

WOOL SELLING SYSTEMS REVIEW (WSSR)

SUPPLEMENTARY SUBMISSION BY:

A.C.C. FARRAN AND J.C. FARRAN OF YIDDINGA HOLDINGS PTY LTD at 'Yiddinga', via Edenhope, Victoria

This supplementary Submission is made following the Workshop held in Melbourne on Tuesday, 21st July 2015, and in the light of discussion at that Workshop.

We see a clear trend line moving inexorably over the next decade or so towards an integrated selling system essentially electronic (digital) in nature, which incorporates as many options as wool buyers and wool sellers may require having regard to the complexities of raw wool lines offered.

Many of the issues of concern discussed at the Workshop will fade in significance as more sophisticated selling systems evolve and emerge from existing platforms. There is no suggestion from these trends that one size can or should fit all. But there will be common elements.

To illustrate. At the final session of the Workshop the Panel suggested that the discussion concentrate on three areas: Centralisation, Commission Buying, and Modernisation. All three raised issues of concern to one or other, or all, participants in the selling system as it now stands. That system, the 'open cry' auction system, has in the view of many stood the test of time for over a century and still handles some 90% of all wool traded. However in the view of many others it is beginning to look frayed and antiquated by modern standards in the face of recent technological changes, particularly in the now rapidly advancing digital era.

With regard to 'Centralisation', it is evident from recent reductions in the number of selling centres that the physical demands and costs of multiple locations make them difficult to sustain. We are now down to three - Sydney, Melbourne and Fremantle. While there is no agreement as yet on a centralised location - jobs and dislocation being the main concerns - there is agreement on the need to rationalise in the interests of cost and efficiency. The concerns now expressed about that will dissipate completely once there is a selling system in place where physical location becomes irrelevant.

The concern of one or two participants over centralisation being anti-competitive was in our view a furphy. What is anti-competitive is not the selling structure per se but how some might seek to exploit or abuse it for their own anti-competitive purposes.

With regard to Commission Buying, buyers are already having difficulty providing and affording qualified persons to be physically in place at every sale. Once physical location becomes irrelevant this should not be an issue as buyers will then be able to trade from anywhere in the globe on their own account through the integrated system. Conflicts of interest of this kind will be a thing of the past.

With regard to Modernisation, the Panel's proposal for a Wool Exchange Portal (WEP) would be the first major step in the transition to a centralised, regulated, electronic selling platform which can evolve and develop over time to provide convenience, transparency, efficiency and security to the trade in all its aspects. It

may seem futuristic at this stage but given the speed at which digitalised computer systems have developed in just a few years, developments a decade from now will seem like several life times in comparison with the rate of previous developments in the industry.

When that time comes the presence of an auctioneer presiding on a podium in a dedicated sale room will look truly archaic. The proposed selling platform would accommodate all sectors of the trade and all products whether the wools be fine, broad, or whatever. While sale by description may suit most buyers there would be, of necessity for certain specialist wools, a facility for handling sale by sample, with the samples being held at prescribed locations to meet buyers' requirements. In the case of sale by description, should the wools described fall short of expectations, there must of course be a process for resolving such issues, and in dealing with cases of possible fraud.

With regard to the testing of wools, in bale or otherwise, a broadening of options apart from AWTA may be in contention. Again this aspect will be influenced by technical developments and commercial forces. The key here is integrity, reliability and transparency.

The benefits of such a system as it evolves are real time Information, transparency, efficiency of selling, security of payment, and the follow through with respect to storage and delivery, with all options available to the user. A platform of the kind envisaged will in time achieve all of this and make the existing selling infra-structure impractical and irrelevant.

Meanwhile no one need be disadvantaged as these structures develop. As they evolve each will find their place in the system. Woolgrowers will still need the advice of brokers on selling, handling and storage; brokers will still need to liaise and work with buyers; and buyers will operate in a safeguarded environment with regard to delivery and shipment. Reliable information will cover all aspects of their needs, and financial security for all will be assured as, in this respect, the system will be safeguarded and underpinned by legislation, as is the case under similar systems with the Australian Stock Exchange (ASX) - which has successfully undergone a similar transition.

The information and data available from the Portal, even in its early stages, will facilitate the development of and provide depth for the Futures market, yet still in its infancy.

The ASX offers a model for how the selling platform might be established. Initially it is proposed that the informational portal should be developed and fleshed out with funds from the major industry bodies, as all have a long-term interest in the viability of any wool selling system. The digital imperative is such that any holding back will strand non-participants. As the feasibility and commerciality of the electronic digital platform becomes evident, the project could, with effective promotion, go to the broader market and be financed via the Stock Exchange, or by a consortium of interested investors who may wish to take it on. Hopefully the wool trade, in its various manifestations, will seek to be integrated into that process one way or another also.

Prepared by:
Andrew Farran and Jim Farran, 'Yiddinga', via Edenhope, Victoria
August 2015
(03) 55 851 888
(m) 0429 146 580