

WOOL SELLING SYSTEMS REVIEW (WSSR)

REVIEW PANEL ISSUES PAPER

WOOL SELLING SYSTEMS REVIEW

THE ISSUES PAPER

The Review Panel of the Wool Selling Systems Review (WSSR) has released this Issues Paper to assist individuals and organisations prepare submissions to the WSSR. It contains and outlines:

- the scope of the WSSR
- matters about which the Review Panel is seeking comment and information
- information about how you can get involved in the WSSR.

Participants should not feel that they are restricted to comment only on matters raised in the Issues Paper. The Review Panel wishes to receive information and comment on issues which participants consider relevant to the WSSR key objectives.

KEY DATES

Release of Issues Paper	10 December 2014
Due date for initial submissions	27 February 2015
Release of Panel Discussion Paper	End of April 2015
2-Day Stakeholder Workshop	End of May 2015
Due date for final submissions	End of June 2015
Final report to AWI	Second half of 2015

SUBMISSIONS

Submissions can be made by:

Email	wssr@wool.com
Fax	02 8295 4143
Post	Wool Selling Systems Review Australian Wool Innovation GPO Box 4177 Sydney NSW 2001

CONTACT

For administrative matters and Inquiry content see the Australian Wool Innovation website at

www.wool.com/WSSR

or

John Roberts Executive Officer and Secretariat

Phone 0400 107 950

Email johngarethroberts@gmail.com

THE AUSTRALIAN WOOL SELLING SYSTEMS REVIEW (WSSR)

The Wool Selling Systems Review (WSSR) has been commissioned by Australian Wool Innovation Limited (AWI). Established in 2001, AWI is a not-for-profit company owned by more than 25,000 Australian wool levy payers who have registered as AWI shareholders.

The company invests in R&D, marketing and promotion to enhance the profitability, international competitiveness and sustainability of the Australian wool industry and to increase the demand and market access for Australian wool.

The key objectives of the WSSR are to improve the returns that woolgrowers receive for their wool through:

- a. evaluating whether greater efficiencies and cost savings within the exchange of ownership between the seller and the first buyer are attainable
- b. understanding the potential for increased competitive tension throughout the wool selling process and how it can be achieved, and
- c. determining whether there is sufficient transparency within the exchange of ownership to allow woolgrowers to make the most informed commercial decisions about their wool growing enterprise.

BACKGROUND

The past two decades has seen the Australian wool clip continuously shrink to the point where it is now less than half the size it was in 1989 before the abolition of the reserve price scheme. Whilst volumes of wool appear to have stabilised, there is ongoing pressure to compare wool production to competing agricultural pursuits (eg. sheepmeat, beef cattle, cropping and dairy) that may be seen as more viable.

AWI has selected a Review Panel that is to undertake a comprehensive, independent and public review assessing the state of all wool selling systems currently available to Australian wool producers. In addition the Panel will commission and manage 3rd party research in identified areas of specific focus. It is envisaged that the review should consider and put forward any recommendations as to the most suitable and viable selling system(s) or any alterations to improve current selling methods that would deliver material benefits to Australian woolgrowers.

The focus of the review is to determine if the current exchange of ownership between sellers and buyers provides the best possible competition and subsequent financial returns to the primary wool producers. It will provide recommendations and proposed implementation should areas of improvement or opportunity come to light from the in depth analysis undertaken in the review.

The Review Panel acknowledges that the wool levy is a component of the total costs born by woolgrowers in the selling process. Given that woolgrowers are afforded the opportunity to review this particular cost every three years via the Wool-Poll, it is not intended to include the wool levy as part of this review.

ROLE AND PURPOSE

The role of the Australian Wool Selling Systems Review (WSSR) is to:

- investigate thoroughly and without prejudice the inner workings of the exchange of ownership of greasy wool between the Australian primary wool producer (or woolgrower) and the wool buyer (in most current cases the exporter or early stage processor)
- determine whether selling mechanisms, service providers, and procedures that exist within the current route to market are helping to provide the best returns to Australian wool producers, and
- provide an impartial and substantiated assessment of the current selling systems and make recommendations for enhanced financial returns to Australian wool producers and improved sustainability for the industry.

The WSSR Panel plans to comparatively analyse selling systems used in other wool producing countries, through the wool pipeline, and in other commodity industries. In doing so it is expected that the study will review and consider:

The short and long term volatility in the greasy wool price

- Describe the level of both short term and long term price volatility for greasy wool and identify the relative contribution of different factors to the observed price volatility.
- Assess the adequacy of different risk management strategies available to greasy wool sellers and buyers.
- Identify any alternative strategies (private and industry) that would enable the more cost effective management of price risk by wool sellers and buyers.

The state of competition in the market for Australian greasy wool

- Describe the level of competition between sellers, intermediaries and buyers of greasy wool.
- Assess the extent, if any, of price distortion created by a lack of competitive pressure in the selling and buying of greasy wool in both the short term and long term.
- Identify any strategy that could be implemented by either private parties or industry bodies to increase competitive pressure in the selling and buying of wool through time and/or at different locations.
- Identify any other relevant technical, institutional or organisational impediments constraining competition and options, if warranted, to address their removal.

The efficiency of the current greasy wool selling system in terms of minimising transaction costs associated with the transfer of greasy wool from sellers to buyers

- Identify transaction costs associated with the transfer of greasy wool from sellers to buyers.
- Assess the extent of any market impediments to the least cost transfer of greasy wool between sellers and buyers.
- Identify any market reforms to the selling and buying of greasy wool that would lead to a reduction in associated transfer costs.
- Identify any organisational impediments that exist.

REVIEW AUDIENCE AND STAKEHOLDERS

The WSSR has been commissioned by Australian Wool Innovation (AWI) on behalf of Australian woolgrowers.

AWI is accountable to its shareholders (woolgrowers) and the Federal Government.

To this end, while the WSSR will initially be provided to AWI, the findings and recommendations shall be made available to Government, the industry at large as well as AWI shareholders.

