

# AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS

## INLAND WOOLBROKERS ASSOCIATION

### THE NATIONAL COUNCIL of WOOL SELLING BROKERS of AUSTRALIA

23 September 2015

Mr John Roberts  
Executive Officer  
AWI Wool Selling Systems Review Panel

By Email: wssr@wool.com

Dear John,

#### “Modernising” the Wool Auction

We have read comments in The Countryman of 10 September attributed to the Australian Wool Innovation Chief Executive Officer, Stuart McCullough, that state:

- \* *“There has been no modernisation in the present auction system in 100 years”*
- \* *“It makes no sense that 95% of Australia’s wool is marketed through the open cry”*

Our Associations have responded via the rural media; and wish to draw the Panel’s attention to these comments, given they were made in the context of the WSSR. We are not aware of what criteria the statements attributed to Mr McCullough are based on. Nor do we think it unreasonable to expect that due process should be followed. This would require that such statements should be accompanied by supporting data.

Our Associations have a different view to those attributed to Mr McCullough, which will be explained as follows.

#### **1. “There Has Been No Modernisation in the Present Auction System in 100 Years”**

The wool auction process of today is very different to that of 50 years ago, when wool bales were placed on “show floors” with their tops opened for inspection by wool buyers, all information relating to the exchange of ownership was recorded manually. Auctions were conducted in three sale rooms over several hours in thirteen locations and in the absence of electronic technology.

There are numerous examples of progressive modernization, some small and others more obvious. Two examples of the latter follow:

##### **1.1 The Introduction of Sale-by-Sample and Presale Testing**

The first major change was the introduction of Sale-by-Sample and Presale testing in 1972.

This arose after:

- \* The progressive adoption of Post Sale testing by wool exporters and processors during the 1960’s.
- \* Some wool growers began Presale testing their wool and making the results available to buyers from the late 1960’s.
- \* Considerable research and a major industry investigation known as the Australian Objective Measurement Project (AOMP) that involved representatives from wool growers, brokers, exporters, processors, the test houses, research institutions, education and training institutions, the former Australian Wool Board and the then Bureau of Agricultural Economics.

Trials were also conducted in the principal selling centres.

The subsequent introduction of Sale-by-Sample and Presale testing in 1972 led to:

- \* The progressive replacement of large show floors of bales by sample boxes that occupied much less space, contained a random sample drawn from ALL bales in each lot and the use of objective data to assist in the valuing process.
- \* Wool exporters and processors being able to better predict the expected processing performance of their consignments.

A special feature of Presale testing was that when buyers bought tested wool, the purchase included the Presale Test Certificates. The Presale test results could then be mathematically combined to produce a Combined Certificate result for all lots in a processing consignment.

This removed the risk for buyers that their assessment of the expected test results for a consignment may not match the test results if the wool was sampled and tested Post Sale.

- \* This led to the progressive elimination of the need for (and cost of) Post Sale testing, except in special circumstances.
- \* The elimination of sorting prior to processing in wool processing plants.
- \* The ability to introduce Sale-by-Separation, which in turn led to:
  - # The progressive reduction from thirteen wool selling centres to the current three (see Appendix I); and
  - # The ability to utilise storage facilities in less costly regional areas.
- \* Wool growers having a better knowledge of their wool's commercially important characteristics.

Further research led to the introduction of sampling and testing techniques for the measurement of Staple Length and Strength; and the prediction of the fibre length in the top (Hauteur).

CSIRO valued the above work so highly that it awarded the CSIRO Chairman's Medal for Research Achievement in 1989 to the CSIRO scientists who had done much of the background research and to AWTA's Deputy Director, the late SAS Douglas, who played a major role in the implementation of these developments.

Statements such as "*There has been no modernisation in the present auction system in 100 years*" also devalue the work of many wool industry persons (from growers to processors), test house staff, scientists, economists, IT specialists and staff at predecessor organisations to Australia Wool Innovation (such as the former Australian Wool Board and Australian Wool Corporation). They have all contributed to significant "modernisation" of the auction over the last 50 years.

The introduction of Sale-by-Sample and Presale testing was accompanied by revised wool classing standards that enable wool growers and wool classers to amalgamate some wool that had previously been classed into different lines.

