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Statement for the Record
from
National Cotton Council

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Hearing on "The Immediate Challenges to our Nation's Food Supply Chain"
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Market & Supply Chain Disruptions Facing U.S. Cotton Merchandisers and Other Cotton Industry Segments

The NCC is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers and textile manufacturers. A majority of the industry is concentrated in 17 cotton-producing states stretching from California to Virginia. U.S. cotton producers cultivate between 10 and 14 million acres of cotton with production averaging 12 to 20 million 480-lb bales annually. The downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Farms and businesses directly involved in the production, distribution and processing of cotton employ more than 115,000 workers and produce direct business revenue of more than $22 billion. Annual cotton production is valued at more than $5.5 billion at the farm gate, the point at which the producer markets the crop. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 265,000 workers with economic activity of almost $75 billion. In addition to the cotton fiber, cottonseed products are used for livestock feed and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

Role of Cotton Merchandisers

Cotton merchandisers provide benefits and services to all supply chain participants. Traditionally, growers desire to market their entire crop, consisting of a wide variety of qualities, at one time, at the highest price possible, receiving payment in full. Conversely, mills and manufacturers desire to purchase at the lowest possible price, as they consume throughout the year, in very specific quality specifications, paying as they go. Neither party traditionally manages the delivery logistics. The merchandisers' role is to harmonize the needs of the producers and consumers and assume their price risk and other risks. Merchandisers effectively bridge the gap between timing mismatches of supply and demand fundamentals in the global marketplace.

Summary of Market Disruptions

Since March 2020, the cotton market has experienced unprecedented disruptions that have caused significant financial losses for cotton merchandisers. The COVID pandemic and subsequent surge in consumer demand has resulted in major supply chain disruptions.

Between March and July 2020, COVID restrictions led to sharp declines in retail clothing sales and in cotton processed by mills around the world. The loss in demand caused U.S. cotton to be stored for a longer period than originally expected, leading to increased storage costs and carrying charges.

As COVID restrictions relaxed and world economies began reopening, the supply chain experienced a level of stress unlike any previous time. In part, stress on the supply chain has been amplified because supply chain providers took significant capacity out of the system during the government-imposed shutdowns. This decreased supply chain capacity made handling an unexpected demand spike even more difficult and has resulted it a supply lag both for goods and supply chain capacity which has not been made up for yet.

The impact on cotton is unique and more acute due to cotton's lack of fungibility relative to other commodities; cotton's dependence on export sales; containers as the sole method of cotton export shipments; and cotton's reliance on Los Angeles/Long Beach ports.

There continue to be concerns over the practices of ocean carriers and terminals operators at U.S. ports. These include ignoring the Federal Maritime Commission's existing demurrage and detention guidelines, limiting container availability to carry agricultural export cargo, cancelling or refusing export container bookings and a lack of timely notice of changes to U.S. shippers.

Across California's three major ports, the shipment of empty containers jumped 56% from an average of 1.16 million TEUs (20-foot equivalent units) in the first quarters of 2018-2020 to 1.81 million TEUs in the first quarter of 2021. Compared to the first quarter of 2020 alone, the first quarter of 2021 represents an 80% increase in empty export container units.

At the Port of Los Angeles, in 2021, through July, nearly 75% of all exported containers were empty. Accessibility to export containers has been further limited by record shipping costs and harmful surcharges.

The issue of freight carriers electing to leave without refilling empty containers with American goods and products is limiting U.S. cotton's ability to satisfy strong export demand. Shipping containers filled with imported goods are normally unloaded, sent to rural areas, filled with agricultural commodities and then shipped abroad. However, the increased disparity in freight rates paid by the import cargo that has resulted this past year, combined with congestion and delay at ports on our West and East Coasts, are leading carriers to immediately return empty containers to their overseas ports of origin. Freight charges from Asia to the U.S. have been driven as high as $15,000 to $20,000 per container. By comparison, freight charges for an export container carrying agricultural products typically costs $400-$1,800.

While there continues to be much focus on the problems at the West Coast ports, it is important to point at that U.S. South Atlantic ports, which are strategic cotton shipment ports and are noted for their efficiency and forward-looking strategic initiatives, have also faced unimaginable challenges due to the surges in volume and unmanageable schedule changes.

Additionally, the lack of adequate labor is one the largest supply chain constraints limiting the efficient movement of U.S. cotton. According to recent estimates, the trucking industry needs more than 80,000 additional drivers immediately to meet the current demand. Labor shortages are not just limited to the trucking industry as ocean carrier's abilities to provide services have been hindered significantly not only at terminals and on vessels but also in administration, communication, scheduling, and documentation since March of 2020 through today due to numerous factors affecting their labor forces.

<u>Key Issues and Economic Impacts</u>

To highlight some of the most challenging shipping issues facing U.S. cotton merchandisers and the harmful and costly impacts resulting from these issues, the below table catalogs the key problems, with further details provided below.