REVIEW TERM

The term of the WSSR is from Tuesday 14th of October 2014 and will continue for a 12 month period until the delivery of the report in the second half of 2015.

REVIEW PANEL MEMBERSHIP

The Wool Selling Systems Review Panel will comprise:

REVIEW PANEL

James Lillie	Fox & Lille Pty Ltd	Managing Director
Graeme Samuel AC	Monash University	Monash Business School
Bernard Wonder PSM	Consultant	Director
William Wilson	Aust. Investor Relation Services	Director

WOOLGROWER EXPERT RESOURCES

Colin Bell	Bell Financial Group	Executive Chairman
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EXECUTIVE OFFICER/SECRETARIAT

John Roberts	Eubindal Pty Ltd	Director
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RESPONSIBILITIES OF THE REVIEW PANEL

The Review Panel is accountable for:

- fostering collaboration within the industry to allow the most informed analysis to be performed.
- addressing obstacles to the successful delivery of the review and related proposals.
- maintaining at all times a focus on the key objectives, scope and outcomes of the review.
- monitoring factors that are outside the Review Panel's control but critical to its success.

The Review Panel commits to:

- make timely decisions and take actions as to not hold up the review project.
- look to engage industry participants throughout the review term to ensure it remains a highly consultative process with strong input from all sectors.
- notify key stakeholders, as soon as practical, if any matter arises, which may be deemed to affect the progress of the review.
- provide industry with progress updates as soon as practical.
- ensure that the review remains an "arms length" process that upholds an independent and impartial stance at all times.

PROCESS

The Review Panel will undertake extensive consultation including receiving submissions, releasing a discussion paper, conducting a stakeholder workshop and commissioning expert advice prior to issuing a final report in the second half of 2015.

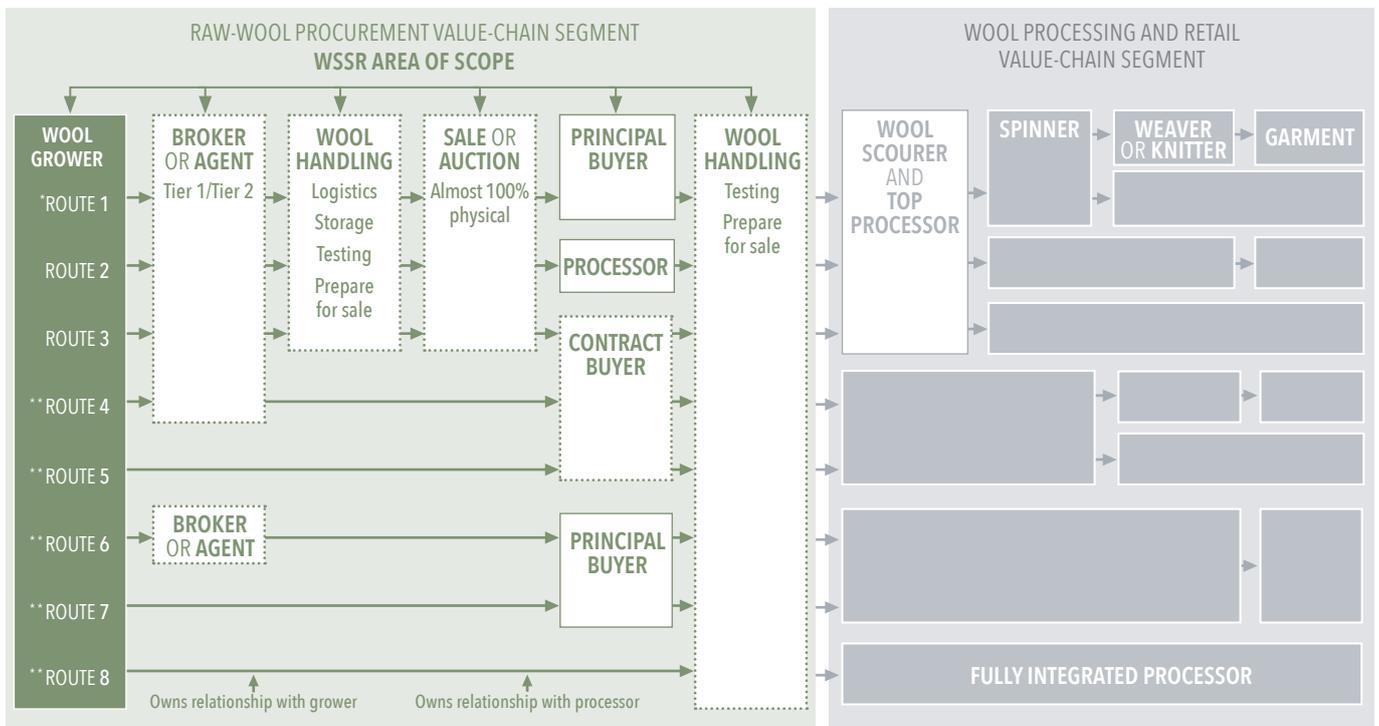
THE ISSUES PAPER

This Issues Paper is intended to assist people preparing a submission to the WSSR Panel. It provides some general background information and raises questions that can assist in preparing a submission. The Issues Paper should not be taken as representing the views of the Panel on any of the issues raised. The scope of the review, the issues addressed and the guiding questions in this paper do not cover all of the possible issues that may affect the areas under review. In preparing a submission, participants are therefore encouraged to comment on any or all issues they believe are relevant to the inquiry.

SCOPE OF THE REVIEW

The wool supply chain extends from wool on the sheep’s back on Australian farms through to finished garments on shelves in retail outlets globally. The scope of the WSSR extends from wool production on farm to the ships rail at the Australian port of export. The review does not look beyond the export process and does not look to investigate matters of processing, marketing or demand creation in off shore markets. The primary focus is to review the exchange of ownership between the woolgrower and the principal buyer, which, in most cases is the wool exporter or wool processor, but conceivably could be buyers later in the chain, including integrated processors and retailers, choosing to directly purchase their wool requirements.

