

## **Wool Selling Systems Review (WSSR): Response following the release of Discussion Paper, and Workshop held on 21 July 2015**

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### Background

The key contribution of the WSSR Discussion Paper is its encouragement of further modernisation of the wool selling system by creation of a Wool Exchange Portal (WEP) intended to take advantage of developments in electronic marketing and improve economic coordination of wool buyers and sellers (producers). The proposal was generally well received at the Workshop organised as part of the Review held in Melbourne on 21 July 2015. Subsidiary concerns of the Discussion Paper and Workshop relate to centralisation of selling, commission buying and post-sale charges.

The principal thrust of this submission is that the concept of WEP is supportable though considerable care is required in its development. In particular, the fears of sections of the wool trade that this represents an extra cost for the wool industry with little benefit need to be treated seriously in the final report.

### Making a Case for WEP

The flexibility and variety of the current wool selling system is emphasised in the Discussion Paper. The present system is not without its advantages, growers are paid and contracts are kept, a not universal feature of agricultural marketing.

An important question for the final report therefore is what are the current impediments affecting the private sector that require intervention to accelerate the introduction of electronic marketing? Stated slightly differently, what is the case for collective action by the wool industry vis-à-vis existing competition in the market for wool selling services between marketing firms in the wool industry or new entrants providing analogous services in other commodity or financial markets? The possibility of 'crowding out' private initiatives needs to be evaluated.

If it proves the case that collective action is thought necessary, then a suitable source of funds for development and implementation of the (unfortunately named) WEP would be levy funds already collected by Australian Wool Innovation (AWI) from woolgrowers. In effect, WEP is being judged an 'innovation' of industry benefit.

Cost and institutional arrangements for the development and introduction of WEP also need to be considered. Cost overruns in IT in both public and private domains are ubiquitous. Crucial to successful development of WEP will be precise definition of its objectives, structure and operating procedures. Following development, the rules of access and basis of charging to meet ongoing operating expenses have to be determined. While WEP might initially operate under the aegis of AWI, in the longer term it should be standalone and a strictly limited operation with no aspirations beyond improvement

of wool selling mechanisms and enhanced price discovery. Potential management and ownership structures should be considered in the final report.

### Minor Issues

Centralisation of selling, commission buying and post-sale charges are minor issues. The wool industry has declined markedly and the number of selling centres could fall to two without much disruption. If, when and how this happens is only of concern to relevant commercial players. Commission buying is another logical consequence of a declining wool market. Commission buyers depend on repeat business and would not survive if they treated their customers unreasonably. Without much doubt, the incidence of the post-sale charge is on woolgrowers. Buyers will account for the charge in calculating their bids. The only possible issue surrounding the PSC is transparency.

### Woolgrower Apathy?

An unfortunate sub text of the Discussion Paper raised on a few occasions was that woolgrower knowledge of wool selling possibilities and/or their interest in such matters was deficient. By and large, farmers are like other people and find out what they need to know to conduct their lives and economic activities as they see fit. Wool selling is a small part of the totality of most farming operations. The case for WEP does not, and should not, depend on alleged grower apathy. The observations of Stigler in a slightly different context are apposite:

There is no "imperfection" in a market possessing incomplete knowledge if it would not be remunerative to acquire (produce) complete knowledge: information costs are the costs of transportation from ignorance to omniscience, and seldom can a trader afford to take the entire trip.

### Two Further Issues

The final report should concentrate on issues to do with competition and institutional arrangements. Too much detail about costs in the wool selling chain reduced the impact of the Issues Paper and Discussion Paper. By definition, cost estimates are arbitrary since so many of the services are jointly supplied. Even if costs could be separated, what use is information on average costs to the circumstances of individual woolgrowers?

An issue worth investigating in detail in the final report is the technical possibilities and procedures for in-shed measurement of wool, whether by AWTA Ltd, individual growers or self-employed specialists providing measurement services. Reliable information on quality is key to generation of price premiums and discounts, and the evolution of marketing channels. Moreover, it is implicit in a proposal like the WEP that there would be a greater role for AWTA Ltd in providing grading information. The entrenched monopoly of AWTA Ltd and its privileges remain of concern to woolgrowers. AWTA's important role of providing technical assessment of wool as part of an electronic marketing system should not be regarded as an opportunity for AWTA to maintain its existing situation as monopoly provider of measurement services.