8TH AUSTRALIAN COTTON CONFERENCE

THE AUSTRALIAN COTTON SHIPPERS' ASSOCIATION

FUTURE EXPORT MARKETS FOR AUSTRALIAN RAW COTTON

PRESENTED BY JIM PRENDERGAST
NAMOI COTTON COOPERATIVE

FUTURE EXPORT MARKETS FOR AUSTRALIAN COTTON

Australia's continued expansion in raw cotton production is directly dependent on the industry's ability to market its product to overseas buyers. Trade in the world cotton and textile markets is increasingly competitive. As cotton's share of world textile demand has declined from approximately 75 per cent in 1950 to around 46 per cent today, manufacturers are continuously seeking new technology to increase margins and relocating their plants to reduce labour and operating costs. Major world producers and traders of raw cotton are, likewise, taking an increasingly aggressive marketing approach, differentiating and promoting their product to both existing and emerging markets.

Currently, Australian raw cotton is marketed by independent shippers and traders, with minimal in-market differentiation of the quality and consistency of Australian cotton. No marketing or promotion initiatives have been undertaken jointly by the Australian industry in any overseas market. As the nature of the cotton industry is changing dramatically with improved climatic conditions, however, so too is the export marketing of the Australian cotton crop.

Currently, significant increases in Australian raw cotton production are forecast throughout the decade. In the meantime, as a result of drought over the last four seasons, Australia has lost significant market share in key target markets. In forthcoming seasons, it will be up to the shippers and traders of Australian raw cotton to regain the nearly one million bales taken by our aggressive, overseas competitors during this time.

Our ability to anticipate new global centres for cotton demand and properly position Australian cotton to take advantage of dynamic export markets is essential to both producers and merchants alike.

Over the last decade, between 88 and 94 per cent of the Australian cotton crop has been exported each year. As the largest export destination for Australian cotton, the Asian market has presented challenging opportunities for the eight cotton exporting companies. Since 1991, Japan, Indonesia and Korea have remained the top three export destinations. During the 1995 season, these countries represented 23 per cent, 26 per cent and 10 per cent of total Australian cotton exports, respectively. Other major export destinations have included Thailand, China, the Philippines, Hong Kong, Taiwan, Malaysia and Italy (figure 1). Collectively, these markets have remained as the top 10 export destinations for Australian cotton since 1988 and represented approximately 94% of total exports in 1995. With the exception of Taiwan, Australia has steadily increased its share of these markets over the past decade (figure 2). For the first time, the United States also became a rather significant export destination for Australian cotton this season.

Australian cotton exports have increased significantly over three decades with projections of up to 1.6 million bales destined for the export market this season (figure 3). Since the late 1960's, raw cotton trade has generated A$6.9 billion in export revenue, over A$3.8 billion of which has been produced since 1990. Although Australian cotton exports as a percentage of world cotton trade were down to 4.5 per cent during 1995, an increase to 9.4 per cent is projected by the year 2000 (ICAC Statistical Country Forecasts, 1996).

Throughout the remainder of the decade, Australian cotton exports are projected to be considerably higher. Based on an econometric model developed by the International Cotton Advisory Committee to forecast world cotton supply and use, Australian cotton exports are projected to reach approximately 2.4 million bales by 2000/01 (ICAC, 1996).

Australia's close proximity to the Asian markets and the composition of growth in world spinning capacity will likely result in Asia remaining as a major export destination, yet in many of our target markets, consumption and imports of cotton is projected to decline. In fact, by the 2000/01 marketing year, total cotton imports are projected to decline in Japan, Korea, Hong Kong and Taiwan by approximately 1.5 million bales, collectively. This will be balanced, however, by approximately 1.9 million bales of additional consumption throughout Thailand, Indonesia, Malaysia, China and the Philippines (ICAC, Country Forecasts, 1996). At Australia's current level of market share in each target country, these increases may not be sufficient to offset the additional export volume from Australia. In fact, if Australia's current market shares in each target country are maintained, only around 1.2 million bales of the total 2.4 available for export would be consumed by our key markets. Even at record market shares for each target market, a surplus of approximately 400,000 bales would result and Australia may be forced to carry stocks for the first time. It should be noted, however, that a natural shift in market share would occur as textile operations in traditional markets relocate offshore to more cost competitive countries. As shippers of Australian cotton we've recognised that if Australian cotton exports reach the projected 2.4 million bales by the year 2000, significant increases in market share, combined with new market development would be required to market this additional volume.

Consequently, as an industry we have set out to develop and implement a long term plan to ensure the markets and infrastructure are in place to meet this rising volume.

This is particularly true as the members of the Australian Cotton Shippers' Association have projected that Australian cotton exports will surpass the ICAC's estimate for the year 2000 in the forthcoming season, reaching 2.5 million bales and rising to approximately 3 million bales by 2000/01.

The Australian Cotton Shippers' Association first began to address the critical issues rising volume and declining consumption in export markets at a Search Conference held in February this year. It was clear then that new approaches to building awareness of Australian cotton and the ability to open new avenues for cotton demand would be required if Australian cotton is to remain globally competitive.

For the first time, as an industry, we discussed the fact that today, more and more cotton industries world-wide are surrendering their research and marketing functions to stronger and better financed trade groups. Organisations like the Spinners' and Weavers' Association of Korea, the Japan Cotton Traders' Association, the Taiwan Cotton Spinners' Association, The Thai Textile Manufacturers' Federation and Cotton Council International in the United States, are employing strength in numbers and the capital strength of their members to leverage their positions in world markets. Until recently, industry-wide marketing and promotion was aimed at the end-user in Australia (about 10 per cent of the market), not the quantifiable consumer of Australian cotton - the overseas textile mill. Consequently, there was no promotion of the ***Australian*** cotton brand in overseas markets.

Through the process of discussing the future of the Australian cotton export industry we determined that there was a significant opportunity to increase the profitability of Australia's cotton producers through a cohesive and organised approach to the promotion of Australian cotton to our customers in overseas markets. Since that time, we have undertaken a series of workshops and meetings to develop a sustainable joint export marketing program based on the collective efforts of our members. We set about to define our position within the world market and the competitors from whom we will take market share to ensure the competitiveness and effective pricing of the Australian cotton growth.

In remaining competitive domestically, but having an industry strategy to compete globally, we are able as an industry to use our capital more efficiently. Increased costs arising from numerous merchants all undertaking similar activities, individually, will be reduced and these cost savings will enable us to compete more efficiently, offer a better price to the Australian cotton grower and receive a better price in world markets. The primary goal of the export marketing program, however, is to create opportunities to sell Australian cotton. We believe that Australian cotton is amongst the world's highest quality growths and export sales will increase as a direct result of our proactive implementation of integrated marketing strategies in selected markets. To begin this process, we selected Japan, Korea, Indonesia and Thailand as our primary target markets. Already, in May this year, the members of ACSA hosted a delegation from the Thai Textile Manufacturers' Federation with excellent success.

The cotton industry has not only remained financially profitable but it has thrived in a free market and we, as Shippers' are very proud of the fact that we compete quite effectively against other heavily subsidised world exporters.

Efficiency, profitability and increased export revenue will increase through a coordinated, industry-wide approach to marketing Australian cotton. By working together, we will ensure that our commitment to provide the infrastructure and dynamic global markets that are essential to all producers will keep us on the successful path we have taken.

FIGURE 1