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12 March 2015

ACWEP-14-145

Mr John Roberts
Executive Officer
AWI Selling Review Panel
Dear John,

By Email: johngarethroberts@gmail.com

Submission from Australian Council of Wool Exporters and Processors to the AWI Wool Selling Review

Please find following the Submission from the Australian Council of Wool Exporters and Processors (ACWEP).

ACWEP is supportive of the Review and was appreciative of the opportunity for a group from the ACWEP Executive Committee to meet with members of the Review Panel in December.

ACWEP has taken the questions in the Issues Paper as a template and converted them to a tabular layout for the purposes of responding to them. ACWEP has responded to all questions apart from those which it considers it to be more appropriate for other organisations or for individual exporters and processors to respond to.

The following general comments are pertinent to ACWEP's Submission.

1. Members views vary greatly on some issues, as occurs in other national organisations. The range of views will come forward in Member's individual Submissions.

The ACWEP Submission does not attempt to summarise all Members' views. Rather, it attempts to highlight issues (including those raised by Members) that ACWEP believes need to be taken into consideration as the Review progresses.

2. The Submission also reviews changes that have been initiated in the past, including those that ultimately proved to be unsustainable and those that are still in place.

The Submission identifies factors associated with the inability of these business models; why changes in process wrw not successful This (together with other) history hopefully will be of assistance in examining opportunities for the future.

3. Our Submission also draws attention to two additional issues which impact on costs associated with the exchange of ownership, namely the impost of GST on wool buyers' purchases and the need for wool growers to maximise average bale weights.

Comments on these issues are included at the end of the Submission.

Other general comments related to review process include:

1. As was discussed at the recent AWI Exporters' Update Day, the most important aspect of the review process is what happens after the Review and its recommendations are finalised.

ACWEP acknowledges that the Review Panel is committed to this part of the review process.

2. Previous reviews, proposals and recommendations have generally concentrated more on potential savings in warehouse operations and the valuing process. It is essential that discussion going forward includes full consideration of the implications for buyers and of the net benefits for wool growers.

3. The term "*commodity*" often gets used in discussions about wool. Wool is arguably the least homogeneous of all agricultural commodities, each "*type*" with its own end use and its own value. It is important that this is taken into account in the formulation of recommendations arising from this Review.

4. It developing our response to the Review, it became apparent that s-ome recommendations will need further work to fully assess the benefits and the possible negative implications.

The Panel has probably come to the same view already.

Kind regards,

Handwritten signature of Chris Kelly in black ink.

Chris Kelly
President

Handwritten signature of Peter Morgan in black ink.

Peter Morgan
Executive Director

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PHASE 1 – WOOL PREPARATION

	PHASE 1 WOOL PREPARATION	ACWEP COMMENTS
1.	<p>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?</p> <p>And, if so is there scope for a “user pays” component should the woolgrower not require this level of service?</p>	<p>Wool buyers are not in a position to be aware of the make-up of charges made to growers in the lead-up to the exchange of ownership.</p> <p>However, as a general principal, they believe that all costs incurred in the exchange of ownership up to the point of sale and invoicing to the grower; should be transparent to growers and charged to the grower.</p> <p>This includes visits by brokers to wool growers, whether they are to existing clients or to potential clients. It is part of getting a growers’ wool to market.</p> <p>The possibility of including a “user pays” component is a commercial issue for growers and brokers.</p>
2.	<p>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?</p> <p>Or is the classing advice designed to meet with the AWEX “Code of Practice” for classers?</p>	<p>ACWEP is not in a position to comment on communications between wool brokers and growers.</p> <p>Buyers do have concerns about the preparation of individual clips. They are not generally aware of the relative contributing factors, but do know that poor preparation is not in wool growers’ interest.</p>
3.	<p>To what extent are the wool brokers providing woolgrowers with information they already have?</p> <p>Do wool brokers have an expert understanding of market developments and implications for sheep husbandry and wool production?</p>	<p><u>TO WHAT EXTENT ARE THE WOOL BROKERS PROVIDING WOOLGROWERS WITH INFORMATION THEY ALREADY HAVE?</u></p> <p>ACWEP is not in a position to comment.</p> <p><u>DO WOOL BROKERS HAVE AN EXPERT UNDERSTANDING OF MARKET DEVELOPMENTS AND IMPLICATIONS FOR SHEEP HUSBANDRY AND WOOL PRODUCTION?</u></p> <p>ACWEP is not in a position to comment on the explicit question.</p> <p>But, with regard to wool preparation, which is the general heading of this phase and the flow of wool onto the market:</p> <p>1. It is obvious to buyers during valuing that some wool has not been prepared with appropriate care, or has not been prepared in a manner that will maximise competition in the sale room.</p> <p>ACWEP is not in a position to offer a view as to why this occurs. But, it does believe that the reasons need to be addressed where possible to enable the growers of such wool to maximise the opportunity for it to sell well.</p> <p>2. Timing of the flow of wool onto the market can be a difficult issue. Growers respond to significant changes in the market by bringing their wool forward for sale; or by withdrawing it from sale.</p> <p>This is understood by brokers. It is accepted that it is difficult to say NO to a grower in a rising market? But, as is well known, sudden increases in sale volumes often result in a reactionary fall in the market.</p>
4.	<p>Is there scope for the wool broker to provide additional services during the farm visitation?</p>	<p>ACWEP is not in a position to comment.</p>

<p>5. 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</p> <p>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?</p>	<p><u>DO OPPORTUNITIES EXIST TO INCREASE LOT SIZE?</u></p> <p>Buyers believe that the answer is YES, provided that clip preparation standards are met.</p> <p>This can be approached in two ways. Either by reducing the number of small lots; or by a general increase in all lot sizes.</p> <p>Buyers would much prefer to see fewer small lots (apart from speciality types) and recommend that any proposals to increase lot size should focus on minimising the number of small lots. Small lots also increase costs along the pipeline where ever charges include a per lot component.</p> <p>Small lots (particularly one bale lots) add to buyers’ costs; and generally do not attract the same level of competition as larger lots in the sale room.</p> <p><u>CURRENT DISTRIBUTION OF LOT SIZE</u></p> <p>Recent analyses by ACWEP and the Private Treaty Wool Merchants of Australia (PTWMA) of data supplied by AWTA found that:</p> <ul style="list-style-type: none">* The median lot size in 2013/14 was 4.0 bales; and that this was largely unchanged from the value of 4.2 bales in 2000/01, when the number of bales offered at auction was 39.5% greater.* The distribution of lot size was heavily skewed towards the smaller lot sizes. <p>21.4% of lots included only one or two bales in 2013/14. The equivalent figure was 19.7% in 2000/01.</p> <p>See Appendix 1.</p> <p><u>PREVIOUS ATTEMPTS TO INCREASE LOT SIZE</u></p> <ul style="list-style-type: none">* Small (Star) lots have long been considered an industry problem. They were once sold separately to the larger lots. <p>Traditionally, the small lots issues have been partly addressed by Bulk Classing and Interlotting. 15.0% of lots tested by AWTA in 2013/14 were Bulk Class lots and 1.8% were Interlots.</p> <p>Bulk Classing and Interlotting is not popular with many wool growers, because of the additional handling costs and the discounts received in the sale room.</p> <ul style="list-style-type: none">* An increase in average lot size was one of the aims of Objective Clip Preparation (OCP) when it was introduced together with Sale-by-Sample and Presale testing in 1972. <p>OCP was introduced when crimp frequency played a critical role in classing decisions made in the shearing shed.</p> <p>OCP encouraged the creation of larger lots by relaxing the tolerances for crimp frequency. This was based on research that demonstrated differences in crimp frequency were not necessarily a good indicator of differences in fibre diameter.</p> <p>Observations over the next few years were that OCP did enable the production of bigger lots, but it did not appear to reduce the number of small lots.</p>
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		<p>* AWTA worked with Elders (and later with other brokers) in the late 1970s to develop an Objectively Matched Lot (OML) in which each of the component sub-lots was Presale tested before “matching” with other lots to create an OML. The sub-lots were matched according to objective results for yield, fibre diameter and vegetable matter content (VM)</p> <p>The aim was to reduce the number of small lots, but without attracting the price penalties associated with traditional subjectively matched Interlots.</p> <p>The use of OMLs declined over time and they are no longer a part of Presale testing. Meeting the matching requirements for an OML was not always easy unless there was a large pool to draw from. Plus, there were the additional testing charges and warehouse costs that were associated with the matching process.</p> <p><u>SHOULD THE CLASSING “CODE OF PRACTICE” BE REVIEWED TO BETTER SUIT THIS EVOLVING PROCESSING CONSUMER BASE?</u></p> <p>The Code of Practice is reviewed triennially. The reviews are an important process within the wool industry. But, Code is a mature document and changes arising are generally small in number.</p> <p>The analyses conducted by ACWEP and PTWMA referred to above, identified that that 5,763 different wool descriptions were used in 2013/14. The 20 most commonly used wool descriptions accounted for 74.4% of all lots, while 3,940 descriptions accounted for the last 1% of all lots.</p> <p>The single most common description (AAAM) was applied to 41.3% of all lots.</p> <p>This information has been submitted to the current Review of the Code of Practice.</p> <p>Better use of wool descriptions is not a game saver, but a review of their use is warranted.</p> <p><u>SUMMARY COMMENTS</u></p> <p>* Reducing the number of small lots for non-specialty wools is an important issue for all sectors of the wool industry, particularly for wool growers who bear any associated direct and indirect costs. Past attempts to minimize their numbers over and above the use of Bulk Classing and Interlotting have been unsuccessful in the longer term.</p> <p>Perhaps some new thinking is required.</p> <p>* The Code of Practice is designed to meet industry requirements, rather than drive them.</p> <p>Hence, the question of whether “<i>The Code of Practice should be reviewed to better suit this evolving processing consumer base</i>” is one that might be best answered further down the review process.</p>
	<p>ANY OTHER COMMENTS</p>	

PHASE 2 - DELIVERY AND TESTING

	<p align="center">PHASE 2 DELIVERY AND TESTING</p>	<p align="center">ACWEP COMMENTS</p>
<p>1.</p>	<p>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.</p> <p>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?</p>	<p><u>WOULD GROWERS BENEFIT FROM KNOWING THEIR TEST RESULTS PRIOR TO DELIVERY TO THE BROKERS WAREHOUSES</u></p> <p>This would be an individual grower decision.</p> <p>ACWEP notes that it could only be achieved if the wool was lotted and tested prior to delivery if the wool was going to auction.</p> <p>This has considerable logistical implications in the current auction selling system, as:</p> <ul style="list-style-type: none"> * Lotting decisions are made after the wool arrives at the warehouse. * There are considerable infrastructure requirements and cost implications in conducting certified tests in the shearing shed. <p>If growers wanted non-certified test information prior to delivery to the warehouse they could:</p> <ol style="list-style-type: none"> 1. Utilise one of the instruments developed to rapidly measure the fibre diameter of each fleece as it is shorn. The fibre diameter result is used to allocate fleeces during classing and to more clearly differentiate between lines according to diameter. <p>The concept gained popularity under the banner of “Every Sheep Tester” while there were significant price premiums for Ultrafine wool. These techniques provided wool growers with an excellent guide to what the diameter of these lots would be when tested by AWTA, but they were not able to provide data on any other parameters.</p> <p>Use of this technology shrank as the volume of this type of wool increased, as Italy lost its dominance in this section of the market and the former price premiums became much smaller.</p> <p>Various instruments were developed for rapid on-farm fibre diameter testing. Some instruments gained acceptance while other didn’t. Those that were not able to maintain a presence were generally at the lower end of the price scale and simplicity.</p> <ol style="list-style-type: none"> 2. Submit samples taken from the wool bins or the bales while they are in the shearing shed for “Guidance” (non-certified) testing.
<p>2.</p>	<p>Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?</p>	<p>Although the current process is similar in broad concept to that which was put in place when Presale sampling was introduced in 1972, it has evolved considerably over the years by way of:</p> <ol style="list-style-type: none"> 1. Rationalisation of the roles played by AWTA staff and warehouse staff at the sampling line. 2. The introduction of computer based systems for recording individual bale weights and other data at the sampling line. 3. The development of faster and more automated sampling equipment.

