WSSR Meeting

During the meeting in Melbourne for the Review panel discussion paper, various issues were raised.

Even though I respect the panel members for their professionalism in their specific industries, there seems to be a lack of understanding on how intricate the wool industry is and panel members need to listen and engage industry professionals to fully understand what they are suggesting in the WSSR.

Sale on Farm and on farm testing

Can anyone on the panel, or AWI explain how this can work? Factors that have to be covered

1) Will the wool grower release wool and guarantee delivery as brokers currently operate?
2) How does a grower make delivery on a request basis from the exporter/processor? Does the panel understand that wool purchased could be requested for immediate delivery, or in some cases could be stored for months? Timing in delivery is important as exporters, dumps and scours work on tight working schedules
3) What happens if the grower cannot deliver in a timely manner? What about remote locations, how does a grower attain economies of scale in transport if they sell various lines of the clip to various exporters and they all ask for delivery at separate times to various delivery centres? Will this added cost be borne by the woolgrower?
4) Funding – will the grower accept delayed payment terms or payment once the wool arrives at the dump or scour? Have issues regarding funding and cash flow been thought about or discussed?

Currently the industry has a rigorous sampling and testing procedures endorsed by IWTO and developed, implemented and managed commercially in Australia by AWTA. These industry standards provide for minimal unexpected variation between greasy wool testing and subsequent predicted results in the TOP. How could the same standards be implemented, and integrity of results be achieved in onfarm testing? How would onfarm testing take place and would this be supervised by AWTA?

Commercially, if growers use onfarm testing and precision of results between on farm testing and TOP results are not comparable with current commercial standards, who will pay the claim to the end user if and when this arises?

Currently Exporters, for a GROSS margin of about 1.0% of the consignment value, provide the following services to the mill:
-logistics
-funding
-valuing
-Guarantee of delivery –quality, quantity and time.
Such small margins do not accommodate for potential delivery delays, requirements for extra funding or a potential increase in claims paid owing to vagaries in onfarm testing. Ultimately extra costs involved would be reflected on prices able to be paid to woolgrowers.
Sale by Description

An exporter must guarantee the wool delivery to the client. Without provision of samples for exporters to inspect, either growers must guarantee the type to the exporter (as exporters do to the mill) and be liable to quality claims by the mill, or exporters would be required to build in an allowance to accommodate for potential claim. Either way, extra costs would ultimately be borne again by the woolgrower. The current system moves liability from the grower to the exporter, sale by description reverts this liability solely back to the woolgrower.

OPEN CRY AUCTION vs “Other Method”

To obtain a complete overview, the panel should physically visit and participate in all suggested methods of selling. Surface level observation is not sufficient to assess these methods. The panel needs to involve themselves and assess what method to-date, is the most efficient way of sale and transfer of ownership. Methods should include open cry auction, AWTA’s Eclipse system and Auctions Plus.

The export industry currently runs at 4 to 7c greasy cents per kilo to cover all costs for valuation, purchase and preparation of documentation and financing. A change in sale method to an electronic platform has to be a lower cost system than the existing open cry auction, otherwise the woolgrower will once again bear the costs.

Development of WEP

Electronic selling is not new to the Wool Industry. Several organisations have put forward various methods of sale by electronic means and to-date these act as a supplementary system to the open cry auction. Have these systems been fully analysed and adoption rates amongst buyers and sellers been considered? Given the competitive nature of export, buyers have adopted and supported use of these electronic systems. Why have these various platforms (Eclipse/E2, AuctionsPlus Wooltrade offerboard, AuctionsPlus electronic auction) not expanded? Mediocre adoption rates by sellers have not provided any critical mass of saleable wool to further develop these systems. Why not? Do sellers not want to use these systems or are their agents not supportive? Would a new WEP system be any different? Currently is it the system failure, or is the failure to support these systems by sellers exemplifying the lack of education systemic amongst agents throughout the wool industry?

What other commercial operators are the panel referring to for entry into the wool industry via a WEP system? Is the industry big enough to support non users of wool such as hedge funds? How would market manipulation on the basis of lack of wool supply be monitored and rules enforced? Could potential supply vagaries that have come about by nonusers of wool, force end users to turn back to man-made fibres where supply is abundant?

Who would fund the development and ongoing management of a WEP system? Should current alternatives be further developed? Determining why they haven’t succeeded in the past should surely be the first step?

Suggestions

Since the panel has been asked to review the industry, it is recommended that the panel look at the performance of AWI and assess what structural changes could be made to this organisation to reap more benefit by the industry. Research and development is important, but woolgrowers need to be asking “what else can be achieved from this organisation?”

Comments

The wool industry has worked hard to become an efficient low cost operator. In the 27 years I have been involved, I have seen real savings and efficiency in the EXPORT trade. Flippant statements made, reflect naivety and ignorance as to changes that have occurred throughout the wool industry. It is astounding that AWI has been so aggressively stating that there has been no material change in the selling of wool over the 100 years. Such statements are completely ill-informed.

I was disappointed on the day of the WSSR in Melbourne that the time immediately after the meeting was taken up by a media conference. It would have been more professional and beneficial for the panel to talk informally to all sections of the
industry. There were many participants that were keen to talk to the panellists as this was the one chance for people to be in the room to discuss the day’s proceedings. Many of these people travelled from interstate at their own expense to little avail.

Yours Sincerely

Peter Morris