

# Texas Cotton Association

## Transportation Strategic Planning Committee

### Strategic Recommendations

#### **Committee Focus and Approach:**

1. Collaborative engagement by representative cross-section of industry stakeholders.
2. Identification of both “What’s Working” and “Opportunities/Challenges” on key issues facing Texas cotton historically, now and in the future.
3. Neutral, fact based approach and final language.

#### **Industry Symptoms / Context:**

1. Today, it is unclear whether the existing Texas cotton “pipeline” can satisfy industry needs when required to meet domestic and foreign mill demand, whether there are “bottlenecks” within the existing pipeline reducing overall industry efficiency or some combination thereof.
  - a. For example, “panic” shipping, a warehouse suddenly goes from nearby ready dates to a month out, and Merchants put all of their cotton at the location under order and the next ready dates go out three months.
  - b. The “panic” spreads to other locations with similar impacts, and ripples across the entire industry.
2. Since infrastructure is very expensive to build and U.S. cotton is already under enough global competitive price pressure, any new industry capacity will result in additional fixed costs that every Texas cotton bale must bear.
3. There is no agreed objective performance standard among industry stakeholders – Merchants and Warehouses – on the definition of “good service” from warehouse providers in a specific crop marketing year.
4. From the Warehouses’ perspective, profitability has been negatively impacted by a combination of significant reduced revenue storage days (from 180 to fewer than 100) and increased costs to serve industry needs in more compressed shipping time periods. In effect, “good” performing warehouse is financially penalized while those that are not performing at similar levels are in effect “rewarded” with more storage revenue and lower operating costs.
5. From the Merchants’ perspective, they face market risks from both the inability to consistently access their inventory to meet mill demand/commitments and reduced inventory turns per crop marketing year.
6. Increased regulation has reduced the truck supply: the cotton industry has virtually ignored impacts from Hours of Service (HOS) on daily driver productivity and FMCSA’s Compliance, Safety, Accountability (CSA) program - a government program

grading trucking companies – on available drivers. Driver productivity is further impacted by warehouse “wait times”.

- a. Shortage of trucks / dray capacity during the peak shipping periods.
- b. Potentially large crop this year projects 35% increase - loading each week with likely mean truck shortages.
- c. Possible needs of 500 trucks per day compared to 350 trucks last year during peak. How can warehouses and transportation providers make this happen?

### **Committee Proposals:**

As the largest part of the United States crop, the Texas Cotton Association and Texas cotton stakeholders need to immediately play a leading role to identify, discuss, review, select and implement possible solutions to industry capacity and efficiency issues.

1. Clearly define and develop ways to objectively measure industry "demand" and "service" and the “value” of service in order so that the nature, scope and size of the problem can be determined each crop marketing year.
  - a. “Demand”: Develop ways to identify the magnitude and scope during a specific crop marketing year:
    - i. Clear definition of the nature of industry “demand”? – inventory days out, etc.
    - ii. What percentage of the crop is not getting the ready date they need?
    - iii. From which location(s) does the problem originate?
  - b. “Service:” Determine whether existing industry “pipeline” (infrastructure) can meet required demand. There are no accurate measures of warehouse performance that differentiates between:
    - i. Originating warehouses – gin receiving only
    - ii. Hybrid warehouses – gin receiving and transload
    - iii. Transload warehouses
    - iv. Pure transload warehouses should be excluded since their operational constraints and performance are not reflective of the broader cotton industry.
    - v. How can Warehouses and Merchants move past a discussion of percentage of licensed capacity and solely focus on the number of shippable (87/88 bale) loads per day during the crop marketing year.
  - c. “Value” – Service valued by Merchant community today.
    - i. Unclear that the other stakeholders understand Merchant service valuation
    - ii. How to increase transparency on the market value of service to other industry stakeholders.
  - d. Draw upon existing and relevant data and data methodologies wherever possible:
    - i. What tools/systems are currently available / existing?
      1. Different calendar systems for scheduling – FCA, PCCA, EWR
      2. Government storage agreement