		<p>4. The development of large contract warehousing services, such as those provided by AWH.</p> <p>This facilitates the creation of greater volumes of wool bales against which the cost of sampling equipment can be amortised and provides greater opportunity for further development of sampling technologies.</p> <p>Intuitively, the creation of larger and fewer warehouses with greater numbers of bales allows for a greater concentration of sampling (and other) activities. AWH does this at its various locations.</p> <p>The warehouses built at Yennora (Sydney) and Rocklea (Brisbane) in the late 1960s / early 1970s were established with the aim of rationalising warehouse activities.</p> <p>The R&D Group in the former Australian Wool Corporation canvassed the concept of large regionally based warehouses where costs were considered likely to be less than those associated with city based warehouses following the introduction of Sale-by-Sample in 1972.</p> <p>History shows that:</p> <ul style="list-style-type: none"> * There was a short-lived attempt to achieve this in Longreach. * Some brokers prefer to operate their own warehouses as part of their business model. This applies to all regionally based wool broking operations.
	<p>After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?</p>	<p>This is not an ACWEP issue. The sample has never been included as part of the sale.</p>
<p>4.</p>	<p>Can AWTA testing be performed on-farm or at another regional location of the woolgrower's choice if such alternatives are preferred?</p>	<p>1. AWTA offers non-certified testing services, e.g. for samples that have been taken by the client, rather than by AWTA staff.</p> <p>However, buyers invariably require the test results to be certified to meet their client's requirements. This restricts the opportunities for sampling and testing on-farm as IWTO Regulation require that sampling (and bale weighing) must be conducted by test house staff as part of issuing a certified test result in Australia.</p> <p>2. However, regional sampling is conducted on a wide scale in brokers' or private treaty merchants' warehouses. AWH also operates regional warehouses.</p> <p>3. Other contract regional sampling warehouses have developed in the past (e.g. in Esperance in the 1970's). But, these have been few in number.</p> <p>The Esperance initiative was instigated by the owner of a local contract wool rehandling centre who saw an opportunity / need to broaden the range of services provided to his clients. It would not have been classed as a large regional warehouse.</p>
<p>5.</p>	<p>AWTA currently tests for a multitude of measurements including micron, vegetable matter (VM), yield, length, strength, CVD, CVH, position of break, wool base etc.</p> <p>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?</p>	<p>Numerous economic studies have shown that the existing measurements continue to account for most of the technically based variation in wool prices.</p> <p><u>ARE THERE ADDITIONAL CHARACTERISTICS AWTA SHOULD TEST FOR?</u></p> <p>1. The answer to this question depends on the question "Is there a commercial demand?"</p> <p>2. A possible role for colour measurement were assessed in the first series of the "Trials Evaluating Additional Measurement" (TEAM) conducted by CSIRO, AWTA, the Australian Wool Corporation, the University of New South Wales and co-operating brokers, buyers and processors.</p>

		<p>The TEAM trials were initiated to assess the potential use the newly developed tests for staple measurements and scoured wool colour to assist in the prediction of processing performance.</p> <p>Colour measurement was considered to be of low importance because of the generally good white colour of Australian Merino wool and did not gain commercial acceptance.</p> <ol style="list-style-type: none">3. This differs from New Zealand, where the clip is predominantly crossbred and non-white wool is the norm. Colour testing is part of the standard Presale testing regime in New Zealand.4. IWTO Test Methods exist for the colour of scoured wool. But, there has not yet been a commercial demand from the wool processing industry for its use on Australian wool.5. Former CSIRO wool divisions invested significant amounts of funds and resources in attempts to measure the various components of “Style” using computer imaging techniques. <p>This work was designed to complement the existing set of objective test data to an extent where Sale-by-Description could be considered. It was wound up in the mid-1990’s without achieving adequate success.</p> <p>Buyers believe that the current tests provide adequate objective information.</p> <p>Whether any additional test data would facilitate alternate selling processes is an unknown at this stage. It would also depend on processor requirements.</p>
6.	ANY OTHER COMMENTS	<p>The use of Presale test measurements is an integral part of the exchange of ownership between the grower and the buyer; and in the prediction of early stage processing performance.</p> <p>The procedures developed also ensure that the test results are transferable along the pipeline, from the grower to the buyer and to their processing clients, thus avoiding the need (and cost) for any further testing.</p> <p>The current systems have evolved with the wool auction system since 1972 and have flowed to all other forms of exchange of ownership.</p> <p>If auction was no longer the dominant form of exchange of ownership, it would be necessary to review how testing is integrated into any change.</p>

PHASE 3 - WOOL APPRAISAL

	<p align="center">PHASE 3 WOOL APPRAISAL</p>	<p align="center">ACWEP COMMENTS</p>
<p>1.</p>	<p>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?</p> <p>For example, why not just have the AWTA apply an AWEX type rather than have the wool broker and AWEX both complete this task?</p>	<p>Wool is appraised by:</p> <ul style="list-style-type: none"> * Brokers as part of their services to growers when offering their wool for sale. * AWEX staff when monitoring the assessment of the AWEX ID applied by brokers and inspecting wool for compliance with classing standards. AWEX staff assess the AWEX ID in a small number of situations where it has not been done by the broker. * Buyers when valuing wool prior to sale. <p><u>COULD AWTA APPLY AN AWEX ID, RATHER THAN THE BROKER AND AWEX EACH DO IT?</u></p> <ol style="list-style-type: none"> 1. ACWEP’s understanding is that the AWEX ID is only applied by either the broker or by AWEX. AWEX monitors the AWEX ID applied by the brokers (as mentioned above). 2. AWTA did provide an AWEX ID service as part of a trial conducted by Elders and Landmark in 2006. The trial had broader scope in that it was designed to investigate the possibilities for Sale-by-Description. It had limited success and was wound up after a short period. AWTA’s role in this trial appeared to be more about providing an independent assessment of AWEX ID as a precursor to the possible adoption of Sale-by-Description, rather than a saving in the “typing” process <i>per se</i>. 3. If AWTA was asked to assess the AWEX ID, AWEX’s role in monitoring compliance with clip preparation standards need to be reviewed for savings to be achieved. <p><u>AN HISTORICAL PERCEPTIVE</u></p> <ol style="list-style-type: none"> 1. Rationalisation of showfloor roles would not be new. The Australian Council of Wool Exporters (prior to their merger with the Australian Wool Processors Council) employed a person in each of the Northern, Southern and Western Regions whose principal role was to monitor clip preparation and other aspects of compliance with wool selling regulations. These roles were absorbed into the functions performed by AWEX when it was formed in 1993. 2. If AWTA was asked to provide such a service, the question of where it could be best done would need to be considered. The former Australian Wool Corporation’s valuing staff appraised every lot as a part of its operation of the former Reserve Price Scheme. They trialled valuing wool at the sampling line, but reverted to valuing on the show floor because it was much quicker than when done at the sampling line.

<p>2.</p>	<p>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?</p> <p>If so what efficiencies and costs savings (if any) can be achieved?</p>	<p>1. This has never been trialed, other than in the brief trial held by Elders and Landmark in 2006 and referred to above.</p> <p>2. Buyers rely on access to the sample because:</p> <ul style="list-style-type: none"> * They guarantee the wool. * The AWEX ID was developed for AWEX’s market reporting requirements. * The available objective measurements and the current AWEX ID do not provide adequate information for all wool types. * The challenge for development of any alternate “<i>valuing standard</i>” would be whether it sufficiently meets the varied requirements of buyers. <p>3. Any review of potential savings would need to include consideration of:</p> <ul style="list-style-type: none"> * Where the sample would be appraised. Presumably it would need to be done at a place where the samples can be adequately displayed and appraised in a timely manner. * Buyers’ requirements and the consequences of not being able to meet any or some of their requirements. <p>The latter is explored in more detail in the responses to the next two questions.</p>
<p>3.</p>	<p>To what extent is physical inspection a necessary element of appraisal and valuation?</p> <p>Would the woolgrower be disadvantaged by relying solely on appraisal and not displaying the physical wool sample?</p>	<p>There are many factors to be considered, including:</p> <p>1. As mentioned in the previous question:</p> <p><i>Buyers rely on access to the sample because:</i></p> <ul style="list-style-type: none"> * <i>They guarantee the wool.</i> * <i>The available objective measurements and the current AWEX ID do not provide adequate information for all wool types.</i> <p>2. Removal of physical inspection would avoid the need for a showfloor.</p> <p>It would not avoid the need for a sample (e.g. for staple measurement, AWEX monitoring of compliance with clip preparation standards and for appraisal of the AWEX ID); or the need for a location to appraise the samples.</p> <p>3. Brokers inspect and appraise samples as part of the services that they provide to their clients. Whether they continue to do so or utilise a third party appraisal service is a decision for brokers.</p> <p>As mentioned above, such a proposal was considered by Elders and Landmark (utilising AWTA’s services) in 2006, but did not go beyond a trial.</p> <p>4. The question of whether the wool grower would be disadvantaged is best addressed by consideration of the points in the next Question.</p>
<p>4.</p>	<p>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?</p>	<p>1. Wool has been, and still is, sold by description. But, it is invariably in a “<i>one-to-one</i>” transaction where the seller has knowledge of the buyer’s requirements and provides a guarantee.</p> <p>Sale-by-Description as part of the auction or some other form of mass exchange of ownership involves “<i>many-to-many</i>” transactions, rather than the “<i>one-to-one</i>” transactions referred to above.</p>

2. It has been a wool industry topic of discussion since the introduction of Presale testing in 1972, although less so in recent years.