Key Issues	Major Impacts
• Warehouse Date Inconsistency • Driver Shortages • Chassis Shortages • Limited Container Availability • Vessel Schedule Variability • Port/Rail Congestion • Transshipment Delays • Increased Import Volumes • Delayed Documents • Inefficiencies Due to Staff Shortage, Remote Work, Etc.	• Additional Storage Costs • Increased Ocean Rates • Increased Truck Rates • Late Warehouse Fees • Missed Loads • Driver Disincentive for Export Loads • Ocean Carrier Disincentive for Export Loads • Operational Inefficiencies • Reconcentration Costs (Truck and Warehouse) • Rolled Bookings • Detention and Demurrage Charges at Port of Destination • Customer Frustration with a Traditionally Reliable U.S. Supply Chain • Concerns Meeting Export Commitments

- **Increased Carrying Costs from Erosion of Demand:** Cotton accrued more storage, interest, insurance, and other costs as consumption halted due to COVID.
    - At the height of the COVID shutdown, cotton had to be stored for longer periods of time than originally anticipated, in some cases as much as an additional 3 months.
    - Even as markets have reopened, delays of one to two months continue due to driver shortages, chassis shortages, port/rail congestion, and other operational inefficiencies.

- **Comprehensive Increases in Supply Chain Costs:** COVID based spending trends have overwhelmed the intermodal supply chain vastly increasing costs for:

- Trucking - The Bureau of Labor Statistics reports that the PPI for General Freight Trucking in September ’21 is 23% higher than pre-pandemic levels.
- Ocean Freight - According to USDA data, outbound ocean freight rates from Los Angeles to Shanghai have more than doubled between March ’21 and September ’21, going from $800 per 40-ft container to $1,710 per 40-ft container.
- Rail Service – Since May 2020, rail freight rates increased by 28%.
- Intermodal Equipment Provisioning.

- **Costs Associated with Broken Supply Chain Links:** As the intermodal supply chain has become overwhelmed with cargo, acute points of congestion have created tremendous delays and costs related to detention, demurrage, storage, rolled bookings, cancelled sailings and renegotiation of documents, among others. The industry is experiencing on-going disruption costs for changing vessel schedules and resulting early return date and intermodal and port cutoff changes that directly impact planned pickups shifting them days or weeks into the future on top of other demand with no capacity to recover. The costs include:
  - Team resource costs
  - Elongation of trade-to-cash cycle
  - Split shipment to customer
  - Warehouse pickup rescheduling costs and late pickup fees
  - Warehouse late pickup fee
  - Incremental trucking costs
  - Storage costs for loaded container
  - Per-diem costs for containers and chassis
  - Chassis per diem costs

- **Domino Effect:** Trade frictions with China have delayed shipments and added to the economic costs of the COVID pandemic.
  - Cotton merchandisers have continually provided liquidity to producers and consumers of U.S. cotton without compromise or default throughout these catastrophic events.

In addition to the severe disruptions and related costs being experienced by cotton merchandisers since COVID struck, there are more recent supply chain disruptions impacting cotton producers and others through the entire cotton and textile production value chain.

As noted by numerous agricultural organizations and companies, the following issues have been identified as some of the other problematic for the agricultural supply chain and are directly causing higher prices and/or shortages for the agriculture sector.

- **Labor:** Labor shortages exist on the farm, in processing facilities, and among critical service providers. A National Council of Farmer Cooperative survey found that 77% of responding coops had issues retaining a skilled workforce during the pandemic.

- **Fertilizer:** A confluence of factors negatively impacting global fertilizer market supply chains include, (1) global demand for fertilizer, which is largely driven by crop plantings and prices; (2) recent weather events that disrupted domestic production; (3) COVID-19-

related deferral of facility maintenance that is now being undertaken; (4) trade actions; (5) transportation costs; and (6) the supply and cost of natural gas.

- **Chemical Inputs and Seed:** Regulatory action by EPA is limiting the availability of pesticides necessary for agricultural production. Transportation issues are creating issues in product delivery, and Hurricane Ida has disrupted a critical region for herbicide production.

- **Energy:** Energy during the early stages of the pandemic was primarily consumed at home. That abrupt change suddenly reversed, and fuel prices have soared in the past year. Not only does energy affect fuel costs, but also it is an input for chemical, fertilizer and seed production.

- **Equipment and Parts:** Steel prices rose dramatically during the pandemic due to both demand and tariffs levied on multiple steel products in August 2021. And, a lack of microchips stemming from COVID-era demand for laptops and other home electronics has forced many farm equipment manufacturers to halt production, creating delays in shipping new equipment that sometimes last a year or more. In addition, parts needed to repair equipment may not be available.

Thank you for the opportunity to catalog the numerous supply chain disruptions and costs that are negatively impacting the U.S. cotton supply chain and the real concern about additional costs and supply shortage for key production inputs moving into the 2022 growing season. The National Cotton Council appreciates the leadership of this Committee and your colleagues in Congress to take actions to help address these issues and urging the Administration to take all actions possible to provide both immediate relief and remedy structural issues for the long-term. We are particularly concerned about the stress the current situation is placing on our merchandising segments. We would be pleased to provide any additional information and data that will be helpful and to respond to any questions.