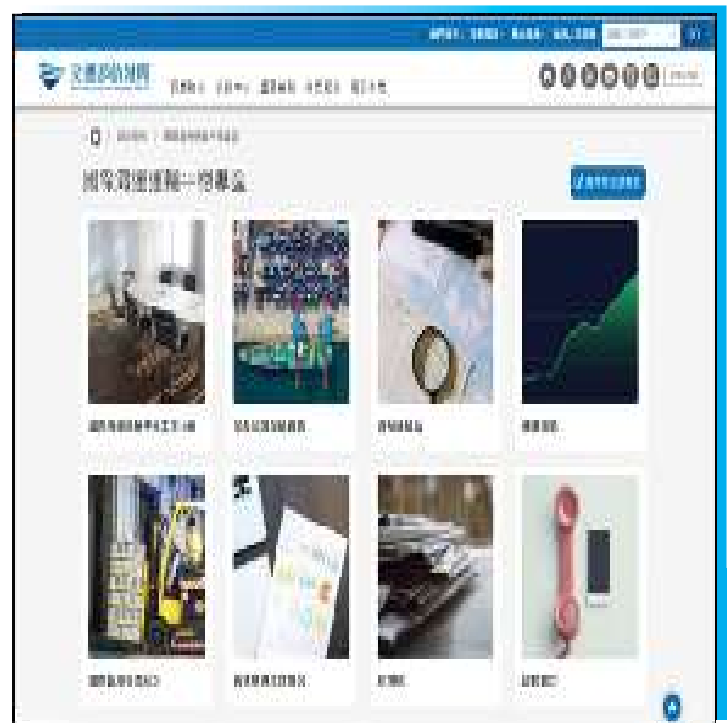
Evergreen's 20,000 TEU-class container vessel Ever Glory

Source: <https://www.evergreen-marine.com/tw/>

Wan Hai will have 52 new vessels joining its fleet over the next four years, an increase of 280,000 TEU in its shipping capacity. The company is also purchasing second-hand vessels to expand its capacity, with the delivery of eight ships in the first half of 2021 and two more in the second half of the year. In addition, a total of 184,000 TEUs of new containers were produced from the end of 2020 to the third quarter of 2021, and more containers will be built in the fourth quarter of 2021.

Taiwan government task force to help solve shipping disruptions

In response to the challenges brought by Covid-19 to Taiwan's international trade and shipping industry, the government has established a task force to help solve related problems. Led by the Ministry of Transportation and Communication (MOTC) and organised by the Maritime and Port Bureau (MPB), Taiwan's inter-ministerial International Maritime Transport Stability Working Group was formed at the end of 2020. As a result, an International Maritime Transport Stability section was set up on the official MPB website to provide critical information on trends in international shipping fees, shipping dates of major operators, and export/import volumes at Taiwan's commercial ports in order to give Taiwan's importers and exporters a clearer picture of the maritime shipping market situation. The section also serves as an interactive platform for related inquiries and requests from business and industry.



The 'International Maritime Transport Stability' section of the Maritime and Port Bureau website
Source: Taiwan's Maritime and Port Bureau

Meanwhile, the MPB has asked Taiwan shipping operators to prioritise increasing cargo space and container amounts for routes with high shipping demand in order to expedite exports. It has also worked with industry to offer alternative solutions for cargo transport including using containers of smaller size or using bulk carriers to ensure full utilisation of shipping capacity. In addition, the MPB will continue monitoring the market to watch for unreasonable fare hikes and take necessary legal action against offenders. Furthermore, Taiwan International Ports Corp. has enhanced operation efficiency for berth allocation and cargo handling at Taiwan's commercial ports.

Transport problems faced by Taiwan's textile exporters include longer waiting times for empty containers, overtime work for product loading at factories, delayed or disrupted shipping schedules, etc. With assistance from the government, the situation has improved considerably. Some Taiwan companies with factories in Vietnam faced port congestion problems when restarting production in October after the easing of lockdown measures and had to switch to air freight in order to deliver their goods in time for the holiday season.

Short-term freight rates trend forecast

Currently there are about 80 cargo vessels at the Port of Los Angeles and Port of Long Beach waiting to be unloaded, and the situation might not ease until mid-February 2022 when factories in Asian countries close for the Lunar New Year holidays. Large retailers such as Amazon, Walmart and Home Depot have acted pre-emptively by placing orders beforehand and restocking their inventory since the end of July 2021. Some retailers have even chartered vessels to ship goods for the Christmas season, leaving freight rates to soar by more than 70% in just a few weeks.

According to a Wall Street Journal article on Nov. 15, 2021, a reverse trend has recently occurred in the prices for trans-Pacific container freight. The FBX China-US West Coast on Nov. 8 was down 26% over the previous week, marking the biggest drop in the past two years, suggesting shipping demand in Asia is slowing.

However, global fears of the newly discovered Omicron variant have brought uncertainties to international freight rates. Restriction measures and quarantine rules could change and become stricter again, which would exacerbate the current port congestion situation and push up shipping rates.

Conclusion

Taiwan's export-oriented economy tends to be vulnerable to international shipping disruptions. The government

has set up the International Maritime Transport Stability section on its Maritime and Port Bureau website to serve as an online platform providing critical shipping information for businesses and industry. The platform also provides enterprises with the opportunity to inform the government of specific difficulties they face and make related requests, which the government actively responds to and takes steps to address, such as for instance asking Taiwan carriers to increase their cargo space, offering incentives to foreign liners to make more port calls in Taiwan, facilitating the return flow of empty containers and improving logistics efficiency and services in Taiwan.



Affected by the US-China trade frictions and the Covid-19 pandemic, Taiwan textile companies have moved part of their production from China back to Taiwan or to other countries such as those in Southeast Asia and have reorganised their supply chains in order to disperse risk. Their efforts to diversify their supply sources and markets implies greater demand for warehousing, containers and logistics services in Taiwan.

While placing pressure on trade and industry, the pandemic has often accelerated necessary change. Current disruptions in maritime transport and logistics provide a chance for importers and exporters to re-examine their thinking. They may, for instance, reconsider their stock management strategy and the just-in-time supply chain model. Shipping companies will continue to expand their fleets and scale up investment, and many Taiwanese warehousing companies are also expanding their port logistics parks. As the world begins to move toward the post-pandemic era, an important key to success for enterprise and industry will be investing in digital transformation in order to make good use of new technologies such as artificial intelligence, the Internet of Things and system automation, as well as to reduce the impact from external shocks such as the pandemic.

Acknowledgements: The author would like to thank the Taiwan Textile Federation and the Maritime and Port Bureau, Ministry of Transportation and Communications, for their assistance in providing related information and insights.