It was seen as inevitable by some; and was “*only five years away*” for some year’s following the introduction of Presale testing for staple measurements in the late 1970’s / early 1980s.
3. A major weakness in the earlier discussions is that they concentrated on potential savings in warehouse operations and valuing requirements, without giving adequate consideration to buyer issues such as:
 - * Will the non-measured information provide sufficient data on non-measured characteristics of commercial importance for ALL buyers?
 - * Will competition in the sale room lessen if all buyers are relying on identical technical data? Intuitively the answer is YES. If so, to what extent?
 - * Will buyers’ bidding be more cautious if they cannot see a sample, yet are required to provide a guarantee by their clients? The intuitive answer is again YES.
 - * Who provides a guarantee? Brokers have declined to do so in the past and AWTA’s guarantee in the 2006 trial with Elders and Landmark was limited to whether the correct AWEX ID had been applied to the sample.
 - * The AWEX ID was developed for market reporting requirements, rather than valuing. It does not (nor could it be expected to) cover all the aspects that buyers collectively and individually look for during the valuing process.
4. Are there potential savings in buyer operations?
 - * If so, these are less than in the past.
 - * Economic pressures since the collapse of the Reserve Price Scheme and falling wool production have resulted in buying companies operating with minimum staff levels (including the use of commission buyers). Some buying firms are one-man operations.
 - * The opportunities for savings in staff are less today than they were in the past.

ACWEP acknowledges that companies in all other sectors have also reduced staff numbers.
5. In hindsight, it is now easier to understand the emphasis on the potential savings in warehouse operations and valuing in the earlier discussions.

It was at least partly because they were more apparent and easier to quantify. Also, much of the rationale presented for savings associated with the introduction of Sale-by-Sample was directed at savings in warehouse and selling operations.

Research on the buying side at that time primarily related to confidence and accuracy issues associated with valuing a sample, rather than bales.

5.		<p>Wool exporters' contracts with their processor clients invariably include limits for all of the current Presale measurements.</p> <p>This limits the opportunity for grower discretion in determining their testing needs, unless he or she has the opportunity to negotiate such an arrangement in a direct sale.</p> <p>A second factor is the method of operation within AWTA laboratories. They operate very much as a production line. In practical terms, it would probably be less costly to request the standard suite of tests and to not display the results for a selected parameter(s).</p>
6.	<p>Does the information provided on the showfloor meet buyer needs?</p> <p>What, if any, additional information would be useful?</p> <p>What information could be dispensed with?</p>	<p>The current information invariably meets buyer requirements.</p> <p>WHAT, IF ANY, ADDITIONAL INFORMATION WOULD BE USEFUL?</p> <p>As mentioned previously, IWTO Test Methods are available for measuring the colour of scoured wool. However, there is no demand for colour information because of the generally very good colour of Australian Merino wool.</p> <p>Any discoloured lots are identified during valuing.</p> <p>WHAT INFORMATION COULD BE DISPENSED WITH?</p> <ol style="list-style-type: none"> 1. All of the current Presale measurements are normally included in the contracts between the buyer and his or her clients. 2. Even if one, or more, processors did not include all relevant test results in their contracts, there is certain to be other buyers in the sale room who need test results for all the normal parameters. 3. As such, there are virtually no test data that could be dispensed with today.
7.	<p>ANY OTHER COMMENTS</p>	<p>Considerable research effort was applied to:</p> <ol style="list-style-type: none"> 1. The work leading up to the introduction of Presale testing and Sale-by-Sample. It had: <ul style="list-style-type: none"> * Federal Government funding as well as funding from the former Australian Wool Board. * Input from the Australian Wool Board, the former Bureau of Agricultural Economics (now ABARES), CSIRO, the University of New South Wales, test houses, buyers, brokers and contracted specialists. <p>The final Report was 5 cm thick and included 51 Sections.</p> 2. The later introduction of staple measurements. 3. Attempts to develop instrumentation and test methods for the measurement of "Style" and related parameters; and of computer aided selling. 4. Processing trials to evaluate the reliability of Presale test results in the prediction of processing performance. Initially this was done using Presale results for yield, vegetable matter content and fibre diameter; and later using Presale test results for staple measurements also. <p>On the other hand, relatively little R&D has been applied to evaluate the potential impacts of Sale-by-Description on factors influencing the actual exchange of ownership and the price paid.</p>

PHASE 4 - PRICE REALISATION

	<p align="center">PHASE 4 PRICE REALISATION</p>	<p align="center">ACWEP COMMENTS</p>
<p>1.</p>	<p>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?</p>	<p>Buyers are not generally privy to the level of the costs incurred or the charges made to growers in the various forms of exchange of ownership.</p> <p>Differences in the level of costs in the various methods of exchange of ownership are important. But, the more important question is “What are the differences between the various selling systems in the net returns to growers?”</p> <p><u>CURRENT ALTERNATIVES TO THE OPEN CRY AUCTION</u></p> <p>1. <u>Private Treaty Trading</u></p> <p>The principal selling alternate form of exchange of ownership has been sale by private treaty. Private treaty buyers are highly competitive between themselves and with auction brokers (and with other forms of exchange of ownership).</p> <p>Its use since the 1960’s peaked in the early 1970’s and remained popular up until 2000/01 after which it waned. Factors associated with its decline include the fall in wool production, the closure of most of the early stage processing plants in Australia and changes in the nature of forward sales.</p> <p><i>Closure of Early Stage Processing Plants</i></p> <p>Private treaty purchasing was an important source of wool for the local early stage wool industry. The closure of most of the Australian early stage processing plants in the early 2000’s contributed to the decline in private treaty trading.</p> <p><i>Forward Sales</i></p> <p>Forward sales several months in advance used to be a normal part of a wool exporters trading. Exporters often covered their position by contracting with a private treaty merchant to purchase the wool for him, which the private treaty merchant did by entering into contracts with growers to take delivery at an appropriate date in the future.</p> <p>This form of business lessened as China’s share of Australia’s wool exports grew from 26% in 1996/97 to 43% in 2000/01 and to 77% in 2012/13. Most contracts for delivery to China do not include long term forward contracts.</p> <p>2. <u>Direct Sale / Supply Chains</u></p> <p>Direct sale or sale into a supply chain have been utilised to varying degrees for many years.</p> <p>Grower frustration following the collapse of the Reserve Price Scheme led to an increase in direct sales at that time, as growers sought to avoid auction selling charges and / or to promote their wools characteristics to processors.</p> <p>Utilisation of direct sales waned, as growers found that it was not always easy to meet agreed technical specifications and the recognition that they were at greater commercial risk.</p>

Direct sales / supply chain sales have not been able to attract mass volumes of wool. But, nevertheless they have attracted growers whose wool has special characteristics and is in limited supply, e.g. some elite wool types, or wools that have a “*Non Mulesed*” Mulesing Status.

They tend to be small operations that may lose some of their advantages if the needed to increase significantly in size.

3. Electronic Offer Boards

Electronic Offer Boards have a presence in the options available for exchange of ownership today. They are discussed under Clause 1.3 below – *Electronic Sales*.

OTHER ALTERNATIVES TO THE OPEN CRY AUCTION

1. Electronic sales

The most conspicuous observation is that despite the early adoption and wide use of electronic data exchange in the wool industry, attempts to introduce electronic selling have either failed (electronic auctions), or had limited success / support.

Most have had a limited life.

1.1 Electronic tenders, with the sample available for inspection prior to sale, have been tried at least twice.

Firstly by a company called Economic Wool Producers (EWP) shortly after the introduction of Sale-by-Sample and later by Elders, in the late 1970’s (Woolbid?). Each relied on receiving an electronic input of buyers bids (by telex to EWP and not sure about Elders).

Computer based software allocated the sold lots to the various buyers. Although the EWP software had complex routines for managing the quantities purchased by buyers, there were still concerns about risks in this area. These concerns may have increased if EWP had a greater market share.

The EWP procedures included modified classing standards and IT technology that was ground-breaking for its time. But, it closed after a short period of time because of insufficient grower support. It was also in open competition with existing brokers and may have been seen as too risky or too radical by many growers.

Woolbid also ceased operations after a relatively short period because of limited grower and buyer support.

We have no knowledge of the potential operational savings through the lack of the need for a sale room and the revised bidding processes. Presumably there some.

1.2 AWEX began developing an electronic auction selling system in 2000.

There were considerable problems for buyers:

- * The rate of selling in the electronic auction was very slow.
- * Buyers found it more difficult to get a feel for the market.
- * They also found it to be a more stressful selling environment.
- * It would have led to an increase in the cost of wool buyer operations.

		<p>Changes were made to the selling model to allow buyers to enter bid prices for a number of lots at time, rather than bid on a lot-by-lot basis. This also created problems:</p> <ul style="list-style-type: none"> * When buyers needed to change their bids because of changes in the market; and * Buyers had less control of the management of their buying quantities. <p>The electronic auction trials had a short life.</p> <p>1.3 Electronic offer boards were developed with the concept of making wool available for sale 24/7 with a firm asking price.</p> <p>There have been two major offer board developments since 2000. The first was initiated by AWEX as an extension of its existing selling services in 2000. It had limited support and had a relatively short life.</p> <p>The second, by Western Australian wool broker, Primaries of WA, in 2002 was developed as a stand-alone business that is available to all brokers or selling agents. It is known as WoolTrade and is still in business.</p> <p>Buyers are able inspect samples prior to sale; and have a further 24 hours after sale to inspect their purchases.</p> <p>Use of this service is limited. But, it is the only lasting electronically based selling system in the wool industry. It is often used to top-up orders or when the market is expected to rise in the following week. It has established a place in the exchange of ownership. Whether its methodology can be utilised on a larger scale is an unknown that would require further evaluation.</p> <p>WoolTrade has also developed an electronic auction selling system. It has experienced the same issues as those experienced by AWEX, in particular, the slow speed of selling.</p> <p>1.4 Industry experience to date indicates:</p> <ul style="list-style-type: none"> * Electronic replication of the current open cry auction system has been very unsuccessful; and is unlikely to be successful in the future, given the issues associated with the rate of selling and related issues. * Any attempted modification of the selling process that diminished a buyers' bidding flexibility is unlikely to be successful. <p>This does not mean that greater use of electronic systems has no role in the exchange of ownership. But, it does mean that work would need to be done to come up with a more suitable process.</p>
<p>2.</p>	<p>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?</p>	<p>Any additional selling option increases the opportunity for greater competition, but only if is seen as practical, as financially viable by the suppliers of the service, meets buyers' requirements and minimises financial risk to the grower.</p> <p>Arguably, the alternate systems available today do create a comparable level of "<i>competitive tension</i>", both between themselves and with the auction; otherwise it is unlikely that they would continue to be viable.</p> <p>Whether they could create greater "<i>competitive tension</i>" would not be known without further work. Some of the necessary data may unfold as part of the selling review process.</p>

