



# AUSTRALIAN WOOL TESTING AUTHORITY LTD

Reg'd. Office: 70 Robertson Street, Kensington VIC 3031

PO Box 240, North Melbourne VIC 3051

Tel (03) 9371 4100

Fax (03) 9371 4191

ABN 43 006 014 106

Head Office

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Mr John Roberts  
WSSR Executive Officer  
Australian Wool Innovation  
Level 30, HSBC Centre,  
580 George St,  
SYDNEY NSW 2000

Dear John

**RE: SECOND SUBMISSION TO WSSR**

Thank you and the WSSR Committee for the opportunity to make a second submission to this Review.

Rather than rehash all the topics raised in the Discussion Paper, the attached document addresses issues that are directly relevant to or impacting upon AWTA.

As always, AWTA is more than happy to discuss these and any other matters in more detail with the Committee.

Yours sincerely

**MICHAEL JACKSON**  
**MANAGING DIRECTOR**

**Melbourne Laboratory:**  
PO Box 240  
North Melbourne VIC 3051  
Tel (03) 9371 2100  
Fax (03) 9371 2190

**Fremantle Laboratory:**  
PO Box 1546  
Bibra Lake WA 6965  
Tel (08) 9418 5333  
Fax (08) 9418 7838

**Branches:**  
Adelaide  
Brisbane  
Geelong  
Goulburn  
Launceston  
Newcastle  
Portland  
Sydney

## AREA 1: OPERATIONAL EFFICIENCY

### 1. Innovation and R&D within AWTA

Up until the 1990's, there were significant research organisations actively pursuing raw wool metrology in addition to AWTA (eg CSIRO, UNSW, AWRAP, WRONZ and many other overseas institutions). Internationally approved test methods were developed to determine the yield, vegetable matter and average fibre diameter. Subsequent to this, new methods were developed for the measurement of the Staple Length and Strength and Clean Colour. In the late 1990's new methods for the measurement of fibre diameter which included variability statistics were introduced. In more recent years, nearly all of these organisations have ceased activity in this area and AWTA has responded by increasing its own commitment to R&D.

Today, the measurements that are commercially available represent the vast majority of the major price determining characteristics for wool (with the exception of style of speciality wools). In general, R&D aimed at developing new measurements will have limited benefits to the Australian wool industry and consequently small commercial adoption. As such, AWTA has focussed its research expenditure towards improving laboratory efficiency and applying modern automated scientific equipment to measure these main price determining parameters of wool. In simple terms, the priority is to improve existing test methods to keep overall testing fees for woolgrowers to a minimum rather than adding to the suite of available tests.

Of course there are exceptions to the general rule and AWTA continues to direct some R&D funds to the development of new methods, such as dark & medullated fibre in merino wool and the measurement of staple crimp characteristics. AWTA also continues to undertake fundamental research into wool metrology for the major characteristics of wool. This includes spectroscopic methods of non-destructive testing, vision systems and systems automation. These tend to be more 'blue-sky' but have the potential to significantly improve wool measurement systems.

Most people would realise that from its peak of over 1000 mkg, wool production in Australia has declined to around 340 mkg. Over this time wool metrology research in Australia has gone from an active area to close to non-existent and funding for such research has evaporated. AWTA now has the only research team in Australia focussed on wool metrology R&D.

From an external perspective why are not more textile machinery suppliers, technology companies and similar organisations doing work in this area? The main reasons relate to the size of the potential market; wool equipment and testing instrument sales are very small and unattractive when compared to other markets.

AWTA welcomes the WSSR committee's recognition of the importance of wool measurement.

## 2. On-farm testing

As was explained in its initial submission to the WSSR, AWTA will undertake sampling activities wherever and according to whatever method its customers require. This includes certification testing, guidance report testing for private treaty, individual fleece testing for wool growers and on-farm testing for wool growers/cooperatives. Such an approach provides customers with flexibility to sell their wool in whatever way they wish.

Undertaking on-farm testing which produces test results on all parameters (yield, vegetable matter, fibre diameter, staple length and strength) equivalent to those in a laboratory may be possible in some limited circumstances but the capital cost in doing so would very likely dwarf any potential benefits. As with any testing process, the other main issue arises is integrity. Will overseas customers accept sampling or testing done in this way?

Again, as outlined in the initial submission, AWTA has prepared a user manual for those interested in undertaking on-farm testing. See below.