## **1.2 The Introduction of Electronic Data Interchange**

The wool industry was one of the first to extend the use of computers and electronic technology from the traditional finance and accounting functions to assist in improving the efficiency of business operations within an industry, in this case by the electronic exchange of data associated with the exchange of ownership, as follows:

- \* This first occurred in 1978, when the AWTA Sydney laboratory began supplying tapes with an electronic copy of Presale test results to the former Sydney Wool Brokers computer bureau to assist in the preparation of wool sale catalogues.
- \* This evolved from 1984 onwards to:
  - # Direct computer-to-computer transfer of information as IT technology advanced.
  - # Include companies along all sections of the wool industry pipeline.
  - # The establishment of a single industry hub for the exchange of data when there are many suppliers of information and many receivers of information, e.g. the supply of sale catalogue data from sellers to buyers.

These developments have led to wide-spread high speed, cost efficient, error-free exchange of data along all sectors of the wool pipeline from grower to early stage processor, irrespective of the method of exchange of ownership.

The electronic exchange of data now include:

- \* The provision of request data from brokers and private treaty merchants to AWTA.
- \* The provision of test data from AWTA to brokers, private treaty merchants and other selling agents.
- \* The provision of sale catalogue data from brokers, private treaty merchants and other selling agents to buyers and processors.
- \* The progressive use of hand-held devices by wool buyers to store and recall sale catalogue information, reducing much of the need to print paper catalogues.
- \* The provision of invoice details and test data from sellers to buyers.
- \* Electronic payments.
- \* The transmission of delivery instructions, counter-marking requirements and shipping details from buyers to brokers / warehouses and wool dumping companies.

- \* The development of electronic forms of transfer for other “miscellaneous” forms of information.

The electronic exchange of data has progressively eliminated much of the need for hard copy documents

It is important to note that this process has been managed since 1984 in a co-operative manner from within the industry via the Wool Industry EDP Users Group (WIEDPUG). WIEDPUG’s work included the development of industry standards for data formats and for transmission protocols; and the preparation of an EDP Handbook. It now involves the ongoing maintenance of the various standards and responding to changing industry requirements.

## 2. “It Makes No Sense that 95% of Australia’s Wool is Marketed Through the Open Cry”

As stated in our opening remarks, we are unaware of the criteria that this statement is based on; or where the 95% is derived from. Is there a critical percentage, or percentage range? If so, we are not aware of it.

A simple calculation of the number of first hand bales offered at auction over the last three seasons as a percentage of the number of bales tested by AWTA by one of our Members indicates that the figure averages 86.5%, with a range from 84.4% to 89.1%.

### 2.1 The Introduction of Other Changes to the Open Cry Auction

As indicated above, the open cry auction is only part of the process in the exchange of ownership.

It must be noted that the wool industry has investigated, or implemented, alternate methods ranging from sealed electronic tenders, electronic offer boards, digital imaging of samples, and electronic replication of the open cry process since the 1970’s, as follows:

- \* Economic Wool Producers (EWP) pioneered the introduction of electronic sealed tenders in 1971/72.
- \* Elders introduced a similar system later in the 1970’s (maybe 1980’s).
- \* AWTA developed an electronic platform known as WOOLINK in the 1990’s.
- \* Electronic replication of the open cry auction was trialed extensively by AWEX in the early 2000’s, but was not proceeded with due to a number of problems identified by buyers that have not yet been resolved.

AuctionsPlus has since conducted a smaller electronic sale during the mid-year break in 2014 and 2015.

- \* Offer boards (such as one provided by AuctionsPlus) are in place; and are accepted as an important supplement to the auction.
- \* The use of digital cameras was investigated by CSIRO in the 1980’s; and there have been limited attempts to utilise them in the exchange of ownership. One regionally based private treaty merchant currently uses digital technology to provide buyers with additional information.
- \* Sale-by-Description has been talked about since the introduction of Sale-by-Sample in 1972. It was the subject of a review commissioned by AWEX in 1997 / 98; and was trialed briefly by Elders and Landmark in 2006. There has been no further work.

It is well known that wool buyers regard inspection of the sample as a critical part of the valuing process.

None of the technologies developed to date have demonstrated the ability to extract the same level of competition, to sell in excess of 250 lots per hour, to provide instantaneous price discovery and to attract the necessary buyer and seller confidence.

While frustrated by the need to prepare this Submission, our organisations remain supportive of the Review. They also believe that success will only be maximised if due process (such as outlined in the WSSR 2014 Issues Paper) is followed. But, they do not believe it is happening at this moment.

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**APPENDIX 1**

**FORMER AND CURRENT WOOL SELLING CENTRES**

The following information is provided for historical interest.

**Former Wool Selling Centres (circa 1970)**

Brisbane  
Newcastle  
Goulburn  
Albury  
Geelong  
Portland  
Hobart  
Launceston  
Adelaide  
Albany

**Current Wool Selling Centres**

Sydney  
Melbourne  
Fremantle