<p>3.</p>	<p>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?</p>	<p>The auction has proved to be enduring because it is seen as an efficient and competitive method of exchange of ownership and price determination by growers, brokers and buyers; and creates minimal financial risk for wool growers.</p> <p>Given the poor track record of the numerous attempts to introduce new alternate methods of, it may be more beneficial for wool growers to look at ways of “improving” the current auction system. This could be by way of identifying cost savings for brokers and buyers that would produce a tangible net benefit to growers.</p> <p><u>WILL THE BENEFITS FLOW TO THE GROWERS?</u></p> <ul style="list-style-type: none"> * ACWEP is not able to comment on brokers charges. * Savings to buyers will be reflected in the ability to have higher bidding limits. But, this will not be transparent to wool growers.
<p>4.</p>	<p>The present auction system is dominated by exporters purchasing wool on behalf of their clients.</p> <p>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?</p>	<p>1. As mentioned previously:</p> <ul style="list-style-type: none"> * Wool growers are able to shorten the pipeline by bypassing the auction and negotiating a direct sale with a wool processor now. * It was tried by a larger number of growers (with mixed success) for a short time after the collapse of the Reserve Price Scheme. It is still utilised by some growers. <p>2. Experience has shown that growers are often not well placed to make such a change on their own, as they do not have the mill contacts, have limited knowledge or experience in trading wool from a commercial, technical, logistical and veterinary requirements perspective; and often put themselves at greater financial risk.</p> <p>These issues can be addressed by the use of a skilled facilitator / agent.</p> <p>3. These experiences reflect the comments made previously about the need be aware of ALL the implications that might arise from alternate methods of exchange of ownership.</p>
<p>5.</p>	<p>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?</p> <p>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?</p>	<p>1. The presence of commission buyers is not new, but has increased as wool production has fallen since the collapse of the Reserve Price Scheme.</p> <p>It is one of the ways that wool buying companies have been able to contain their costs and maintain their competitiveness as wool production has fallen.</p> <p>2. The availability of commission buyers has enabled the various wool buying companies to maintain a presence, and to provide competition, in the three selling centres that might not otherwise be possible.</p> <p>3. While it is understandable that an external viewer may see cause for concern, the process is transparent in that:</p> <ul style="list-style-type: none"> * It is well known who commission buyers act for. * Buying companies utilising the services of commission buyers are conscious of the need to avoid any potential conflicts of interest for their own commercial interest; and select commission buyers with this in mind.

<p>6.</p>	<p>Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?</p>	<p>Response to the questions above highlight the reasons why electronic auctions, electronic tenders and one electronic offer board failed to be sustainable; and why growers have had mixed success with direct sales.</p> <p>They were either grossly inferior to the open-cry auction (e.g. electronic replications of the open cry auction), were not sufficiently simple, were not sufficiently risk averse and / or were not seen to offer any advantages over the current auction system.</p>
<p>7.</p>	<p>Are auction results communicated in an efficient and timely manner to market participants and thereby enhance the dynamics of the price discovery process?</p> <p>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?</p>	<p>1. <u>COMMUNICATION OF AUCTION RESULTS</u></p> <p>Auction results are available electronically as the sale progresses. Growers can be present at the auction, or receive their prices from their broker on the evening of selling.</p> <p>Within the sale rooms, buyers are very aware of buying patterns of their competitors and price trends as they develop for the various wool types.</p> <p>2. <u>IS IT NECESSARY FOR AWEX STAFF TO ATTEND AUCTIONS?</u></p> <p>The selling functions in the sale room require an auctioneer and somebody to record the buyer and price paid for each lot.</p> <p>The buyer / price recording function was once performed by the staff of each selling broker, but is now done by AWEX staff as part of the rationalisation of wool industry roles that has occurred over the years.</p> <p>AWEX provides this service on a Fee-for-Service basis that is published in the AWEX Fees List.</p>
<p>8.</p>	<p>Are the auctions basically the same in each of the three major selling centres, or do they differ in some respects?</p> <p>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?</p>	<p>1. The auctions are conducted under the same rules in the three centres. All rules and individual broker's Terms of Trade are transparent.</p> <p>2. Auctions in the different centres generally realise similar outcomes for the sale of specific wool types.</p> <p>But, there are times when this may not occur, e.g. sales in Fremantle may yield higher prices on a Thursday if the market is strong or some buyers still need to fill orders; or it may yield lower prices if the market weakens after closing in the East.</p>
<p>9.</p>	<p>Are there barriers to entry or other impediments impacting participation at Australian wool auctions?</p> <p>Could those barriers or impediments be reduced by adopting alternative processes? What are the key requirements and/or costs applied in order to participate?</p>	<p>1. A demonstrable ability to pay for wool purchases is the principal requirement for participation by buyers in Australian wool auctions.</p> <p>This is reinforced by the inability of a buyer to take delivery of wool bought at auction until it is paid for.</p> <p>This should be seen as a safeguard for growers, rather than as a barrier.</p> <p>2. Acceptance of alternate payment processes can facilitate alternate processes for exchange of ownership, e.g.</p> <ul style="list-style-type: none"> * Private treaty merchants negotiate a price on the farm and pay the grower on receipt of his / her wool at their warehouse and testing has taken place. * Growers have negotiated direct sales or participated in supply chains where deferred payment is part of the contract.

10.	ANY OTHER COMMENTS 1	<p>History indicates that the opportunity for the development of alternate selling system does exist. But, the ability to gain widespread support will depend on:</p> <ul style="list-style-type: none">* Simple use, be well understood by growers and have a low level financial risk for growers; and* The ability to attract full buyer support.
11.	ANY OTHER COMMENTS 2	<p>There was a detectable undertone in various media articles after the Review began that the auction is a limiting factor to creating sufficient “<i>competitive tension</i>” and is limiting the ability to obtain sustained benefits for growers.</p> <p>Wool buyers challenge those contentions. They strongly believe if there are problems with the auction it is not driven by what happens in the sale room, e.g.</p> <p>Fine wool growers have been justifiably disappointed by the prices they have received for some time (with the exception of 2010/11).</p> <p>Is that situation caused by what happens in the sale room? If so:</p> <ul style="list-style-type: none">* Shouldn’t the sale room be given credit for the price rises in 2010/11; and* Why are the prices for crossbred types, Merino cardings and other non-fleece types experiencing a sustained period of excellent prices? (See the charts in Appendix 2) <p>The answer to both questions relate to supply and demand issues that occur irrespective of the form of exchange of ownership.</p> <p>ACWEP is not aware of any available evidence that there is any greater association between auction selling and “<i>poor</i>” prices than there is with any other form of exchange of ownership.</p>

PHASE 5 - INVOICING AND PAYMENT

	PHASE 5 INVOICING AND PAYMENT	ACWEP COMMENTS
1.	<p>In what proportions is the Post Sale Charge (PSC) borne by the various participants in the supply chain?</p> <p>For example, is the cost incurred by the exporter reflected in the price paid by the overseas customer?</p> <p>Or is it taken out of the initial price they bid at auction for the woolgrower's wool?</p>	<p>1. The PSC is borne directly by the buyer. It is not borne by the overseas customer.</p> <p>2. It is borne indirectly by the grower, as it is one of a buyers' cost of operation in the same way that salaries, rent, dumping and transport are part of a buyers' operational costs. As such, it is deducted from the buyers' bidding limits.</p>
2.	<p>What services are provided by the wool broker to the woolgrower that are covered by the Broker Service Charge (BSC)?</p>	<p>ACWEP is not in a position to comment.</p>
3.	<p>What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?</p>	<p>Identifiable services that buyers receive in return for the PSC are:</p> <p>1. A period of storage following the sale. It is usually, but not always, up to the "prompt" date for payment; i.e. the Friday of the week following the sale.</p> <p>2. Delivery of wool from its location within the broker's warehouse to:</p> <ul style="list-style-type: none"> * A designated location such as a wool dumping / packing facility; a local wool processing plant; or to another warehouse. * The warehouse door, where the wool is collected by a transport company contracted by the buyer. <p>Other services provided by brokers to buyers are on a Fee-for-Service basis.</p>
4.	<p>Are all costs incurred by the woolgrower sufficiently transparent (ie. are they generally known and publicised prior to the sale of wool?)</p>	<p>1. <u>GROWER AWARENESS OF CHARGES PAID FOR SERVICES</u> Wool buyers' understanding is that costs incurred between the wool shed and the exchange of ownership are well known to the grower. They are either charged directly to grower; or are paid by the broker and appear on the Account Sales document provided to the grower by his / her broker.</p> <p>2. <u>TRANSPARENCY OF CHARGES</u> Whether growers are aware of all possible brokers' charges or of the charges for alternate selling systems is a question for growers or their representatives. Buyers understand that brokers do not have public Lists of Fees. But, that does not prevent a grower from finding out what charging options are available from different brokers or other selling agents.</p>
5.	<p>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?</p>	<p>1. <u>CHARGES UP TO THE SALE</u> Buyers understanding is that the principal charges incurred between the wool shed and exchange of ownership by a grower are transport to the warehouse, insurance, wool testing fees and comprehensive charges for preparation of wool for sale and for selling it. If so, these are either charged directly (e.g. freight to the warehouse if commissioned by the grower) or appear on the broker's Account Sales document.</p>

	<p>Is there a need for an industry standard invoice or account sale format?</p>	<p>2. <u>CHARGES FOLLOWING THE SALE</u></p> <p>Buyers understanding is that growers are not generally aware that:</p> <ul style="list-style-type: none"> * Buyers are charged a Post Sale Service Charge (PSC) by the broker. * This charge varies considerably between brokers. * It is an operational cost to the buyer; and is deducted from his / her buying limits. <p>2. <u>SHOULD THERE BE A STANDARDISED ACCOUNT SALES?</u></p> <p>Whether or not there should be an Industry Standard Account Sales Document is broker / grower issue.</p> <p>As a general comment, standardisation of all forms of documentation is invariably beneficial to the provider and the receiver of services.</p>
<p>6.</p>	<p>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?</p>	<p>ACWEP is not in a position to comment on this issue.</p> <p>It is understood that there are some tiered services available now; e.g. Elders Premium Service.</p>
<p>7.</p>	<p>Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period?</p> <p>(ie. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?)</p>	<p>Extension of the buyers' prompt period would create greater financial flexibility for buyers, particularly since the departure of the "corporates" (and their greater financing power) from the wool buying industry.</p> <p>The greater flexibility becomes very pertinent when:</p> <ul style="list-style-type: none"> * The market rises and the rise in prices leads to a consequent increase in auction offerings, as occurred in late January / early February this year. <p>The rises in both volume and in prices increase buyers' financing requirements, which put pressure on individual companies' ability to participate in an auction if they are not able to increase or extend their borrowing limits.</p> <ul style="list-style-type: none"> * Sudden increases in volume occur for any other reason. <p>Increasing the prompt period, will provide greater flexibility for buyers that will be of benefit to growers.</p> <p>The approximate cost, on average, to a grower would amount to about \$1.20 per bale per week, assuming an average clean price of 1050¢, an average greasy bale weight of 178 kg, a yield of 68% and an interest rate of 5%.</p> <p>Buyers understanding is that a limited numbers of growers are aware of the possible benefits from extending the prompt date.</p>
<p>8.</p>	<p>ANY OTHER COMMENTS</p>	<p>1. The current open-cry auction is widely accepted as an efficient method of price realisation / discovery that sets benchmarks for the industry.</p> <p>This would need to be emulated by any proposed new or amended form of large scale exchange of ownership.</p> <p>2. The open cry auction reflects the market. It does not set the market.</p>