TABLE 1. WOOL SUPPLY CHAIN FROM AUSTRALIAN GROWERS TO OVERSEAS PROCESSOR



***Route 1** The vast majority of Australian wool flows from the grower to the market via the broker/auction route to market (as per Route 1 above) and accounts for more than 90% of wool sold.

****Route 4-8** (as per above) represent alternatives to the traditional auction route to market including private buying, mill direct etc.

The scope of the WSSR sits within the “raw-wool procurement value chain segment” (see above). There are a number of processes and costs that exist within this segment (see below) which will be the subject of this issues paper.

TABLE 2. WOOL SUPPLY CHAIN FROM AUSTRALIAN GROWERS TO FIRST BUYER (EXPORTER OR PROCESSOR)

RAW-WOOL PROCUREMENT VALUE-CHAIN SEGMENT WSSR AREA OF SCOPE														
PHASE 1 WOOL PREPARATION			PHASE 2 DELIVERY AND TESTING		PHASE 3 WOOL APPRAISAL			PHASE 4 PRICE REALISATION	PHASE 5 INVOICING AND PAYMENT		PHASE 6 EXPORT PROCESS			
STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10	STEP 11	STEP 12	STEP 13	STEP 14	
WOOL SELLING PROCESS	Broker canvassing call	Shearing and wool preparation	Broker shearing visit	Delivery to broker store	Core and grab sample – AWTA testing	Wool presented on show floor	Wool inspected by AWEX and broker	Wool inspected by exporter	Wool auctioned	Exporter pays for wool within 7 days	Broker pays grower within 7 days	Wool dumped/ containerised	Wool railed to wharf	Wool shipped
RELEVANT COSTS	Travel cost	Shearing and classing	Travel cost	Wool transport costs	Wool sampling and storage fees	Show floor rental	Show floor staff and wool valuer costs	Wool buyer costs	AWEX & industry costs, broker man hours, Broker Service Charge, Post Sale Charge	7 days from fall of hammer	7 days prompt date	Per bale fee	Per bale fee	Exporters cost

This Issues Paper provides background and raises issues that relate to each of the wool selling phases highlighted in the above table. If wool is sold by traditional open cry auction (via a wool selling broker) all of the above-mentioned selling steps (and potentially others) are applied. Given that more than 90% of the Australian wool clip is sold via this avenue the Issues Paper will provide background and raise issues that relate primarily to this selling method. That said, stakeholders may see the potential for alternative options other than the auction system to sell wool that meet buyer and/or seller interests. For example, direct transactions between woolgrowers and retailers with access to processing facilities may be a sales method worthy of further consideration. If so, participants should feel free to raise issues they see relevant in this regard to foster the development of this or alternative marketing pathways.

The Review Panel acknowledges that the scope phases highlighted above may not encompass every process, relevant cost and marketing option within the area of review. Participants are therefore encouraged to apply their applicable industry experience in their submissions to develop the above tables into the most accurate reflection possible of the early stage wool supply chain.

PHASE 1 WOOL PREPARATION

PHASE 1 WOOL PREPARATION		
STEP 1	STEP 2	STEP 3
Broker canvassing call	Shearing and wool preparation	Broker shearing visit
Travel cost	Shearing and classing	Travel cost

Wool is generally grown over a 10 to 12 month period depending on seasonal conditions. The bulk of Australian wool is shorn in the spring months although in the last decade a growing number of woolgrowers are choosing to shear in autumn.

Usually the regional wool selling broker (or district Wool Manager (DWM)) will pay a woolgrower a farm visit at least one month prior to shearing to discuss seasonal conditions and the current wool market. In addition to this the broker may provide selling and risk management strategies as well as discuss marketing alternatives and selling charges. The focus of the broker’s visit is to either service an existing relationship and ensure the woolgrower will utilise their services again, or to canvass a woolgrower who does not currently sell wool via that broker in an attempt to win new business.

At the time of shearing a woolgrower will employ the services of a shearing team, including a classer (unless the grower is an -“owner classer”-), at least one shed hand and a presser. The size of the team and the amount of shearers will vary depending on the size of the woolgrower’s flock.

Bales need to be marked and stencilled for identification purposes before leaving the farm to ensure they are lotted in the correct manner before sale. Each different line of wool will constitute a “lot” which is a grouping of wool with similar characteristics (fleece lines, pieces lines etc.). The average lot size in Australia is approximately 5 bales. Each new lot will incur specific charges including sampling and testing by the Australian Wool Testing Authority (AWTA), industry levies and selling charges from the broker.

It is often the case that the DWM also will visit the woolgrower at the time of shearing. The DWM can provide feedback and direction with respect to classing depending on his/her experience and qualifications

as well as an update on market information and selling recommendations. In many cases the woolgrower has already agreed to sell their wool with their chosen broker. In the event that the grower has not chosen a wool selling broker the shearing visit can also be regarded as a canvassing call for new business.

During the shearing and classing process the woolgrower and or classer will fill out the relevant paperwork including classers report, the National Wool Declaration (NWD) and Dark and Medullated Fibre Risk Declaration (DMFR) where required.

The Review Panel is seeking feedback on the farm visitation process conducted by the wool broker and wool preparation and classing practices.

- Are the direct costs incurred by the wool broker in conducting these visits considered to be part of the broker service charge (BSC) incurred by woolgrowers post auction in the account sale? And, if so is there scope for a “user pays” component should the woolgrower not require this level of service?
- During the farm visitations is the wool broker able to provide the woolgrowers and/or classer with recommendations on how best to class and prepare the wool to meet with current customer requirements? Or is the classing advice designed to meet with the AWEX “Code of Practice” for classers?
- To what extent are the wool brokers providing woolgrowers with information they already have? Do wool brokers have an expert understanding of market developments and implications for sheep husbandry and wool production?
- Is there scope for the wool broker to provide additional services during the farm visitation?
- In the last decade China has become the largest buyer of Australian wool taking nearly 80% of the total wool clip. This dominance has been accompanied by a more commodity based approach to wool usage as a fibre. Does this evolution present opportunities to create greater efficiencies at the point of shed preparation (for example larger lot sizes) and should the classing “Code of Practice” be reviewed to better suit this evolving processing consumer base?

