Attention John Roberts – Executive Officer and Secretariat.

27th February 2015

To the Wool Selling Systems review.

Dear John,

I would like to offer a comment on a number of points that you have raised in your Wool Selling Systems Review (WSSR).

I have given a reply to specific questions as posed by the WSSR and have followed up with a number of random points that you may find useful.

AWI review

**Transaction Cost associated with the transfer of greasy Wool from Sellers to Buyers**

Transparent charges.

Transparent Post Sale Charges.
Over the last 15 years we have seen "buyer’s service charge / post sale charge" steadily increase year on year whilst the grower’s brokerage has remained relatively stable. Brokers have passed on raising costs and margins back to the buyer rather than increase the seller’s brokerage. In turn the buyer then discounts the price which they will pay the grower. In the end the grower pays.

I am not opposed to a broker having this kind of cost structure as I realise how expensive it is to have Wool reps on the road calling into to see clients, offering advice and having reps present when their wool is sold, [If these services are not required then this should be a commercial decision made by the broker / grower]. The total cost that is charged to the growers should be transparent and brokers should give growers two figures when they quote what their brokerage is, this second figure would be similar to what the banks use when they give a comparison rate on a home loan.

This "comparison rate" would include brokerage (as charged to the grower) + the cost charged to the buyer i.e. Post sale charge + delivery to the place of Auction + a standard counter marking charge + any storage charges which may be incurred by delivering the wool 10 days after the sale date. The breakup of these charges would need to be finalised but they would be standard over all brokers thereby creating a bale rate that the grower can then compare one broker with another.

If we use the examples in the appendix 1 and 2 in the WSSR the charges would be as follows...

**“Example Wool Broker” Brokerage Rate = $31.67 per bale**

**“Example Wool Broker” Comparison Rate = $31.67 + $23.20 (Post Sale Charge) = $54.87 per bale.**

Once growers have a standard “Comparison Rate” then market forces would be allowed to have more of an effect on what level of service a grower wishes to receive.

**Information and evidence on the effectiveness of the current open cry wool auction system.**

**Other Selling alternatives**

Alternative selling systems are already in place. In fact it could be argued that there are too many alternative selling systems and growers have numerous options on how their Wool may be sold.

By definition an "Alternative selling system" is a way to market Wool that would not achieve as much publicity as the more main stream selling systems i.e. The Auction system. For example
over the last two weeks I have purchased and sold Wool using the following methods. Firm Price in the Shed, Private negotiation with sellers and buyers, progressive tender, best price wins tender, Electronic platforms, price on result and have offered forward prices to growers. However all of these selling systems have relied on one thing and that is a viable Auction System. If we lose the Auction system we lose our price point and without a price point alternative selling systems break down.

An alternative selling system has one fundamental problem – The Buyer wants the good for less and the Seller wants to sell for more. An active Auction system has the ability to bring the seller and the buyer together in a quick decisive moment where a decision must be made.

Forward platforms.

Even though we have an active forward marketing platform in the form of the “Riemann Wool forwards” our major customer China is reluctant to take a position in most cases beyond 4 weeks into the future in fact most business is completed on a prompt basis, this in turn makes it difficult to get realistic prices 3/6/12 months into the future. This could be something that the review should consider and that maybe a marketing campaign to our biggest client – China, could help explain the benefits of a viable forward marketing program. Like the “Riemann” platform this market should be indicator based / cash settled.

Phase 4 Price realisation.

Multiple buying limits.

I have been an active member in the Melbourne Auction rooms for 27 continuous years. Over this time, through all of the ups and downs that the local and global economic conditions have put to our industry the Auction room has remained resilient and has provided a price to the grower. The Melbourne auction room is an incredibly competitive market were we regularly have over 25 buyers physically representing 50 plus buying houses. No were else in the World can you offer your Wool and get the attention of this many buyers. Added to this you have the intensity and the urgency that an open cry auction brings to a market which only helps build pressure and encourages buyers to bid up to acquire the Wool for their clients. All of these things work towards getting the best price on the day for the grower.

Multi bidders.

Our company provides a commission bidding service and it does bid for a number of companies. By offering this service we provide the following benefits to the market.

1. A number of our clients are quite small and may only purchase 15/20 bales per week. Even though this is a small quantity of Wool their presence in the room through a multi bidder still provides increased competition. It must be noted that for a client to purchase 15/20 bales they may be the under bidder on 80 to 150 bales.
2. The presence of multi bidders arose through cost cutting in the buying trade. It is a cheaper alternative for exporters to employ a commission bidder as opposed to a full time employee this in turn cuts the exporters costs which gives them more money to spend on growers Wool.
3. Most Multi bidders only get paid if they purchase Wool.
4. A grower is not forced to sell. If they believe the price that is been offered is to low they can pass in their Wool and request a higher price after the sale, a commission bidder / multi bidder may be more inclined to purchase passed in lots as this is how they earn a revenue stream.
5. In an indirect way every buyer in the market is a Multi bidder, Exporters / processors / trading houses and Multi bidders are only the messenger that passes on the price to the grower. For example most exporters have a number of clients that would take similar Wool; it is then up to the exporter to determine which client receives the Wool depending on sold price / shipping commitments.

Multi bidders provide a very cost effective, competitive presence in the room which adds to the depth of prices that are on offer to the seller. Without them you reduce competition by not allowing smaller participants to take place in the market and would only increase costs to the exporter as
they would be required to have a physical presence in the Auction thereby creating increased costs and subsequently lower prices to the grower.

**Additional Points that would all benefit the bottom line to the grower.**

1. Awex appraisers to value the following weeks offering and provide the audited valuations on transmission / catalogue. This in turn would assist the buyers in valuing and provide a sound valuation base for quotes and pricing.

2. Prompt date and free storage date to be extended to the 2nd Friday after the sale week. This will allow for wool to be shipped before storage starts and also allow better cash flow management.

3. In the current selling arrangement buyers can only view and see test results 2 days before the Wool is sold. We need to be able to view the wool 5 business days before it is offered so as to allow for early selection reports and for adequate financing facilities to be in place.

If you wish to discuss any of these point further please feel free to contact me.

Best Regards

Paul Harmer
Director
Yarra Wool