PHASE 6 - EXPORT PROCESS

	PHASE 6 EXPORT PROCESS	ACWEP COMMENTS
1.	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.	<p>Such opportunities existed in the past when greater amounts of wool were shipped to the United Kingdom and Europe.</p> <p>Maximum rates were negotiated annually through a joint Australia / United Kingdom / EU Committee known as the Wool Commodity Group (WCG).</p> <p>The negotiations ceased in 2009 by which time wool exports to the UK and the EU had fallen significantly and the EU introduced legislation that limited the ability to negotiate with groups such as the Conference Lines.</p> <p>There has been no industry-wide attempt to negotiate with shipping companies for wool going to China, as wool is able to attract very favourable “back loading” rates because of the surplus of containers coming from China to Australia.</p> <p>Wool exporters are currently able to negotiate charges of around \$500 to ship a 20 foot container, or around \$400 to ship a 40 foot container from the Australian east coast to China.</p> <p>Equivalent charges to Europe are in excess of \$2,000 for a 20 foot container.</p>
2.	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.	<p>ACWEP is not aware of any recent attempts to collectively bargain with the dumps.</p> <p>There are three dumps in Melbourne, two in Sydney and one in Fremantle.</p> <p>ACWEP is not aware of any proposal to establish an industry owned facility. But, It may well have happened in the past. Most brokers had their own dumping facility prior to the introduction of triple dumping. AWH provides dumping services. It was 100% owned by Brokers at its inception. It is now 50% by a wool broking company.</p> <p>A buyer consortium established a dumping company in Fremantle around 1970. It no longer has any buyer shareholders.</p>
3.	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.	
4.	ANY OTHER COMMENTS	

PHASE GENERAL – Wool Industry Institutions

	<p align="center">PHASE GENERAL WOOL INDUSTRY INSTITUTIONS</p>	<p align="center">ACWEP COMMENTS</p>
<p>1.</p>	<p>AWEX undertakes a variety of tasks, including market reporting and ensuring accuracy in wool description, that help the wool market to perform efficiently.</p> <p>In a similar vein, AWTA supports market efficiency by providing critical data describing the range of wool characteristics.</p> <p>Would there be advantage in combining the activities of AWEX and AWTA?</p>	<p>AWEX and AWTA both provide essential services to the wool industry.</p> <p>A merging of AWEX’s and AWTA’s activities has been suggested in the past; but has never progressed.</p> <p>Notwithstanding this, there has been some rationalisation of activities, e.g. AWTA is represented in all sampling centres and now conduct Quality Assurance audits of sampling line operations for AWEX.</p> <p>These assessments were formerly conducted by AWEX staff. The new arrangement saves the need for AWEX staff to travel from their locations in Sydney, Melbourne and Fremantle to each sampling centre.</p> <p>In recent years:</p> <ul style="list-style-type: none"> * Wool production has fallen from 776 mkg in 1993/94 when AWEX was formed to 341 mkg in 2013/14, a fall of 56.1%. * AWEX’s functions have progressively become more technically oriented, while their role in the management of wool auctions has lessened since AWH commenced offering in sale room services in 2005. <p>A merger would potentially benefit the wool industry by</p> <ul style="list-style-type: none"> * Creating a single wool industry technical / standards organisation. * An integration of technical functions related to the exchange of ownership. * Providing AWEX with access to the AWTA’s research resources. * Providing AWEX with a representation in regional wool receipt / sampling locations. * A rationalisation of Head Office and IT functions.
	<p>Is there an opportunity to increase competition in wool testing services currently provided by AWTA?</p> <p>Should woolgrowers be able to nominate what tests they would like performed on their product and pay accordingly for the services provided?</p>	<p><u>IS THERE AN OPPORTUNITY TO INCREASE COMPETITION IN WOOL TESTING SERVICES?</u></p> <p>Conceptually, the answer is YES, but there are a number of points to be considered</p> <ol style="list-style-type: none"> 1. There is no regulatory barrier to entry; and AWTA has had four competitors in the past, including two when Presale testing began. It, it was envisaged that there would be multiple test houses following the introduction of Presale testing, but this did not occur. <p>Each of the other test houses withdrew from the Australian wool industry when the wool clip, and the potential market for wool testing, were much greater than today; and despite receiving a guaranteed share of the market in two cases.</p> <ol style="list-style-type: none"> 2. Individual persons and companies within the industry have expressed concerns about aspects of AWTA dominance and / or service at times. This is not unusual when there is a single supplier. However, there has been no apparent groundswell of desire for a competitor(s) for some years. 3. AWTA has contained annual increases in its charges to zero or to less than inflation over the time since Presale testing commenced in 1972.

4. **The absence of competitors is (at least partly) counteracted by:**
 - * **AWTA's corporate structure as a Not-For-Profit Company Limited-by-Guarantee; and whose Members are the industry Associations that represent AWTA's key client groups.**
 - * **Its success in containing charges.**
 - * **Its contributions to industry good functions, particularly through its R&D team and its commitment to education through its 50% role in the Australian Wool Education Trust (AWET).**
 - * **The prohibition on the distribution of funds in its Articles of Association.**
5. **It seems likely that any potential competitor would be wary of entering the market in the near future, given:**
 - * **The above information.**
 - * **Australia's falling wool production.**
 - * **AWTA's entrenched position over a long period of time and its industry and client relationships.**

The realistic situation is that AWTA is unlikely to face competition in its Presale testing and its related services, at least in the foreseeable future, unless there was an expectation of receiving a significant share of the market. This has occurred in the past, but was not sufficient to ensure financial viability.

If a competitor(s) is considered unlikely, it is essential that AWTA maintain its current commitment to the wool industry. This is probably best assured through its corporate structure.

SHOULD GROWERS BE ABLE TO NOMINATE SPECIFIC TESTS?

1. **The wide scale adoption of Presale measurement for yield, vegetable matter content and fibre diameter in the 1970's occurred because:**
 - * **There was a developing commercial demand for the use of these measurements in the prediction of processing performance.**
 - * **Processors were increasingly asking exporters to comply with specified objective test results for fibre diameter, vegetable matter and clean weight (yield) in their deliveries from the 1960's.**

i.e. there was a demand for this "suite" of measurements that was extended into Presale testing.
2. **It soon became apparent that it was not in wool growers' interest to provide any Presale data unless it included the full suite of measurements, as such lots did not attract maximum competition in the sale room.**

This was extended to staple measurements when they became a normal part of Presale testing in the 1980's.
2. **Other measurements, such as scoured wool colour, are available, but are not included in the suite of Presale measurements because of the lack of commercial demand.**

However, this does not stop a grower asking his broker to request that his / her wool be tested for colour. ACWEP understands that such requests are rare.

<p>3.</p>	<p>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?</p>	<p>Mergers are influenced by the synergy, or lack of the lack of synergy, between the merging organisation, geographical proximity, the opportunities to rationalise services and to achieve savings.</p> <p>Among the industry Associations, the post farm industry has responded in two ways:</p> <ol style="list-style-type: none">1. By rationalisation of the supply of administrative services. The establishment of the Australian Wool Industries Secretariat (AWIS) in 1999 is the best example of this. AWIS's services are utilised by all but one of the post farm industry Associations and by the Australian Superfine Wool Growers' Association.2. By mergers between industry Associations. This is only likely to be successful if there is a synergy of interests, e.g. the merger of the Australian Council of Wool Exporters (ACWE) and the Australian Wool Processors Council (AWPC) to form the Australian Council of Wool Exporters and Processors (ACWEP) in 2006 was successful for wool exporters and early stage wool processors, but not for downstream processors whose issues had little in common with those of wool exporters. They soon left the new organisation. <p>Greater utilisation of AWIS's service provides opportunity for any further rationalisation of wool industry Associations.</p> <p>The opportunity for a merger of AWEX and AWTA function is discussed in Part 1 of this phase.</p>
<p>4.</p>	<p>Talman Solutions provide the majority of wool exporters and a large number of wool brokers with inventory management IT systems.</p> <p>Do the systems provided by Talman Solutions generally meet the requirements of their customers?</p> <p>Is there potential for greater competition for this service offering within the wool industry?</p>	<p>As stated in the Issues Paper, Talman is not the only supplier of IT services to the Australian wool industry. But, it is by far the dominant supplier.</p> <p>Talman commenced as the result of an in-house IT development in the former wool buying company Lohmann. This occurred just prior to a rapid increase in the demand for computerised systems in the wool industry in the late 1970's / early 1980's that Lohmann was able to take advantage of. They soon became the major supplier of IT systems to the wool industry.</p> <p>The IT group within Lohmann separated from Lohmann and established themselves as Talman in the early 1980's. Talman's position was strengthened when they were awarded the contract to supply electronic data exchange services for the wool industry in the mid 1980's.</p> <p><u>DO THE SYSTEMS PROVIDED BY TALMAN SOLUTIONS GENERALLY MEET THE REQUIREMENTS OF THEIR CUSTOMERS?</u></p> <p>The answer is a qualified YES. Otherwise, the wool industry would have failed to reach its current level of use of information technology in the management of individual company businesses and in the electronic exchange of data.</p> <p>However, some exporters have expressed concerns about the quality of Talman's services and the time taken to respond to requests for change.</p> <p><u>IS THERE POTENTIAL FOR GREATER COMPETITION?</u></p> <p>Alternate (competitive) options currently exist, but the scale of their client bases is small when compared with Talman.</p> <p>Would a large IT company be interested? There have been none to date that ACWEP is aware of.</p>

		<p>Looking more broadly at this issue, the viability of Talman as a supplier of IT services to the wool industry is potentially of greater concern, given industry understanding of the age of the current systems, the current size of the wool industry and the sale of Talman to a non-wool industry company.</p> <p>It is an issue that has been discussed within ACWEP and will need to be addressed at some stage.</p> <p>In any discussion of this nature it needs to be remembered that a number of the larger companies have their in-house IT systems.</p>
5.	ANY OTHER COMMENTS	