PHASE 2 DELIVERY AND TESTING

PHASE 2 DELIVERY AND TESTING	
STEP 4	STEP 5
Delivery to broker store	Core and grab sample - AWTA testing
Wool transport costs	Wool sampling and storage fees

At the completion of shearing, bales are pressed and marked (or branded). The wool is then trucked to the agreed broker receival warehouse point. This can vary from the nearest regional location with a delivery point, to a major wool auction selling centre (Sydney, Melbourne or Fremantle) depending on which broker the farmer has chosen to sell through. Brokers can either charge the farmer for the local trucking (also known as cartage) and include this in the account sale invoice after the wool is sold, or the farmer can arrange their own cartage at their own expense.

Once in store the wool is subject to insurance costs and storage and handling costs that are invoiced by the broker to the woolgrower in the account sale invoice after the wool is sold.

The bales are core and grab sampled in store under the supervision of an AWTA operator to ensure the sanctity of the sample and preserve the identity of the wool from which it was drawn. The grab sample is sent to the tufting machine to draw staple samples that are sent to AWTA for testing of length and strength. The remainder of the grab sample is retained by the broker for display on the wool selling show-floor in one of the three major wool auction selling centres (Sydney, Melbourne or Fremantle). The core sample is also sent to the AWTA laboratory for micron and yield as well as vegetable matter (VM). Test results are then transmitted back to the woolgrower (via their chosen wool broker) and the data is collated and inputted in the broker’s wool selling catalogue (assuming the woolgrower is wishing to sell straight away).

The Review Panel is seeking input on the process of local cartage, sampling and testing.

- For a woolgrower to receive a fully certified AWTA test result on their wool they must first have delivered their product to a wool broker’s store that has AWTA certified core and grab sampling facilities. Would there be any commercial benefits to the woolgrower in knowing their final test results prior to delivering their wool to a broker’s store?

- Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?
- After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?
- Can AWTA testing be performed on-farm or at another regional location of the woolgrower's choice if such alternatives are preferred?
- AWTA currently tests for a multitude of measurements including micron, vegetable matter (VM), yield, length, strength, CVD, CVH, position of break, wool base etc. Are there additional characteristics AWTA should test for that would enhance the objective description process and possibly open up alternative processes for the sale of wool?

PHASE 3 WOOL APPRAISAL

PHASE 3 WOOL APPRAISAL		
STEP 6	STEP 7	STEP 8
Wool presented on show floor	Wool inspected by AWEX and broker	Wool inspected by exporter
Show floor rental	Show floor staff and wool valuer costs	Wool buyer costs

Assuming a woolgrower chooses to take their wool directly to auction after shearing, the standard turnaround is approximately 3 to 4 weeks to get the wool from farm gate to auction show-floor. The woolgrower's wool bales generally remain in the original broker warehouse receipt point and only the indicative grab samples of each selling lot are required for display to allow the lots to be appraised and subsequently sold at auction in one of the three wool selling centres.

The wool-selling broker will lease an area of show floor space on which to display the woolgrower's lots in the form of a box sample. The broker will also prepare a sales catalogue (hard copy and/or electronic) which details the complete information about the woolgrower's wool lots including bales, micron, yield, VM, length and strength, position of break etc.

The wool is then inspected on the show floor prior to sale by up to three groups - a) the wool-selling broker, b) Australian Wool Exchange (AWEX) and c) the wool exporter or wool processor. Each group appraises the wool for a different purpose.

- The wool selling broker will prepare the box samples for sale and inspect the wool at the same time to ensure the wool described in the catalogue is consistent with the physical box sample. In most cases the wool broker will have an AWEX accredited appraiser who will apply a subjective industry standard type valuation, known as an AWEX type, to the lot.
- AWEX also inspects each box sample. They subjectively categorise each lot of wool by placing an AWEX type on each lot that describes the type of wool (fleece, pieces, bellies etc.), the style of the wool and makes mention of any abnormalities. The focus is to have a consistent typing system that allows them to feed auction prices into their market reporting system, which is one of the key functions of AWEX. Given that the wool broker's appraiser has already inspected each lot and applied an AWEX type, the AWEX appraiser will often be auditing the wool-broker's valuation rather than undertaking a full valuation of each lot.

The other area of focus for the AWEX wool appraiser is to ensure the wool presented conforms to the standard industry code of practice. The appraiser checks that the wool has been classed and prepared in accordance with the AWEX industry standards. Any lot that is deemed to have not met industry standards can be pulled from sale or branded a "-non conforming lot-" which in most cases will attract a discount at auction.

- The wool buyer will appraise each lot to assess its suitability to the requirements of their overseas customer. In the case of a processor inspecting the wool they will appraise the wool to determine how it will perform throughout the scouring, topmaking and carbonising process. These findings will help determine how much each exporter or processor is prepared to pay for the wool.

The Review Panel is seeking input on the item of wool appraisal and valuation.

- Can any efficiencies or cost savings be achieved within the appraisal stage of the wool supply chain through some consolidation of the three forms of inspection? For example, why not just have the AWTA apply an AWEX type rather than have the wool broker and AWEX both complete this task?
- Can a combination of AWTA test results and a singular, industry accepted valuation standard provide an online platform for wool to be appraised and valued? If so what efficiencies and costs savings (if any) can be achieved?
- To what extent is physical inspection a necessary element of appraisal and valuation? Would the woolgrower be disadvantaged by relying solely on appraisal and not displaying the physical wool sample?
- Should the industry be seeking to achieve a wool selling system based entirely on sale by description? Are multiple systems needed to address diverse buyer needs?
- Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs?
- Does the information provided on the showfloor meet buyer needs? What, if any, additional information would be useful? What information could be dispensed with?

