



The National Council of Wool Selling Brokers of Australia Inc

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Mr John Roberts
Executive Officer
Wool Selling Systems Review
Australian Wool Innovation
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Dear John,

Wool Selling Systems Review - NCWSBA Second Submission

I would like to make this additional submission to the Wool Selling Systems Review on behalf of the National Council of Wool Selling Brokers of Australia. NCWSBA makes this submission in light of the Review Panel's Discussion Paper which was released on 6th July 2015, the Stakeholder workshop which was held on 21st July 2015 and the presentation by Review Panel member Bernie Wonder and WSSR Executive Officer John Roberts during the NCWSBA AGM and Forum on 27th August.

The main issue which NCWSBA wishes to address from the Discussion Paper is the concept of the Wool Exchange Portal. For many years, NCWSBA member companies and their staff have constantly and routinely provided information to their clients on the range of selling methods that are available for woolgrowers to market their wool, including the open cry auction system. NCWSBA therefore supports the various channels of providing this information to woolgrowers.

The Wool Exchange Portal concept proposed by the Review Panel may in the future be one of these channels. However, the Board of NCWSBA notes that considerably more detail needs to be developed for the WEP concept before any specific comments can be provided. It therefore, on behalf of its members, welcomes the opportunity to participate in future discussions on development of the concept should the industry agree to take this forward.

With regard to other issues raised in the Review Panel's Discussion Paper, we have covered key points in the following pages. As well, the Board of NCWSBA refers the Review Panel to the detail provided in NCWSBA's first submission to the Review (provided in February).

We look forward to participating in future meetings and discussions concerning the Review and the concept of the Wool Exchange Portal.

Kind regards,

Chris Wilcox
Executive Director

SECOND SUBMISSION TO THE WOOL SELLING SYSTEMS REVIEW

1. Wool Exchange Portal

NCWSBA member companies and their staff provide information to their clients on the range of selling methods that are available for woolgrowers to market their wool, including the open cry auction system. NCWSBA therefore supports any additional channels of providing this information to woolgrowers, which could include the concept proposed by the Review Panel of the Wool Exchange Portal. Considerably more detail needs to be developed for the concept before any specific comments can be provided by NCWSBA.

2. Advantages of the open-cry auction system

The auction system is the most efficient and transparent mechanism for the transfer of ownership from the grower to the processor, and provides a transparent price discovery mechanism which is risk-free for growers. In particular, the auction system:

- Directly addresses the issue of the heterogeneity of wool offered for auction (the huge range of wool types with a diverse range of attributes) and the diverse types of wool required by processors and manufacturers to meet their requirements for the range of products produced with Australia's wool. The issue of heterogeneity was identified by Dr Alistair Watson (the keynote speaker on Operational Efficiency at the Stakeholder Workshop) as the major issue for the wool industry.
- Permits the efficient, least-cost building of (small) grower lots from a diverse number and location of farms to large mill processing lots.
- Allows the efficient determination of the actual price of the specific wool qualities for each grower lot according to the prevailing market conditions. It provides clear market signals on the various wool attributes (both objective and subjective) as well as the lot characteristics (such as the number of bales in a lot, weight of bales etc.).
- Provides an essentially risk-free sale method for growers, with sure, fast and reliable payment for the sold wool 7 to 10 days after the fall of the hammer.

3. Wool brokers' substantial investment in the industry

Wool broking companies have a major and substantial investment in the Australian wool industry. This investment includes warehouses and offices; machinery including automated core lines, trucks, forklifts, motor vehicles, wool presses and other warehouse equipment; computer hardware (servers, desktops, laptops) and software (accounting, wool broking, HR); staff (including wool advisers, wool technicians, risk management advisers, administration staff and warehousing staff); and significant bank finance facilities from which to draw to provide finance services to growers.

This investment in the industry should not be put at risk by prospective changes to the selling system.

4. Services from brokers to growers and buyers

Wool brokers provide an extensive range of services to both growers and buyers. These are listed in the NCWSBA's first submission to the Review. Of these, we note that a critical service provided by wool broking companies to growers is that they guarantee both payment and the date of payment to their grower clients regardless of whether or not the broker has been paid by the buyer. Recommendations stemming from the Review must not jeopardise this security of payment to woolgrowers or damage the existing Terms of Trade, including matters such as the prompt date, in any way.

One issue that was not addressed or acknowledged in the Review Discussion Paper is that there are a number of services provided by wool broking companies that benefit both growers and buyers alike. These joint consumption services include the provision of sale rooms, adjustment to overweight bales, showfloors, auction catalogues, quality control of wool lots being offered (identifying and correcting branding/classing errors before wool passes further up the chain) and lot building (aggregation of grower lots to larger processing batches).

5. Broker charges

The most significant cost to woolgrowers in transferring wool from the sheep to the ship is the cost of harvesting, accounting for 62% of the costs from sheep back to mill. The AWI Levy is also a significant impost on growers. Both of these costs should be acknowledged by this independent Review even though they fall outside the terms of reference.

With regard to broker charges, NCWSBA notes that:

- Broker charges to grower clients are transparent and made clear by each company to each client, including on the account sales receipt after wool is sold.
- Broker charges to buyers (called the Post Sale Charge by the Review) are transparent and provided by each broking company to each buying company annually. How these charges are then included in the baremes for each buyer (whether it is done as an average of all broker's individual Post-Sale Charge, as the specific charge for each broker or some other method) is **not transparent**.
- As noted above, there are joint consumption services that benefit both growers and buyers. The Discussion Paper has ignored these and these should be acknowledged. The incidence of how these charges are levied (i.e. as part of the grower charge or as part of the Post Sale Charge) is likely to be the result of administrative convenience.
- The Discussion Paper assumes that these joint consumption services can be easily disaggregated and charged individually. This is naïve.
- If the Post-Sale Charge was borne solely by growers, growers would be net losers and buyers net gainers.

6. Price risk management

Wool broking companies have been and remain active users and promoters of the various platforms that have been introduced to manage price volatility and risk. WoolTrade was established by and is owned by some wool broking companies. As noted in NCWSBA's first submission, there are a variety of reasons why the uptake of these platforms has been patchy at best.

7. Sale by description

NCWSBA supports the consideration of offering wool without sample for certain fairly uniform wool types. As noted in NCWSBA's first submission, one issue that would need to be addressed for future consideration of sale without sample is which independent organisation should guarantee wool type to give the buyer confidence. As well, consideration needs to be given to who bears responsibility for any claims for incorrect wool deliveries that may arise.

8. AWTA

As noted in our first submission, the NCWSBA supports:

- AWTA's vital role as a **not-for-profit** provider of internationally-recognised, independent raw wool testing services to the Australian wool industry.
- The current system of wool testing developed over many years, with core and MTS sampling in-store under the supervision of AWTA staff (in locations across Australia) and secure transport of each sample to the independent AWTA laboratories for testing and certification.

An alternative system, such as testing in-shed, would raise significant concerns for NCWSBA and its members, notably about the integrity and security of the samples taken, as well as the additional cost that it would involve.

NCWSBA would be very concerned if any changes are made to AWTA's current status as this may result in increased charges for testing services which would be borne by growers. In NCWSBA's view, AWTA's key goal of keeping the fees it charges for wool testing to a minimum and predominantly under the rate of inflation, must be retained and protected.