PHASE GENERAL - AWEX MARKET REPORTING

	PHASE GENERAL AWEX MARKET REPORTING	ACWEP COMMENTS
1.	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?	<p>AWEX Market Reports provide average price data within given fibre diameter ranges and wool types; and between Selling Regions.</p> <p>As such it probably meets (or largely meets) the requirements of wool growers who can follow price trends and benchmark their prices against the relevant market indicators. That is for wool growers to determine.</p> <p>It does not meet the complete needs of wool buyers in many instances because:</p> <ol style="list-style-type: none"> 1. While an average is suitable for providing an overall view of the market, buyers need to provide additional information / interpretation in other situations, e.g. for wool types whose prices have moved differently to the AWEX EMI or the relevant Micron Price Guide. <p>Buyers report the market (or relevant parts of the market) to their clients.</p> <ol style="list-style-type: none"> 2. Day-to-day changes in the type of wool or quality on offer can lead to misinterpretation of changes in the market by people remote from the sale. 3. Prices for Tasmanian wool sold in Melbourne are discounted for the additional cost of shipping the wool to Melbourne for trans-shipment overseas. This is not highlighted in the AWEX Market Report. 4. The EMI can be biased upwards or downwards if only one of Sydney or Melbourne is selling on a particular day. In these cases, the EMI is calculated using data from the previous selling day in the non-selling centre. This is of little consequence if changes in the market are small, but can be significant if the market moves sharply. <p>This does not apply to individual Micron Price Guides (MPGs), as they are only reported on a Region-by-Region basis.</p>
	Is there sufficient access to AWEX market information?	<p>Yes. It is widely available on a Fee-for-Service basis; and the key data are reproduced in the rural media and in reports provided by various industry participants.</p> <p>In fact, buyers have concerns that some commercial information is too accessible. AWEX is examining these issues and intends addressing these concerns shortly on a trial basis.</p>
3.	What influence (if any) does the AWEX market report have on purchasing decisions made by overseas wool processors when negotiating with Australian wool exporters?	<p>It can have an effect on the negotiating positions taken by overseas clients if they try to extrapolate from the averages reported in the AWEX Market Report to a particular wool type whose price has moved differently to the EMI or to a relevant AWEX Micron Price Guide.</p> <p>Every wool buyer experiences this situation.</p>
5.	ANY OTHER COMMENTS	

PHASE GENERAL – CENTRALISATION

	PHASE GENERAL CENTRALISATION	ACWEP COMMENTS
1.	What are the benefits and costs of any move to centralise the sale of wool?	<p>Centralisation is the issue on which there is the greatest variation among buyers' views.</p> <p>The Report from the 2009 Review conducted by Mick Keogh (“<i>The Costs and Benefits of Alternative Selling Arrangements for Australian Wool</i>”) found that the distribution of support for greater centralisation was strongly bimodal, with most responses either strongly for or strongly against. Relatively few responses were neutral.</p> <p>Individual buyers will present this own views in their submissions.</p> <p><u>CENTRALISATION IN THE PAST</u></p> <p>From an historical perspective, there were significant cost savings in past acts of centralisation when the adoption of Presale testing and Sale-by-Sample; and the ability to move samples at a relatively low cost to central areas for valuing meant that:</p> <ol style="list-style-type: none"> 1. Buyers (and brokers) no longer had to travel to regional centres to value the wool samples; and 2 Wool bales could be left in cheaper regional locations until called for delivery. <p>This led to progressive centralisation of wool selling centres from thirteen to the current three. The first centralisation was of Albany wool sales into Fremantle around 1978; and the last was when Newcastle was centralised into Sydney at the end of the 2012/13 Selling Season.</p> <p><u>THE ISSUES TODAY</u></p> <p>The issues are different today, as buyers are located in Sydney, Melbourne and Fremantle and do not necessarily have to travel to value wool samples.</p> <p>The current issues include matters such as staffing, the cost of maintaining multiple selling centres with the current level of production, and whether the presence of multiple selling centres provides opportunities for greater competition.</p> <p>The Keogh Survey identified potential savings and potential costs which were not necessarily consistent between centres.</p> <p>The Keogh survey process included regional meetings in Sydney, Melbourne and Fremantle, followed by a concluding (and very well attended) industry meeting in Sydney.</p> <p>The principal outcomes of the Sydney meeting were that there should be no industry led move towards further centralisation. Rather, any such move should be initiated by commercial operators.</p>
2.	Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool?	<p>This is largely unknown.</p> <p>Presumably, the first aim would be to consolidate the existing auction sale processes in the new centre.</p>
3.	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?	<p>ACWEP believes that it is more appropriate for individual companies to present their views and data given the diversity of views among buyers.</p>

4.	What financial impact would centralisation of wool storage centres have on the exchange of ownership process?	Warehousing issues are better addressed by brokers, private treaty merchants and the suppliers of contract warehousing services.
5.	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?	The most relevant study is that conducted by Mick Keogh in 2009, as it reflects the issues of today more accurately than could be achieved from earlier reviews. As mentioned above: * The Keogh Survey identified potential savings and potential costs which were not necessarily consistent between centres. * The principal outcomes of the concluding meeting in Sydney were that there should be no industry led move towards further centralisation. Rather, any such move should be initiated by commercial operators.
6.	ANY OTHER COMMENTS	Note, Mick Keogh of the Farm Institute conducted the 2009 Review, “<i>The Costs and Benefits of Alternative Selling Arrangements for Australian Wool</i>” for ACWEP, The National Council of Wool Selling Brokers of Australia (NCWSBA), the Inland Wool Brokers Association (IWB) and the Federation of Australian Wool Organisations (FAWO). The Panel has a copy of the Keogh Report

PHASE GENERAL - DIGITALISATION

	PHASE GENERAL DIGITALISATION	ACWEP COMMENTS
1.	<p>Can Australian wool be appraised without physically handling a wool box sample?</p> <p>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?</p>	<p>We assume that the questions in this Phase separate “on-line appraisal” from “on-line selling”.</p> <p>Our response to this specific question addresses on-line appraisal.</p> <p>The CSIRO Division of Textile Physics (based in Sydney) invested significant funds and resources in the development of a “Computer Aided Valuing” (CAVs) system in the second half of 1980’s / early 1990’s. This was done in association with the research underway to develop techniques for the measurement of the characteristics of “Style” referred to previously.</p> <p>This work involved taking a digital photograph of the display sample that could be downloaded to a computer. The aim was to assess whether the photo, together with the measurements for “Style” and other parameters, were sufficient to be able to appraise and value wool prior to sale.</p> <p>Our recollection is that this work reached a first prototype stage, but was not considered “good enough” to replace the sample for appraisal and valuing purposes.</p> <p>The Division of Textile Physics merged with the CSIRO Division of Textile Industry in Geelong in the early 1990’s; after which the work was not continued when a lot of wool related research was rationalised following the collapse of the Reserve Price Scheme.</p> <p>More recently, the Canowindra based private treaty merchant and wool broker, Bryton Wool, developed a video technology based system in 2009 that allows images of his wool samples to be displayed on the internet.</p> <p>While this system is suitable aid for private treaty trading, it is not suitable for high volume exchange of ownership.</p>
2.	<p>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?</p>	<p>One would expect the answer to be YES, and it would need to be YES, given that price realisation:</p> <ul style="list-style-type: none"> * Is available on the only current electronic platform, namely WoolTrade. * Was available in the attempts to electronically replicate the open cry auction; and that * Grower participation is likely to be minimal in the absence of price realisation.
3.	<p>What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it?</p>	<p>This question has two parts:</p> <ul style="list-style-type: none"> * On-line appraisal; and * On-line selling. <p>ACWEP’s comments about on-line appraisal have been discussed above in detail in response to questions about Sale-by-Description.</p> <p>With regard to on-line selling, as discussed previously:</p> <ul style="list-style-type: none"> * There are likely to be savings associated with removal of the need for sale rooms. * Attempts to date to introduce mass exchange of ownership via electronic means were not successful and would be expected to add to buyers costs, with no net benefit to wool growers. * It is reasonable to expect that growers will benefit from any savings that might be achieved if there was a net benefit and a suitable platform could be developed. That has not been possible to date.

<p>4.</p>	<p>Why have previous attempts at the online selling of wool failed?</p>	<p>As discussed earlier, previous attempts at on-line selling have failed because they have either:</p> <ol style="list-style-type: none">1. Attempted to emulate the current progressive open cry auction, where:<ul style="list-style-type: none">* The rate of selling was too slow. This would have led to increased costs for wool buyers.* Were designed more from the selling agent's perspective than the buyer's.* Failed to take into account all of the sociological aspects associated with bidding in an electronic environment.* Removed much of the "competitive tension" present in the sale room.<p>Changes were made to the selling model to allow buyers to enter bid prices for multiple lots. This also created problems:</p><ul style="list-style-type: none">* When the buyers needed to change their bids because of changes in the market; and* Buyers had less control of the management of their buying quantities.2. Attempted to emulate a tender system (EWP and Woolbid), These initiatives failed to attract sufficient support from growers or buyers because:<ul style="list-style-type: none">* They may have seen as a bit too radical or risky for growers at the time.* Buyers did not have the same control over their purchasing practices as they did in the open cry auction.3. WoolTrade has successfully established an offer board that give buyers 24/7 access to lots available for sale. Its success may be that it operates in a supplementary manner for buyers in that they are able to buy lots to top up orders, or they can try to get some early purchases if they expect the market to rise at the next auction.
	<p>ANY OTHER COMMENTS</p>	<p>The concept of electronic selling has been a discussion point in the wool industry since computers came to be more widely used in the wool industry as a business, rather just for financial management in the 1970's.</p> <p>They have extremely successful as an aid to companies within the wool trade, but have had very little success to date as a tool for the exchange of ownership for a wide range of reasons.</p>

PHASE GENERAL - TRANSPARENCY

	PHASE GENERAL TRANSPARENCY	ACWEP COMMENTS
1.	<p>What scope is there to allow woolgrowers to make better informed decisions in relation to what it is costing them to sell their wool?</p> <p>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?</p>	<p>1. Growers are aware of their direct charges such as shearing, wool packs, freight to the wool store, testing and the brokers' selling charges. These are either paid for directly, or appear on the broker's Account Sales document.</p> <p>The indirect charges, principally the Post Sale Service Charge, charged by brokers to exporters can vary greatly, but are non-transparent to wool growers.</p> <p>2. ACWEP has a strong view that growers should be aware of <u>ALL</u> charges incurred in the exchange of ownership and what services are supplied for those charges. This is no different to buyers or other participants along the pipeline being fully aware of their cost.</p> <p><u>WOULD GREATER UNDERSTANDING OF THE COSTS AND RETURNS REFLECTED IN THEIR FINAL PRICE RECEIVED FACILITATE IMPROVED COMMERCIAL DECISIONS CONCERNING THEIR OWN WOOL GROWING ENTERPRISE?</u></p> <p>One would expect this to be the case.</p> <p>The level of total charges may, or may not, be the only factor that influences a grower's choice of broker. But, they are unable to make a fully informed decision unless they are fully aware of all charges and the services received for those charges.</p>
2.	<p>To what extent does the woolgrower understand their own cost of production before their wool leaves the farm gate?</p> <p>Is there scope for a greater understanding of both production and selling costs to facilitate more informed commercial decisions for woolgrowers?</p>	<p>ACWEP is not in a position to comment on this question.</p>
3.	<p>ANY OTHER COMMENTS</p>	