### On-Farm Sampling and Testing

AWTA has worked with grower and supplier groups over the years to assist in the development of sampling and testing protocols for alternative selling systems. AWTA has, with the cooperation of others, developed a manual for use by wool growers or their agents for the sampling and weighing bales on-farm, allowing the retention of wool on farm for storage and marketing. This manual provides a comprehensive guide to the sampling equipment required and methods necessary to obtain representative and consistent samples.



## 3. Tax Status

The issue of AWTA's tax status was raised both in the discussion paper and at the forum and on both occasions, the explanation given as to the basis for the Company's tax status was completely incorrect.

AWTA is a not for profit, Company Limited by Guarantee that does not distribute dividends. The Company was established to assist and promote the development of the pastoral, agricultural, manufacturing and industrial resources of Australia, in particular, by providing independent objective data and information services which will facilitate the efficient production, marketing and processing of wool, other fibres, textile products and related materials. As such it is exempt for Income Tax under Section 50-B of the Income Tax Assessment Act 1997.

## AREA 2: PRICING EFFICIENCY

### 4. Sale by Description

The degree to which buyers and sellers trade based on description alone is for the market to decide but one of the impediments to larger scale adoption of the sale of wool without a display sample has been the lack of guaranteed, independent assessment on the non-measured characteristics of the wool.

In 2006, following approaches from two major brokers, AWTA Ltd agreed to facilitate a '**Wool Appraisal Trial**' whereby AWTA Ltd provided an independent, subjective appraisal of the wool type. This type was in the form of an AWEX-ID, along with the latest TEAM-3 processing predictions, and the wool typing was guaranteed by AWTA Ltd.

*"AWTA Ltd will provide a guarantee, based on an assessment of the display sample taken in accordance with IWTO Standards that the AWEX-ID determined is a fair and adequate description of the non-measured wool characteristics as applied by a qualified AWEX-ID Appraiser. This guarantee does not extend to processing quality or performance."*

The aim of the Wool Appraisal Trial was to evaluate another alternative to existing selling systems, not to replace the open-cry auction system. Further, it is clear that certain types of wools will likely always require a display sample (or even the bales themselves) for buyer evaluation. Such wools include speciality superfine and carding lots.

The majority of combing length, non-specialty, Merino fleece wool could be regarded suitable for sale based on objective test data with a guaranteed wool AWEX-ID wool type, subject to the seller's requirements.

The trial involved South Australian Merino fleece wool as most of this wool was of a very consistent type, in the 20 to 23  $\mu\text{m}$  diameter range, and able to be adequately appraised and sold without sample. This type of wool is already sold on electronic offer boards around Australia without a display sample being readily available.

As part of the Wool Appraisal Trial, AWTA Ltd provided a guarantee on the subjective wool type.

Despite support for the trial from the principals of many buying firms the trial concluded after only two months with many auction room buyers shunning the lots offered and the two major brokers choosing to focus on other projects.

Given sufficient support from buyers and sellers, such a system could easily be introduced on a wide scale within 12 months.

### **AREA 3: WOOL EXCHANGE PORTAL**

#### **5. Electronic Trading**

As outlined in our initial submission, in the late 1990's AWTA developed a computer based electronic selling system called Woolink®. This system allowed several forms of electronic trading including:

- A screen based auction platform.
- Discrete electronic offer boards for direct sales
- A spot sale function
- Wool volume estimates for two weeks in advance (including types of wools)
- Trading functionality (reoffer, place to order, invoice, combine with other wools, etc)
- Matching wools for futures contracts

In September 1999 a live electronic auction was conducted using the Woolink system with three brokers and 12 exporters participating. The auction itself was successful, demonstrating that the concept was technically possible but the concept did not receive the general support of the trade and was abandoned. Other organisations have since gone on to successfully commercialise electronic selling systems and AWTA has cooperated fully with the development of these systems.

The wool industry has cooperated over many years to develop a sophisticated electronic mailbox system that allows the seamless exchange of a myriad of standardised electronic documents ranging from test data to wool delivery instructions. The data necessary for any selling systems is built upon the test data and AWTA has collaborated with the developers of alternative selling systems to ensure test data is available in a multitude of ways in suitable formats. The efficiency gains and cost savings delivered to the industry by this system should not be underestimated.

At this stage it is too early to comment on specifics; as the WSSR Committee clearly pointed out at the industry meeting, it is a concept. However, AWTA data is likely to be critical to any electronic system and we have considerable experience dealing with both industry and systems developers as outlined above. As such, AWTA is happy to work with interested parties to develop the concept further so that industry can assess its relative merit and commercial viability.