PHASE 4 PRICE REALISATION

PHASE 4 PRICE REALISATION	Wool auctions are generally held each week for at least 40 weeks of the year. There are selling recesses over Christmas, Easter and the 3-week “-off season-” that generally falls in July. Auctions are held concurrently each week in the three major selling centres of Sydney, Melbourne and Fremantle and generally run over a two day period of Wednesday and Thursday.
STEP 9	Each wool selling broker will hold their own auction in the relevant selling centre and will arrange their own auctioneering staff. There are two auction rooms in each selling centre. “-Room 1-” is generally the fleece wool saleroom and “-Room 2-” is generally where pieces, bellies, crossbreds and oddments are sold.
Wool auctioned	Prior to the commencement of the wool auction the wool exporter’s or wool processor’s buyer will have prepared their catalogue which contains their wool appraisal, comments and valuation and their purchase price “limit” to bid up to. There are more than 20 registered exporters with the Australian Council of Wool Exporters and Processors (ACWEP) and a lesser number of other non-members all of whom can participate in the auction room.
AWEX and industry costs, broker man hours, Broker Service Charge (BSC), Post Sale Charge (PSC)	

Whilst the AWEX auction buying list shows that 59 companies bought wool at auction in 2013/14 it is important to note there is not the same amount of bidders present in the auction room. A growing number of exporters have chosen to use a commission buyer to value and bid for them and in some cases that buyer may hold limits and bid on behalf of multiple registered exporters or processors.

The wool brokers auctioneer will put up each lot for sale in the auction room and allow the various buyers to bid in an open cry system. The bidding process takes place with the auctioneer eventually selling the lot to the highest bidder. The sale is signified by the fall of the auctioneer’s hammer. Normally an auctioneer will sell approximately 280 to 300 lots per hour. AWEX operatives attend the wool auction and record all sale prices in order to generate their daily market report.

The Review Panel is seeking information and evidence on the effectiveness of the current open cry wool auction system as a mechanism for competitive and cost effective price realisation, in particular:

- What other selling alternatives exist for woolgrowers in the market place today and how do the selling costs to the woolgrower compare to the traditional auction method? What other methods are worthy of investigation?
- Do or could other selling alternatives generate a comparable or greater level of competitive tension at the point of price realisation relative to traditional auction?

- If the auction system delivers the highest level of competition for growers' wool are there more cost and time effective methods that would ultimately benefit the woolgrower (for example: online selling) and would these savings be passed down to the woolgrower?
- The present auction system is dominated by exporters purchasing wool on behalf of their clients. Is there further potential to shorten the supply chain and involve downstream interests earlier in the ownership of wool with a view to removing or reducing costs?
- The Panel understands that due to a reduction in weekly auction volumes a number of exporters no longer employ a full time wool buyer in each wool selling centre of Australia. This has resulted in a number of commission buyers holding multiple buying limits from a number of exporters. Against this background, is it well known whom a commission buyer is acting for in respect of individual purchases? Do commission buyers confront any conflicts of interest in their purchasing decisions when buying on behalf of clients with similar interests? What effect (if any) do such issues introduce with respect to competition for a woolgrower's wool? Is there a need to cap the number of clients one commission buyer can buy for?
- Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?
- Are auction results communicated in an efficient and timely manner to market participants and thereby enhance the dynamics of the price discovery process? Why is it necessary for AWEX staff to attend auctions to record information for their market reports? Couldn't this information be automatically generated at lower cost?
- Are the auctions basically the same in each of the three major selling centres, or do they differ in some respects? Are there transparent rules governing the conduct of auctions? Do auctions in the different centres generally realise similar outcomes for the sale of specific wool types?
- Are there barriers to entry or other impediments impacting participation at Australian wool auctions? Could those barriers or impediments be reduced by adopting alternative processes? What are the key requirements and/or costs applied in order to participate?

PHASE 5 INVOICING AND PAYMENT

PHASE 5 INVOICING AND PAYMENT		
STEP 10	STEP 11	
Exporter pays for wool within 7 days	Broker pays grower within 7 days	The terms and conditions of the wool auction system state that following the fall of hammer in the auction room the buyer (exporter or processor) generally agrees to pay for the grower's wool seven days from the Friday of the week of sale. This payment is made to the woolgrower's wool broker. The wool broker generally agrees to pay the woolgrower 7 days after receiving payment from the buyer.
7 days from fall of hammer	7 days prompt date	At the completion of the wool auction the broker will invoice the buyer for the lots they purchased from that broker's selling catalogue. In addition to the actual cost of the wool the buyer is invoiced the "Post Sale Charge" (PSC) from the broker in the post sale invoice (appendix 1.2). The PSC cost varies between brokers and will generally range from \$20 to \$40 per bale.

When the wool broker pays the woolgrower they issue an "account sale" (appendix 1.1) which incorporates the receivable for the value of the wool less a number of service costs including the "broker service charge" (BSC), which is also known as "brokerage", testing charges, insurance, industry charges (including the 2% wool levy), storage, local cartage (where applicable), lotting fees etc.

The Review Panel is seeking information on the post sale invoicing process and the various charges.

- In what proportions is the Post Sale Charge (PSC) borne by the various participants in the supply chain? For example, is the cost incurred by the exporter reflected in the price paid by the overseas customer? Or is it taken out of the initial price they bid at auction for the woolgrower's wool?
- What services are provided by the wool broker to the woolgrower that are covered by the Broker Service Charge (BSC)?

- What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?
- Are all costs incurred by the woolgrower sufficiently transparent (ie. are they generally known and publicised prior to the sale of wool?)
- Is there potential for a more detailed breakdown of the individual selling and buying costs of wool to be made available to woolgrowers to facilitate more informed commercial decisions regarding the sale of their wool? Is there a need for an industry standard invoice or account sale format?
- Given a move to a more transparent invoicing standard, would there be a demand for the broad introduction of a tiered wool broker service/price offering, such as: Premium, Standard and Basic?
- Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period? (ie. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?)