PHASE GENERAL - SELLING ALTERNATIVES

	PHASE GENERAL SELLING ALTERNATIVES	ACWEP COMMENTS
1.	<p>Whilst there are numerous selling alternatives to traditional auction that are made available to woolgrowers they can generally be grouped into five categories –</p> <p>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 of each selling avenue.</p>	
2.	<p>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.</p>	
3.	<p>Why has there been minimal woolgrower adoption of these alternatives?</p>	<p>This is a question for growers.</p>
4.	<p>Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these selling alternatives?</p>	<p>ACWEP is not in apposition to comment.</p>
5.	<p>Does the industry have the necessary skills, knowledge and expertise to utilise these options?</p>	<p>ACWEP is not in a position to comment.</p>
6.	<p>Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options?</p>	<p>The introduction of any new large scale form of exchange of ownership, or changes to the current model would need to be accompanied by a training / education campaign. The level of up-skilling required would obviously depend on the nature of the proposed change.</p> <p>By way of example, the introduction of Sale-by-Sample and Presale testing was accompanied by a large scale education campaign by brokers, AWTA and the Australian Wool Corporation. It comprised of meetings and presentations in regional towns and woolsheds. It was mostly driven by individual brokers; and without any need for central coordination.</p>
7.	<p>Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction?</p>	<p>ACWEP is not in a position to comment.</p>
8.	<p>ANY OTHER COMMENTS</p>	

FORWARD SELLING AND RISK MANAGEMENT

The Issues Paper raises the issue of forward selling and risk management, noting that:

“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.”

Risk Management in the wool industry has had chequered path since the Sydney Greasy Wool Futures Exchange was established in 1961, driven mainly by the late Clive Hall OAM.

There was steady growth in the use of futures contract by wool growers, exporters and speculators up until the formation of the Australian Wool Corporation and the establishment of the Reserve Price Scheme. The establishment of the Reserve Price Scheme provided wool growers with access to any upside in the market, together with a guaranteed minimum price. Not surprisingly, grower use of Futures virtually disappeared.

Attempts to re-ignite interest in risk management programs after the collapse of the Reserve Price Scheme were largely unsuccessful. The Commonwealth Bank, Macquarie Bank, MF Global and most recently ICAP offered wool futures trading facilities for the wool industry, but were unable to attract sufficient support. All closed their Futures desks, apart from MCF Global which collapsed for unrelated reasons.

ACWEP is not aware of any definitive data as to why wool growers have not provided sufficient support to sustain the above forward trading opportunities. Anecdotal information suggests that issues such as the following played a part:

- * The complexity of the available services when compared with the 1960's/70s.
- * Concerns about the possible requirement for margin calls.
- * Wool is a lesser part of many farming enterprises today. It is also a non-perishable product that can be stored until the market improves.

This is witnessed regularly at wool auctions when there is a significant lift in the market.

Riemann established a service in 2011 that provides a forward contract for physical wool; deliverable to the wool broker's store for up to two wool clips, with maturity dates set by key wool auction dates. This service is available for wools from 18.5 to 23 and for 28 and 30 microns. That service is still available.

The potential role (and opportunities) of forward selling and risk management systems need to be considered in any discussion on the exchange of ownership in the wool industry.

DISAGGREGATION

The Issues Paper asks the question:

“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?”

While this is a question for growers to respond to, ACWEP has argued consistently through its Submission of the need for transparency of charges along the pipeline.

GOODS AND SERVICES TAX

The introduction of the GST in 2000 created a cash flow bonus for domestic companies operating entirely within Australia, but created a cash flow impost for export industries (see Table 1).

Table 1 Example GST Cash Flow				
	Manufacturer Operating Within Australia		Wool Exporter	
	Item	Value	Item	Value
Purchases	Raw Materials	\$100,000	Greasy Wool at Auction	\$100,000
GST Paid		\$10,000		\$10,000
Gross Profit /Margin	Gross Profit	\$20,000	Gross Margin	\$5,000
Sells	Goods Sold to an Australian Client	\$120,000	Greasy Wool Sold to Overseas Client	\$105,000
GST Charged		\$12,000		\$0
GST Difference	\$12,000 - \$10,000	+\$2,000	\$0 - \$10,000	-\$10,000

The negative cash flow position is compounded by the cost of financing the GST outlays. The wool export industry paid almost \$3.5 billion in GST between 2000/01 and 2013/14, during which time it incurred a financing cost estimated to be in the order of \$17 to \$18 million.

Table 2 Estimated GST Paid by Wool Exporters Since 2000/01			
Year	Wool Exports (\$ million)	GST Paid (\$ million)	Est Finance Cost (million)
2000/01	\$3,539	\$336	\$1.81
2001/02	\$3,375	\$321	\$1.73
2002/03	\$3,327	\$316	\$1.70
2003/04	\$2,459	\$234	\$1.26
2004/05	\$2,434	\$231	\$1.24
2005/06	\$2,205	\$210	\$1.13
2006/07	\$2,692	\$256	\$1.38
2007/08	\$2,469	\$235	\$1.26
2008/09	\$1,999	\$190	\$1.02
2009/10	\$2,001	\$190	\$1.02
2010/11	\$2,597	\$247	\$1.33
2011/12	\$2,646	\$251	\$0.85
2012/13	\$2,417	\$230	\$0.77
2013/14	\$2,403	\$228	\$0.77
Total	\$36,563	\$3,474	\$17.27

While this situation affects all export industries, its impact is greater in the wool export industry because:

1. The cost of the wool bought for export is a very high proportion of wool exporters' operating costs.
2. As a high value product, the cost of wool purchases far outweigh exporters' other costs, of which the principal ones are staff, costs incurred in exporting the wool, rent, communication and travel.

This differs from most other export industries which value-add along the way or extract their export product themselves, such as in the mining, energy and fishing industries.

ACWEP has unsuccessfully (to date) approached the Federal Government since 1999 in attempts to have this anomaly recognized and corrected. ACWEP has a simple suggestion as to how it may be corrected with minimal impact in Canberra or in exporter's offices.

RAISING THE MINIMUM BALE WEIGHT AND MAXIMISING AVERAGE BALE WEIGHTS

ACWEP and the Private Treaty Wool Merchants of Australia (PTWMA) were engaged in work through 2013 and 2014 that was designed to assess the opportunities to increase the minimum bale weight for non-speciality wools from 100 kg to 130 kg. It is thought to have been 110 kg since the second half of the 1970s when there was much less use of hydraulic presses.

AWTA kindly made data available for this work.

Reasons for initiating the work were concerns about:

- * Occupational health and safety issues arising from difficulties in handling.
- * Greater difficulty in core and grab sampling.
- * Problems at the dumps.
- * Problems in stacking bales in-store, on trucks and in transport.
- * Higher costs when per bale charges are converted to a per kilogram basis.

There was also concern when looked at from a grower perspective because:

- * Lightweight bales often attract less competition in the sale room.
- * Lighter weight bales experience a non-transparent price penalty when the various per bale charges incurred along the pipeline are converted to a per kilo basis.

The aim of the work was to minimise the number of lighter weight bales and to encourage growers to press heavier weight bales (without exceeding the upper limit of 204 kg).

Raising the Minimum Weight to 130 kg

The principal outcomes of the work showed that:

- * 4.4% of all bales were between 110 and 129 kg.
- * 19.0% of lots contained one or more bales between 110 and 129 kg.
- * 83.6% of these lots had an average weight of 130 kg or more.

This indicated that the weight of a very high proportion of bales between 110 and 129 kg could be lifted to 130 kg or more by more even pressing in the shearing shed.

The data also indicated that much could be achieved just by concentrating on the weights of the last two bales.

The ACWEP / PTWMA proposals were widely, but not universally supported. Both Associations were disappointed that AWEX (who is responsible for determining the minimum and maximum bale weights) decided that the new minimum weight would be 120 kg, rather than 130 kg, the extensive objective data supporting their proposals.

The Impact of Lighter Weight Bales on the Conversion of Per Bale (or Lot) Charges to a Per Kg Basis

Per per bale charges include wool packs, freight from the woolshed to the broker’s warehouse, the brokers charges to growers for preparation for sale and selling, wool testing# the brokers post sale service charge (PSC) to buyers, dumping containerisation and transport from the dump to the port.

These charges can add to over \$110 per bale.

AWTA test charges have both a per bale and a per lot component. Hence, the ultimate per bale component depends on the number of bales in each lot.

The impact of lighter weight bales on the conversion of per lot charges to a per kilo basis can be seen in Table 3. Although the total per bale charges can add to over \$110 per bale, the data in Table 3 has been based on a more conservative charge of \$90 per bale.

**Table 3
Conversion of a \$90 / Bale
Charge to Cents / Kg**

Average Bale Weight	Cost /kg (greasy)
190 kg	47¢
180 kg	50¢
150 kg	60¢
130 kg	69¢
110 kg	82¢

Most wool growers do an excellent job of ensuring that their wool is pressed to heavy weights (see Appendix 3).

