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Wool Selling Systems Review.

2nd Submission to Review Panel – AWI.

Re: Stakeholder Workshop held on the 21st of July 2015.

We would like to firstly point out that this workshop was held during our midyear recess, an extremely practical time to travel; visiting clients and marketing Australian Wool. We therefore found it an unusual choice of timing and were unable to attend.

While we acknowledge and are encouraged to see an initiative from AWI to review our current wool transactional system, we do feel the Selling Systems Review Panel may have drifted from their initial charter as described to the wool industry during November/December 2014. It was our understanding from Stuart McColloughs' presentation to wool buyers in Melbourne that this was to be a review into the cost of transacting wool between the 1st owner (the grower) and the 2nd owner (the exporter) and to discover any means by which more competition could be introduced into our market.

It's worth observing that, in an attempt to streamline costs, significant funds have clearly been outlaid through this panel review process. It seems questionable as to whether this has been a successful industry investment to date.

It is widely agreed that there are significant costs to industry, ultimately the woolgrower, within the first transactional phase required to begin the export process. Reducing costs at this point would certainly benefit grower's profitability and in turn support their long term commitment to producing wool.

Subsequent to your review we are no more enlightened as to how any industry cost savings have been derived throughout this phase. The subject of transactional and logistical costs within the current Australian Wool Industry structure seem to have been ignored or, at the very most, brushed over.

The following key questions relate to the fact that we are all somehow seeking long term financial benefit to the Australian Wool Industry via structural improvements.

The suggestion of "in shed testing" surely further fragments infrastructure, requires greater resource at added cost. It also poses questions of sample security, testing accuracy and retention of lot identity.

The proposed Wool Exchange Portal (WEP) is not in itself an offensively proposal however there are reasonable questions to be raised. How does a WEP aid the transactional process, build competition, increase value and/or reduce the current cost structure? Who will build and fund the operation of the WEP when its' worth and expense to industry or individuals is commercially appraised?

It's also important to remember that many aspects of the proposed WEP already exist, including; online auctions, derivative markets, forward contracts, direct mill contracts and long term contracts. Growers have access to any of these selling methods today via their brokers and/or direct to exporters. Today's brokers and exporters have an open lines of communication via which they should and do discover selling opportunities suiting their clients' wool.

When considering all above, for some reason the open cry auction remains the proven best method to sell wool. Today it is complimented by many effective alternatives providing an opportunity to hedge or gain greater access to

downstream markets. These are tried and tested selling methods, others have been tested and only cease to exist as they have failed to be proven more successful than those remaining.

It seems that there is an apparent view from the panel that wool industry lacks maturity as to how our specialist fibre is transacted. In fact the wool industry is perhaps one of our most mature exchanges today, our industry pioneered the development of a computerised clearing house arguably prior to any other exchange. The level of IT used around our exchange is well advanced however an electronic selling platform proving to be a more efficient than open cry auction has simply not been developed even after several attempts.

In this respect it is important that we don't confuse wool with commodity fibres, it is a boutique, specialist fibre representing global consumption levels of less than 1.5% of textile fibres and 0.5% of global apparel fibres. Our selling system from testing, sample inspection to auction compliments our unique fibre well.

To some extent we feel the panels' focus has become too central to the WEP proposal? Are there no other areas in need of reform? The vast duplication of infrastructure and resource for our now 330mill kg wool clip seems to have been overlooked. Are we still geared and equipped to handle an 800mill to 1,000mill kg wool clip? Are we forgetting that there appears to be a strong case for centralisation? Have we forgotten to look closely into the economic feasibility of central and large scale handling, testing, warehousing and marketing structures? Is there any way to escape from the expensive, satellite and fragmented operations all functioning independently to the ultimate cost of the industry and specifically, an enormous cost to our wool growers?

Beyond cost savings, adding value to wool and specifically Australian Wool is a priority we know we all share. It's our understanding that this is in fact the overall charter of AWI. To that end it appears perhaps the review panel may not be in line with AWI's role in Marketing and Research and Development projects, ultimately designed to add value to the Australian Wool clip. We are unclear as to how the current findings of the Review Panel achieve this ultimate goal?

As an exporter our daily task is all about price discovery, we search the globe for the best wool prices we can access at any one time. Exporters market and promote our product with positivity and enthusiasm. Collectively, we aspire to initiate and maintain global price growth for wool. It is difficult to identify how a WEP may add value, increase competition or raise consumer demand for wool, if it does enable this then we encourage it however we personally don't see its investment value or relevance to the WSSR or to AWI.

Finally, any success of AWI's focus towards building consumer demand for wool to levels beyond today's 1.5% market share of global textile fibres and just 0.5% of global apparel fibre consumption will ultimately drive price. Combine this with sensible, structural reform to deliver transactional and logistical cost savings, we will certainly see an ultimate benefit to our industry.

Yours Sincerely,

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