PHASE 6 EXPORT PROCESS

PHASE 6 EXPORT PROCESS		
STEP 12	STEP 13	STEP 14
Wool dumped/ containerised	Wool railed to wharf	Wool shipped
Per bale fee	Per bale fee	Exporters cost

Once an exporter or processor has completed the buying of a contracted order and paid for the wool they can commence the export process, which is a key part of their service offering.

Firstly, the exporter must order out the wool from the broker's store to the wool dump where it is containerised. Exporters can choose to have the wool dumped (or pressed) into high-density bales, which allows for more wool to be loaded within a container. There is a fee per bale for this service from the wool dump and the exporter must make a commercial decision whether to pay for the dumping or opt for the additional container space.

The exporter or processor will normally have pre booked shipping space on a vessel and will instruct the wool dump to transport the packed container to the chosen wharf in order to meet the nominated vessel. In most cases exporters or processors have pre negotiated freight rates to global destinations with shipping companies. These rates are usually reviewed on a 6 or 12 monthly basis.

The exporter's shipping team will have generated all the necessary export documentation including the bill of lading, health certificate, certificate of origin, AWTA testing certification etc. In the case of a letter of credit (LC) before shipment payment term (which is most common in trade with China) the documentation will need to comply exactly with the LC.

The Review Panel is seeking information on the export process and the scope to reduce costs and create further logistical efficiency. The Panel has a particular interest in:

- whether there is scope for the exporter and processor sector of the industry to leverage its combined scale to negotiate more competitive freight rates from shipping companies and freight forwarders.
- whether the exporter sector of the industry can leverage its combined scale to negotiate more competitive rates from wool dumps and whether there is scope for an industry owned and/or managed facility.
- the exporter's ability to achieve consistent and competitive funding lines from banking institutions, particularly considering a high percentage of wool is shipped prior to receiving payment for the goods.

PHASE GENERAL

The Review Panel is seeking information on the following areas that do not fall within the 6 phases of the selling process referenced in this paper but relate directly to the overall scope of the Review.

Wool industry institutions

- AWEX undertakes a variety of tasks, including market reporting and ensuring accuracy in wool description, that help the wool market to perform efficiently. In a similar vein, AWTA supports market efficiency by providing critical data describing the range of wool characteristics. Would there be advantage in combining the activities of AWEX and AWTA?
- Is there an opportunity to increase competition in wool testing services currently provided by AWTA? Should woolgrowers be able to nominate what tests they would like performed on their product and pay accordingly for the services provided?
- Are there other changes to the institutions serving the wool industry that would reduce costs or enhance returns associated with the first exchange of wool ownership?
- Talman Solutions provide the majority of wool exporters and a large number of wool brokers with inventory management IT systems. Do the systems provided by Talman Solutions generally meet the requirements of their customers? Is there potential for greater competition for this service offering within the wool industry?

AWEX market reporting

- Does the AWEX market report meet the needs of both the buying and selling sides of the market and if it is deficient in any way, how should it be amended?
- Is there sufficient access to AWEX market information?
- What influence (if any) does the AWEX market report have on purchasing decisions made by overseas wool processors when negotiating with Australian wool exporters?

Centralisation

- What are the benefits and costs of any move to centralise the sale of wool?
- Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool?
- What impact would centralisation of wool selling centres (Sydney, Melbourne and Fremantle) have in relation to cost reduction and competitive tension for woolgrower's wool?
- What financial impact would centralisation of wool storage centres have on the exchange of ownership process?
- Did previous studies on centralisation identify tangible financial benefits within the exchange of ownership process? And if so what were the barriers to progressing with centralisation?

Digitalisation

- Can Australian wool be appraised without physically handling a wool box sample? And if so would that appraisal be accurate enough to allow an exporter or processor to deliver wool in accordance with a specific mill or customer's requirement?
- Can price realisation between the seller and the buyer be achieved via an online platform whilst still maintaining a comparable or improved level of competition for woolgrower's wool?
- What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it?
- Why have previous attempts at the online selling of wool failed?

Transparency

- What scope is there to allow woolgrowers to make better informed decisions in relation to what it is costing them to sell their wool? More specifically would greater understanding of the costs and returns reflected in their final price received facilitate improved commercial decisions concerning their own wool growing enterprise?
- To what extent does the woolgrower understand their own cost of production before their wool leaves the farm gate? Is there scope for a greater understanding of both production and selling costs to facilitate more informed commercial decisions for woolgrowers?

Selling alternatives

- Whilst there are numerous selling alternatives to traditional auction that are made available to woolgrowers they can generally be grouped into five categories – Direct selling, Private buying, Physical forwards, Forward Basis contracts (cash settled against micron indicators) and online selling (currently performed by Auctions-Plus). The table below illustrates the process flow and relevant costs or each selling avenue.

TABLE 3. SELLING METHODS IN WOOL SUPPLY CHAIN FROM AUSTRALIAN GROWERS TO FIRST BUYER

RAW-WOOL PROCUREMENT VALUE-CHAIN SEGMENT WSSR AREA OF SCOPE														
	PHASE 1 WOOL PREPARATION			PHASE 2 DELIVERY AND TESTING		PHASE 3 WOOL APPRAISAL			PHASE 4 PRICE REALISATION	PHASE 5 INVOICING AND PAYMENT		PHASE 6 EXPORT PROCESS		
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10	STEP 11	STEP 12	STEP 13	STEP 14
WOOL SELLING PROCESS	Broker canvassing call	Shearing and wool preparation	Broker shearing visit	Delivery to broker store	Core and grab sample – AWTA testing	Wool presented on show floor	Wool inspected by AWEX and broker	Wool inspected by exporter	Wool auctioned	Exporter pays for wool within 7 days	Broker pays grower within 7 days	Wool dumped/ containerised	Wool railed to wharf	Wool shipped
RELEVANT COSTS	Travel cost	Shearing and classing	Travel cost	Wool transport costs	Wool sampling and storage fees	Show floor rental	Show floor staff and wool valuer costs	Wool buyer costs	AWEX & industry costs, broker man hours, BSC, PSC	7 days from fall of hammer	7 days prompt date	Per bale fee	Per bale fee	Exporters cost
SELLING METHOD														
TRADITIONAL AUCTION 14 steps														
DIRECT SELLING 9 steps								Optional			Extended prompt date			
PRIVATE BUYING 10 steps		Minimal skirting					Private buyer inspects							
PHYSICAL FORWARD 9 steps		Minimal skirting						Optional			Extended prompt date			
FORWARD BASIS CONTRACT 10 steps											Extended prompt date			

- The table suggests that in all cases the alternatives to traditional auction present fewer stages and more potential cost savings compared to traditional auction. Yet more than 90% of Australian wool still sells by traditional option.
- Why has there been minimal woolgrower adoption of these alternatives?
- Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these selling alternatives?
- Does the industry have the necessary skills, knowledge and expertise to utilise these options?
- Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options?
- Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction?