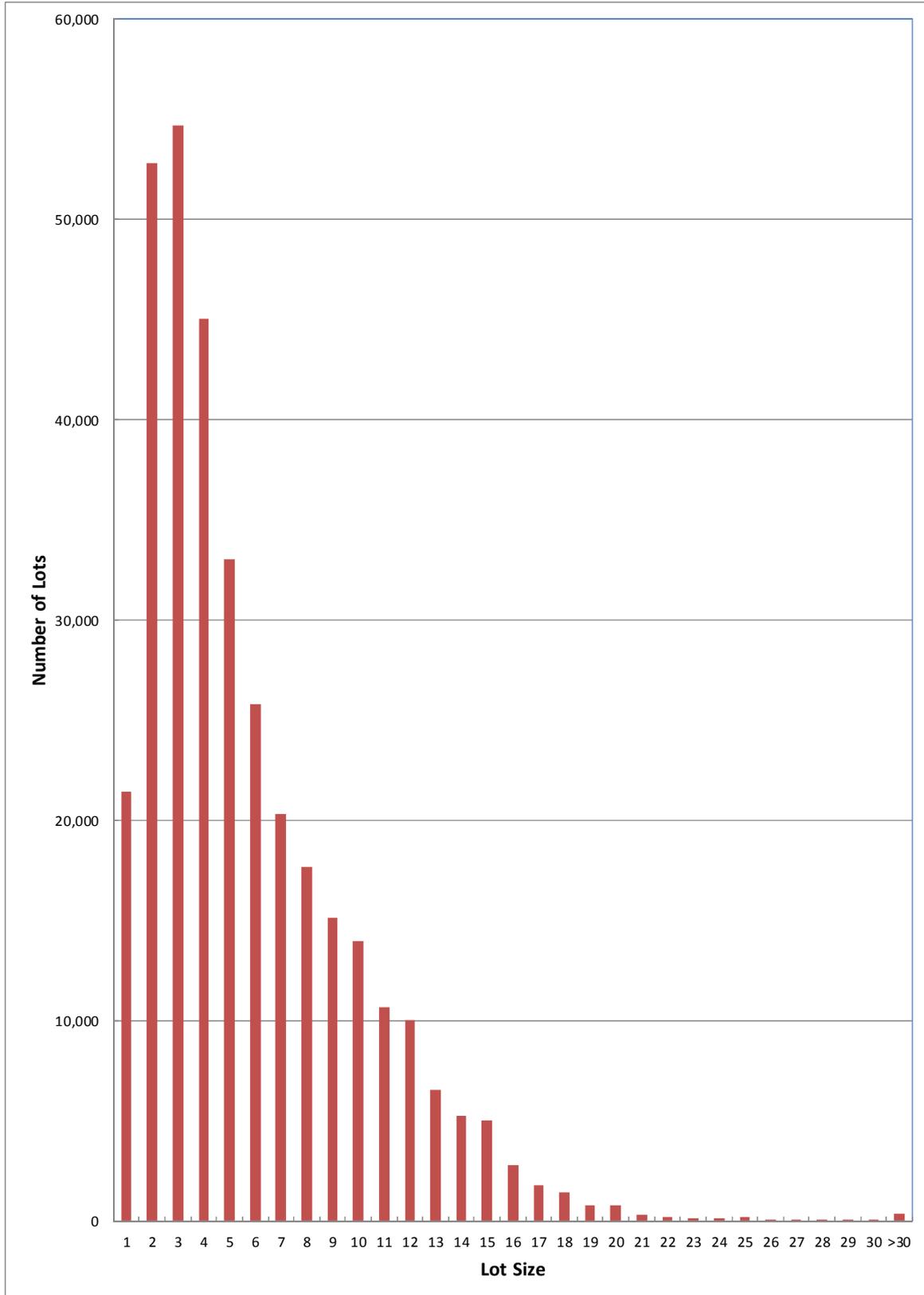
The above data clearly demonstrates that there are advantages for those growers who are pressing lighter weight bales to lift their average bale weight.

APPENDIX 1

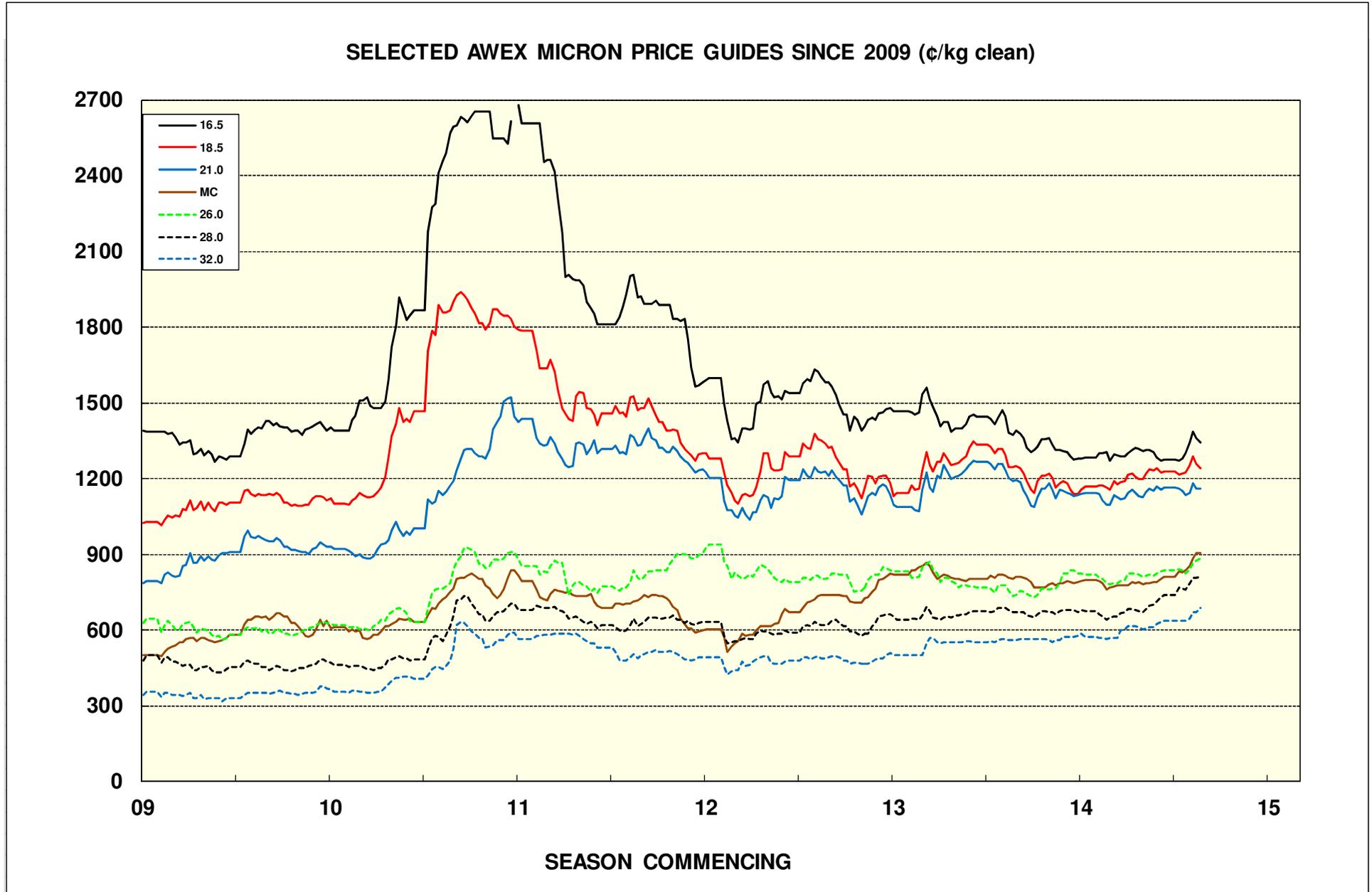
Distribution of Tested Lot Sizes - AWTA 2012/13

All Lots

Number of Lots = 346,917
Average Lot Size = 5.8 bales
Median Lot Size = 4.0 bales



APPENDIX 2
(Note MC = Merino Cardings)

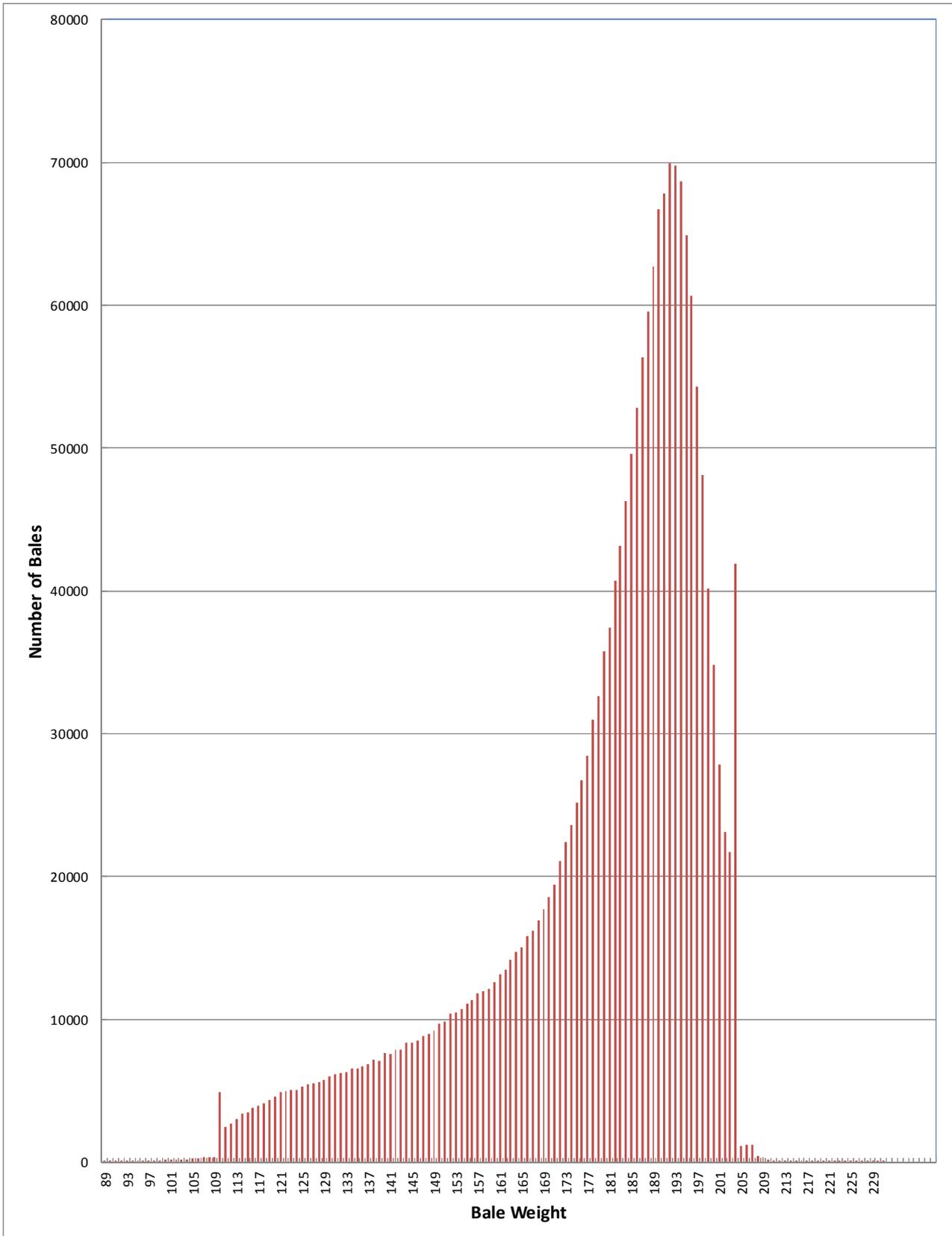


APPENDIX 3

Distribution of Tested Bale Weights - AWTA 2012/13

0

Number of Bales = 1,999,413
Average Bale Weight = 178 kg
Median Bale Weight = 185 kg



APPENDIX 4

EASTERN MARKET INDICATOR (EMI) SINCE 1999/00 (¢/kg clean)
(In Australian, United States and European Currencies)