3. Batch 23 study
  4. Stakeholder industries
    - a. Ocean carriers
    - b. Trucking
  - ii. What studies have been undertaken in the last 3 years?
    1. Cotton industry-driven / funded
    2. Stakeholder industries
      - a. National
      - b. Texas
  - iii. What is relevant?
    1. 2014-15 crop marketing year
    2. Future crop marketing years
  - iv. Where are the data gaps?
- e. What will be necessary for industry stakeholders to create “objective foundation” for “demand” and “service/capacity”?
2. With a better understanding of the nature, size and scope of the problem for the Texas crop Merchants, Warehouses, Trucking companies and other industry stakeholders need to collaborative review alternatives to address the root causes in order implement changes to address. The Committee discussed and proposed key areas for future consideration, realizing change may need to be incremental rather than holistic:
    - a. Industry Innovation
      - i. Identify ways for Merchants and Warehouses to share “risks” and “rewards”
      - ii. “Homogenize” cotton
        1. Module averaging
        2. Entire farms and ginned and subsequently stored together
          - a. Could sell all cotton to one buyer
          - b. Could be sold at one time
          - c. Would all have a chance to ship together
        3. Could these practices create “readymade” loads
          - a. Cotton could be “block” stacked
          - b. This identification could simplify handling and expedite load out
      - iii. Implement changes to improve warehouse efficiency
        1. 4-bale unit
        2. Module averaging, noted above
        3. Better bale selection methods
        4. Longer gin runs of single farm
        5. Segregate bales at warehouse
      - iv. Are there ways to improve the calendar system?
        1. Load Priority: In an effort to make sure Warehouses are focusing resources appropriately to meet demand, Merchants and Warehouses should discuss loads that can get a lower priority for assigned shipping dates.
        2. Dedicated or proportional capacity for Merchants that own significant amount of total inventory stored in a specific warehouse.

- v. Cotton loans should be redeemed within seventy-two hours before pickup date, so early trucks could load without Shipper/Merchant's permission
- vi. The Texas Cotton Association should host a website that has all warehouse ready date information for truckers to locate and/or verify load dates. The cotton industry could learn from technology used in the other industries.
- vii. The Merchants need to look at ways for "rewarding" good performing warehouses outside of the tariff.

b. Alternative Tariff / Remuneration Models

- i. How to rethink the warehouse re-numeration from a cost neutral perspective to de-emphasize the reliance on storage as the key revenue component: for example – a throughput cost per bale under set service parameters (like all bales made ready within \_ days/weeks).
- ii. Maybe warehouses should have a storage rate that decreases over time.
- iii. Suggest early pickup fees should not apply if trucker gets warehouse permission to load early.
- iv. Late pickup fees drive up rates needlessly. Late fees should not apply unless pickup date is greater than 3 days after agreed date.
- v. Why are their incremental costs under FOB railcars/trucks for flatbed trailers?
  - 1. Some warehouses require additional resources to handle flatbeds.
  - 2. Those warehouses incur incremental costs to handle flatbeds.
  - 3. Should those costs be passed back on FOB terms?

c. Warehouse Operations

- i. Load scheduling flexibility – How to accommodate Merchant priority changes after ready dates requested?
- ii. Flexibility between warehouse locations to adjust dates for split pickups.
- iii. Hours of operation:
  - 1. Extended load out operating hours: for example, 07:00 to 19:00 during peak season demand
  - 2. Staggered shifts to expand load window
  - 3. Eliminate closed for lunch hour
  - 4. Loading/unloading delays directly affect trucking capacity.
    - a. "Time is money" for truck drivers since they earn based upon the number of loads they can move.
    - b. Hours of Service reduces the amount of time truck drivers can drive in a particular time period.
    - c. Any delays make a truck driver less willing to load/deliver at that location in future.
- iv. Appointment system for (non-gin) deliveries and load outs
- v. Dedicated lanes / bays for receiving and load out
- vi. Multiple pickup loads should not charge late fees as truckers inherently avoid for easy 1 pick loads.
- vii. Warehouses should strive to get partial loads ready at earliest matching date to others involved.

- viii. Accurate and timely loading information from the Warehouse drives all downstream Merchant processes for export – meet Document cutoffs; release of ocean Bill of Lading, etc.
- d. Trucking Operations
  - i. Vans vs. flatbeds: Texas is dominated by flatbed business, specifically oil and agriculture; therefore Warehouses need to accept more flatbeds loading/unloading everywhere.
  - ii. Loading scheduling: Merchants need to look at the end-to-end flow to optimize driver time.
    - 1. Gaps between pickup and delivery are not attractive and harder to cover.
    - 2. With fewer drivers available, they will be more particular about the loads they accept and the locations they accept from/deliver to.
  - iii. Accurate and timely loading information from the Truckers drives all downstream Merchant processes for export – meet Document cutoffs; release of ocean Bill of Lading, etc.
- 3. Next steps
  - a. The Committee requests that the Texas Cotton Association needs to provide a vehicle for industry feedback on the Committee’s work after the Flow Meeting
    - i. How to facilitate broader discussion of these critical issues
    - ii. How to facilitate on-going dialogue that drives to problem recognition, solution development and implementation.
  - b. The Committee as established needs to continue to be part of the strategic process within the Texas Cotton Association.