Forward selling and risk management

- Only 8% of Australian wool is sold forward. This compares to other Australian agricultural commodities such as cotton at 70%, lamb and wheat at 60% and beef at 50%. The Panel is seeking input as to why wool has such a low percentage sold forward.
- What forward selling mechanisms currently exist in the market place for wool producers? What systems might be introduced and are worthy of further investigation?
- The Panel understands that there have been a number of forward selling platforms within the wool industry that are no longer available. Why were they discontinued? And are there aspects of these platforms that could be retained if developing future forward selling mechanisms?
- In other markets, automation and connectivity has made it easier for the development of derivatives products such as futures and options. Would such products create new hedging opportunities for woolgrowers and other market stakeholders?

Disaggregation

- Would there be benefits to the woolgrower by unbundling and making transparent the existing costs within the supply chain to allow them to be more selective in the services they adopt?

GLOSSARY OF TERMS

TERM	EXPLANATION
Account Sale	Post sale document issued to the woolgrower from the wool broker outlining the gross proceeds received for their wool less selling costs including BSC, insurance, AWTA testing charges, wool levy and industry charges, local cartage and GST.
ACWEP	Australian Council of Wool Exporters & Processors.
AWEX	Australian Wool Exchange Limited.
AWEX type or AWEX ID	Industry standard valuation code for expressing the appraised, non-measured characteristics of greasy wool.
AWI	Australian Wool Innovation Limited.
AWTA	Australian Wool Testing Authority Limited.
Broker	Wool selling broker acts as the agent representing the vendor (woolgrower).
Broker Service Charge (BSC)	Selling fee for brokering services invoiced by the wool selling broker to the woolgrower following the sale of their wool in their "account sale".
Buyer / Exporter	First buyer of woolgrower's wool. Buy, finance and export wool to overseas wool users globally.
Code of Practice	Industry standard for in shed wool preparation.
Commission Buyer	An independent entity that appraises and buys wool on behalf of one or more exporters or processors. Also known as an "indent or contract buyer".
Core Test	Sampling process overseen by AWTA where bales within an individual wool lot are cored (or speared). Samples are tested for micron and VM by AWTA.
CVD	Coefficient of variation of diameter (or micron).
CVH	Coefficient of variation of hauteur length.
DMFR - Dark and medullated fibre risk scheme adoption	A voluntary declaration made by woolgrowers in their classer's specification which evaluates the risk of dark or medullated fibre in their wool according to their farm practices.
Forward Selling	The practice of selling wool at a fixed price to be delivered to a buyer in the future. Adopted as a form of risk management.
Freight Forwarder (wool)	A person or company that organises shipment and documentation of wool from broker's store to overseas processing plant on behalf of third parties.
Hauteur Length	Refers to the length of the wool after combing.
Grab Sampling	Sampling process overseen by AWTA where samples are drawn by mechanical claw from bales within an individual wool lot. Samples are AM tested for length and strength by AWTA.

Length and Strength Testing for additional measurement or “AM testing”	Testing of individual wool staples from a grab sample for length and strength and position of break.
Letter of Credit (or L/C)	Common industry payment term whereby the overseas purchaser’s bank provides the exporter with a document (LC) outlining the buyer’s intention to pay for the wool and the terms around that payment.
Micron (u)	Fibre diameter.
NKT	Newtons per kilotex. AWTA test result for the average strength of the wool in a lot.
NWD – National wool declaration	Declaration form filled out by woolgrowers outlining the animal welfare practices adopted by that woolgrower.
Post Sale Charge (PSC)	Selling fee charged by the wool selling broker to the wool purchaser (exporter or processor) after the sale of the wool.
Processor	Wool processor who machines the greasy wool from its raw state into a processed form. Can range from wool scourer and topmaker to fully vertically integrated garment manufacturer.
POB	Position of break. AWTA test result outlining where the wool breaks within the staple (tip, middle or base).
Reserve Price Scheme	Guaranteed minimum price scheme for woolgrowers.
Sale by Description	Sale of wool using objective measurements and description without physically appraising the wool.
Showfloor	Display area within a wool selling centre where individual wool box samples are made available for appraisal.
Talman Solutions	IT service provider delivering inventory management systems to the wool industry.
Vegetable Matter (VM)	Non-wool matter within a wool lot including burr, seed, shive and hardheads.
Wool typing / valuing	Visual appraisal and categorisation of wool to determine its monetary value.
Yield	Yield determines how much “clean” wool fibre weight would be left after the removal of dust, grease and other impurities during processing.

APPENDIX 1

EXAMPLE

WOOL-SELLING BROKER "ACCOUNT SALE" TO WOOLGROWER (INCLUDING BSC OR "BROKERAGE")

EXAMPLE WOOL BROKER ACCOUNT SALES OF WOOL SOLD

RECIPIENT CREATED TAX INVOICE/TAX INVOICE

Address

Tel: 04 8888 8888 Fax: 04 8888 8888

ABN :1111 2222

**EXAMPLE PASTORAL
COMPANY
888 WOOL ROAD
WOOL FLAT, VIC 3888**

Your ABN : 8888 2222 555 Page : 1
 Invoice no : EG 8888 Date : 18/11/2014
 Brand : EG WOOL
 Account no : EXAMPLE
 Consignment : W12345
 Sale no : M50/13 12/06/2014
 Proceeds due: 20/06/2014
 Payment : ANZ 8888 8888

	Bales	Grsy kg	\$
Proceeds			
Main Line sales	18	2,901	20,002.37
Total	18	2,901	20,002.37
Add 10.0% GST on proceeds			2,000.24
Gross Proceeds			22,002.61
	GST exc	GST	GST inc
Brokerage	570.00	57.00	627.00
Insurance	80.02	8.00	88.02
AWTA Testing Charges	324.31	32.43	356.74
AWEX/AWH Selling Charges	13.05	1.31	14.36
AFFA Levy	400.05		400.05
Total charges	1,387.43	98.74	1,486.17
GST Input			\$98.74
GST Output			\$2,000.24
Net Proceeds excluding GST			\$18,614.94
Net Proceeds for this Account Sale			20,516.44
Average \$ per bale			\$ 1,111.24
Average cents per kg			689
Total bales sold			18

APPENDIX 2

EXAMPLE

POST SALE INVOICE TO WOOL EXPORTER (INCLUDING PSC OR "SERVICE")

Buyer Code : FOX M
 Invoicing Broker : ESM A
 Cataloguing Broker . . . : ESM A
 Releasing Organisation : AWL A
 Electronic Receiver . . : AWH S
 Electronic Transmitter : ESM A

Tax Invoice - Wool Summary

Sale : **15/M22A**
 Invoice Date : 27/11/14

Sale Date: 27/11/14
 Prompt Date: 5/12/14

Lot	Certificate Identity	Bales	Net Kg	Lot Price	First Cost		Service		Last Cost
					Amount	GST	Charge	GST	
A 1709	6-07255845-P2	11	2014	759	15286.26	1528.63	255.20	25.52	17095.61
A 1712	3-11501638-P2	4	743	1006	7474.58	747.46	92.80	9.28	8324.12
A 1724	6-07257468-P1	8	1527	806	12307.62	1230.76	185.60	18.56	13742.54
A 1730	6-07257316-P2	3	581	754	4380.74	438.07	69.60	6.96	4895.37
A 1734	6-07257318-P8	7	1351	763	10308.13	1030.81	162.40	16.24	11517.58
A 1753	3-11708712-P6	3	593	666	3949.38	394.94	69.60	6.96	4420.88
A 1779	6-07258041-P5	4	749	713	5340.37	534.04	92.80	9.28	5976.49
A 1792	6-07252722-P6	11	2139	762	16299.18	1629.92	255.20	25.52	18209.82
A 1793	6-07252723-P4	15	2916	759	22132.44	2213.24	348.00	34.80	24728.48
A 1796	6-07252386-P0	14	2713	784	21269.92	2126.99	324.80	32.48	23754.19
A 1798	6-07258685-P9	5	864	797	6886.08	688.61	116.00	11.60	7702.29
A 1822	3-11728572-P0	18	3223	833	26847.59	2684.76	417.60	41.76	29991.71
A 1829	3-11728574-P6	10	1902	805	15311.10	1531.11	232.00	23.20	17097.41
A 1838	6-07251675-P7	7	1220	807	9845.40	984.54	162.40	16.24	11008.58
A 1840	3-11732181-P4	8	1320	820	10824.00	1082.40	185.60	18.56	12110.56
A 1867	3-11732106-P1	3	559	913	5103.67	510.37	69.60	6.96	5690.60
A 1883	6-07087843-P1	6	1140	752	8572.80	857.28	139.20	13.92	9583.20
A 1888	6-07087846-D4	7	1332	723	9630.36	963.04	162.40	16.24	10772.04
A 1903	6-07138716-P8	7	1335	850	11347.50	1134.75	162.40	16.24	12660.89
A 1904	6-07212114-P5	7	1226	692	8483.92	848.39	162.40	16.24	9510.95
A 1905	6-07212228-P3	6	1127	718	8091.86	809.19	139.20	13.92	9054.17
A 1918	6-07225627-P1	6	1156	720	8323.20	832.32	139.20	13.92	9308.64
A 1919	6-07225911-P9	10	1978	769	15210.82	1521.08	232.00	23.20	16987.10
A 1922	3-11733583-Q0	3	592	729	4315.68	431.57	69.60	6.96	4823.81
A 1923	3-11732973-Q4	4	765	819	6265.35	626.54	92.80	9.28	6993.97
A 1925	3-11732399-D2	4	680	827	5623.60	562.36	92.80	9.28	6288.04
A 3407	6-07256678-P6	2	286	456	1304.16	130.42	46.40	4.64	1485.62
A 3408	6-07258690-P9	5	956	639	6108.84	610.88	116.00	11.60	6847.32
A 3427	3-11728577-P9	3	550	599	3294.50	329.45	69.60	6.96	3700.51
A 3444	6-07241702-P2	3	537	633	3399.21	339.92	69.60	6.96	3815.69
A 4339	6-07263339-D6	4	714	473	3377.22	337.72	92.80	9.28	3817.02
A 4347	3-11732028-P7	13	2238	457	10227.66	1022.77	301.60	30.16	11582.19
A 5154	3-11685867-P5	5	929	329	3056.41	305.64	116.00	11.60	3489.65
A 5165	6-07256735-P4	6	1169	525	6137.25	613.73	139.20	13.92	6904.10
A 5168	6-07255854-P4	8	1459	620	9045.80	904.58	185.60	18.56	10154.54
A 5175	6-07257397-P2	6	1073	528	5665.44	566.54	139.20	13.92	6385.10
A 5195	6-07258230-P4	5	937	390	3654.30	365.43	116.00	11.60	4147.33
A 5202	3-11729328-P6	4	573	621	3558.33	355.83	92.80	9.28	4016.24

Payment Due by : **5/12/14**

TOTAL AMOUNT DUE including GST:

