

Wool Selling Systems Review
Submission
February 2015

Wool is a complex, wonderful natural fibre. It also has a complex supply chain and the opportunity to review at least part of it is welcome.

For many it is an emotional part of their lives, and this does create some difficulties when changes are required as objective, dispassionate discussions are often hard to have

Nevertheless the time for a review into the processes and procedures of the wool industry is overdue and hopefully some meaningful improvements can be made.

There are many if not all, who are involved in the industry who want to see an improvement and make changes that will provide for a prosperous industry for the years ahead, and hopefully all sectors of the industry will cooperate towards this common goal.

Having been a woolgrower, classer, processor, trader, broker and consultant over the past 30 years I remain committed and passionate about this wonderful fibre and am grateful for the opportunity to submit some thoughts on the current state of affairs in the hope that positive changes will result.

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PHASE 1

WOOL PREPARATION

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

- ☐☐ Are the direct costs incurred by the wool broker in conducting these visits considered to be part of the broker service charge (BSC) incurred by woolgrowers post auction in the account sale? And, if so is there scope for a “user pays” component should the woolgrower not require this level of service?

The role of the wool broker is one that is always changing, adapting and being modified to suit the customer, be they the grower, the buyer or indirectly the final customers of Australian greasy wool. As most in the industry acknowledge the most open line of communication to Australia’s woolgrowers is via their wool broker.

The wool broking industry has undergone significant change in recent years as new entrants have emerged and new levels of service are offered. As such most major brokers already offer tiered service levels, or different charges depending on client requests. Not all growers want the “full service” model, and cost pressures in the real world dictate what is provided and charged for.

- ☐☐ During the farm visitations is the wool broker able to provide the woolgrowers and/or classer with recommendations on how best to class and prepare the wool to meet with current customer requirements? Or is the classing advice designed to meet with the AWEX “Code of Practice” for classers?

The skill of the wool broker obviously varies depending on the individual and the resources provided by the parent company. Some will impart valuable information regarding current market trends and concepts based on experience, or correct in-shed practices that will improve financial returns, whilst others will waffle about generic market reports and provide little useful information. A free market does exist with nearly every grower having multiple brokers seeking the business and therefore he/she is able to decide which broker provides the best value for money.

- ☐☐ To what extent are the wool brokers providing woolgrowers with information they already have? Do wool brokers have an expert understanding of market developments and implications for sheep husbandry and wool production?

Like any industry there are those participants who are good at gathering information and those who seek it from other specialist providers. It is entirely up to the individual grower as to how much, or how little information they seek from the broker. Some regard their wool broker as a great source of information, and others find it elsewhere. As above most growers are astute enough to determine if their broker provides value for money.

- ☐☐ Is there scope for the wool broker to provide additional services during the farm visitation?

As in any business transaction the customer will determine if further goods and services are required, and a proactive business will find ways to differentiate their offering from others.

- ☐☐ In the last decade China has become the largest buyer of Australian wool taking nearly 80% of the total wool clip. This dominance has been accompanied by a more commodity based approach to wool usage as a fibre. Does this evolution present opportunities to create greater efficiencies at

the point of shed preparation (for example larger lot sizes) and should the classing “Code of Practice” be reviewed to better suit this evolving processing consumer base?

On one hand topmaking plants - mainly in China – have become larger so batch sizes have increased as the mills chase efficiencies. On the other hand the reduction in wool production has meant that wool is becoming more of a niche fibre thus negating the commodity trend in the not too distant future. Whilst there is a constant call from buyers for increased lot size in order to save costs, a rampant charge towards huge commodity sized parcels made in the shed could lead to disastrous consequences if not managed extremely well. The potential damage caused by lotting inappropriate wools together in shed, thereby restricting competition on a grower’s wool may far outweigh perceived savings in the pipeline.

Many people remember, and still champion causes such as ‘fibre direct’ or unskirted wools. It is inherently difficult to quantify the market price differentials under the current selling systems but to remove one single buyer from competing at auction on a clip must surely be detrimental to the price received. The industry needs to carefully evaluate if being a commodity is the path it wants to head towards, or if there is more benefit in the long run of being a prestigious, niche fibre that is grown, prepared and marketed in that way.

PHASE 2 DELIVERY AND TESTING

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

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

The sanctity of the sample is always paramount to provide confidence in the test results. At present it is possible for a grower to test in shed and receive a test report as opposed to a test certificate. So the option exists, although a further test will still need to be done prior to export in order to obtain a certificate, so there is no saving possible under the current regime.

If a grower has no intention of selling his wool in the near future, storage on farm may be a cheaper option, but for those who will market “when the price is right” all brokers will provide a reasonable time of storage ‘free of charge’ and there is plenty of publicly available information for a grower to be able to calculate an estimate the current market value of his clip.

- ☐☐ Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?

The current system has evolved over several decades and although there is only currently one provider of testing in Australia (AWTA) their constitution provides less incentive to take advantage of a monopoly situation than a purely private institution would. No doubt there is a constant review of practices and procedures to drive efficiencies, but the only way to achieve meaningful progress would be to centralise operations.

Given that nearly all wool, with the exception of the small amount processed locally, is exported from the major centres, the wool must end up there anyway. It would make logical sense for the wool to go there sooner provided storage costs were not increased.

A larger volume of wool sent directly to Melbourne rather than stored in regional centres until point of sale could provide some meaningful savings if ALL testing, coring etc. was performed at one site rather than the plethora of regional site where it currently occurs.

Storage, and indeed sampling and testing would then become a large and more efficient business operation with possible competition entering the market. The volumes available under a centralised East coast model would ensure that other storage, testing and sampling businesses evaluated the process and kept costs competitive.

- **After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?**

This issue is only background noise: there are more than 250,000 grab samples taken and someone must re-sort the wool and get it back into useable parcels. Different brokers have different methodologies to account for this, but market forces will dictate what is reasonable. Some might like to make a lot of fuss about it, but it is hardly an issue that will be the difference between survival and failure for a wool growing enterprise.

- **Can AWTA testing be performed on-farm or at another regional location of the woolgrower's choice if such alternatives are preferred?**

There is no logical cost-saving reason to test in an alternative location unless the grower or his agent require an in shed test report which is currently available. Reviewing the wool selling systems is about saving costs or generating more competition in order to improve grower returns. Testing more wool in one centre so that efficiencies can drive down costs is a more valid path to take. The theme of centralisation, whilst maintaining integrity of the product seems to be worth developing.

- **AWTA currently tests for a multitude of measurements including micron, vegetable matter (VM), yield, length, strength, CVD, CVH, position of break, wool base etc. Are there additional characteristics AWTA should test for that would enhance the objective description process and possibly open up alternative processes for the sale of wool?**

Wool testing has developed quite appreciatively in the past 25 years and most topmakers would agree that current test methods provide reliable predictions. To make bread and butter wool tops, current testing is sufficient. However there are always other characteristics that cannot be objectively measured that are required for SOME processing orders.

There is also a growing trend in processing away from large bulk processing lots towards higher quality types as spinners, weavers and knitters react to tighter specifications from retailers. The days of commodity processing may be numbered and it would be a travesty to see the wool industry head down the wrong path.

Be it carding wools, or superfine wools, or simply out of the ordinary lots, human assessment is probably the cheapest valuation process. Perhaps the actual cost of man-hours attributed to valuing wool needs to be calculated to quantify the savings that may or may not be achieved? Given that most wool buyers perform many tasks, not just valuing, the cost saving of removing that particular task may not be as great as many expect.

Centralising to perhaps two locations only (East and West) so that the wool buyer valuing time is more efficient along with other processes such as storage, sampling, testing and selling would lead to far greater cost savings one suspects.

PHASE 3 WOOL APPRAISAL

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

- Can any efficiencies or cost savings be achieved within the appraisal stage of the wool supply chain through some consolidation of the three forms of inspection? For example, why not just have the AWTA apply an AWEX type rather than have the wool broker and AWEX both complete this task?
- Can a combination of AWTA test results and a singular, industry accepted valuation standard provide an online platform for wool to be appraised and valued? If so what efficiencies and costs savings (if any) can be achieved?

There is a school of thought that the majority of wools can be typed on the core line when grab samples are taken. Given the pretence that buyers will still inspect wools anyway – and assume the risk of correct assessment - this would reduce some costs. However to obtain a holistic view of the clip, preparation standards and indeed classer performance it would only provide a very narrow view compared to the current box system.

Most brokers now have an efficient system for lotting and valuing clips on the showfloor, and given that their appraisers are AWEX accredited, surely they can also be tasked with policing clip preparation standards as well.

Again, should the industry be heading down the path of producing and selling a commodity with little regard for maintaining the highest standards of quality, or protecting the integrity of a specialised, premium fibre and selling it in such a way to those who value the product and pay a premium for it?

By centralising selling centres, and also receival centres to one East coast location, far greater savings may be achieved through economies of scale rather than shaving a couple of man hours here or there.

- To what extent is physical inspection a necessary element of appraisal and valuation? Would the woolgrower be disadvantaged by relying solely on appraisal and not displaying the physical wool sample?

The Industry did sell the equivalent of a year's production by description – via the AWC stockpile. However in that case, the wools had been inspected and appraised at one point by AWC staff. AWC also stood by their valuation and in some cases paid compensation if they were shown to be wrong. Wool buyers currently assume this risk, and they rightly point out that they need to see the sample themselves if they are going to continue to carry the risk. Putting more risk back to the grower is not in his long-term interest, and those involved in exporting know only too well how much risk is actually involved. Those in the growing and broking fields probably have little understanding of the magnitude and certainly do not wish to own that risk.

- 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?

A large proportion of wool can be adequately described if it is destined for bread and butter production. However as previously mentioned those same wools may not be always destined for such orders, or in fact may bring more money if they can be placed into other orders after careful consideration – viewing the sample.

Will sale by description take the industry down the path of a generic commodity – probably yes? Will that provide better prices to growers in the long term – probably not?

Will the savings generated offset the price difference between a commodity product and a niche, premium fibre – probably not, and it is a one-way track.

- Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs?

On some occasions wools are tested that from a processing point of view do not need to be. Examples often quoted are L&S testing of bellies and crossbreds. However in some instances buyers will be able to add lots to an order based on test results obtained when without the test results they would not have been able to. Astute brokers with credible relationships to the buying trade will obtain the best information and feed this back to their clients when there is a cost saving to be had. An industry wide decree would no doubt cause an over-reaction and result in insufficient testing.

- Does the information provided on the showfloor meet buyer needs? What, if any, additional information would be useful? What information could be dispensed with?

Information is king. Technology has improved immensely in the past 25 years to allow buyers to “add-on” their own information or re-sort the current information to suit their individual needs. Removing any aspect of the current information flow creates the risk of alienating a particular customer, which is not the intention of the review.

PHASE 4 PRICE REALISATION

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

- What other selling alternatives exist for woolgrowers in the market place today and how do the selling costs to the woolgrower compare to the traditional auction method? What other methods are worthy of investigation?

There are numerous alternative selling options available to growers today. The vast majority of growers choose not to use them for two reasons. Firstly it is difficult to categorically prove that they will provide a higher price to the grower. Secondly because they tend to force the grower to make a decision about price acceptance rather than letting the auction discover the value of their wool.

Growers are eternally optimistic – some would say ‘they have to be to still be in wool’ – and therefore maintain the belief that the market might go up further, or if they (the buyer or processor) ‘wants my wool now it must mean the price will rise.’

Mill direct orders, which strive to provide a feedback loop from processor to grower, are probably the only orders that have exhibited a degree of success. However they are often constrained by the size of processing orders simply being too large for one grower to have an impact, and purchasing managers at the mills seeking cheap wool, which usually presents the grower with a lower price than broker’s valuation.

Given the current system it is difficult to remove many costs for the selling chain to prepare a mill direct order and still keep other selling options open to the grower. If it 100% clear that the grower will sell direct savings may be possible in lot size, testing parameters etc. However if the possibility exists that the wool may still go to auction if the price offered from the mill is not attractive, all costs are still incurred as normal. Therefore in order to maintain flexibility for their clients, the broker is unable to significantly reduce the cost profile. The overseas customer often has trouble with this concept, as they perceive the wool coming direct from the grower should be cheaper.

- 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?

The easiest way to create competitive tension is to create demand. The tension build very quickly in the auction room when demand is rising, and certainly having the buyers in close proximity to each other does add to the tension, as it does in a physical lamb auction

when buyers are standing next to each other. There is certainly less immediate response in the electronic formats that have been trialled for wool to date. Having computer-generated algorithms trying to better each other as sometimes occurs in currency or equity markets is probably a long way off for wool.

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PRICE REALISATION

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- **□□** 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?

Various alternative selling systems have been tried in the past. None have yet proved efficient enough to replace the open cry auction system, simply because it is so effective. Selling 300 lots an hour whilst the buyers are also reporting the market, calculating averages, adjusting limits is simply beyond comprehension in many other industries. The actual number of bales sold is obviously determined by lot size and that is one easy way to increase the effectiveness of the current system.

However punching bids into a laptop will not significantly increase the overall speed of the transaction unless the sales process was to become totally electronic. This would require limit bids to be loaded prior to auction and that is something that the buying and processing trade is vehemently opposed to doing, so the end result would surely be reduced competition.

- **□□** The present auction system is dominated by exporters purchasing wool on behalf of their clients. Is there further potential to shorten the supply chain and involve downstream interests earlier in the ownership of wool with a view to removing or reducing costs?

In theory yes, but the exporters do fulfil a vital role in the current system by absorbing risk and providing finance as many have written in other submissions. It is imperative that the growers do not incur more risk as a result of changes made to the process.

Some growers have successfully entered into arrangements with downstream customers, however some others have tried with disastrous results due to a lack of understanding of the process. Given that the average woolgrower produces something like 100 bales, and the average top mill requires something like 200 bales per day there is a need to aggregate the raw material in a specialised way.

The actual cost added by the exporter is quite small given the profit margin most exporting companies achieve. In recent years we have seen many corporate entities disappear from wool exporting simply because the margins were too small and the return on capital too low. This underlines the low cost of the service that the exporter 'charges' for the service. Other costs where there is more scope for improvement need to be the focus of this review.

- **□□** The Panel understands that due to a reduction in weekly auction volumes a number of exporters no longer employ a full time wool buyer in each wool selling centre of Australia. This has resulted in a number of commission buyers holding multiple buying limits from a number of exporters. Against this background, is it well known whom a commission buyer is acting for in respect of individual purchases? Do commission buyers confront any conflicts of interest in their purchasing decisions when buying on behalf of clients with similar interests? What effect (if any) do such issues introduce with respect to competition for a woolgrower's wool? Is there a need to cap the number of clients one commission buyer can buy for?

Certainly the reduction in weekly sales volumes across three selling centres have reduced buying staff numbers on the showfloor and having one operator carrying limits for more than one principal occurs, and this would reduce competition in the auction room. It is a free market however and market forces will control this, as will the oversight by principals as they watch to see their interests are being protected. This is becoming far easier nowadays with lot-by-lot data readily available to them. Centralising selling centres to at most, Eastern and Western would alleviate this to a large degree.

- **Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?**

The majority of failures have been due to perceived lack of independence when initiated by one broker, resulting in limited support from growers and buyers. The industry has in the past been fragmented with no central body of sufficient strength to facilitate change to overcome vested interests. Closing the Newcastle selling centre is a case in point where many simply did not expect the industry to ever agree until a perfect set of circumstances prevailed to allow it to happen peacefully.

- **Are auction results communicated in an efficient and timely manner to market participants and thereby enhance the dynamics of the price discovery process? Why is it necessary for AWEX staff to attend auctions to record information for their market reports? Couldn't this information be automatically generated at lower cost?**

The role of AWEX and their market reporting is worthy of further analysis and consideration should be given to alternative proposals. Certainly the value of the EMI as a measure of the market is diminishing to the point where it is becoming misleading given the current dislocation between carding, crossbred and merino fleece price trends. Most useful information comes at a cost, and the relatively wide and open dissemination of market data provided by AWEX has been questioned by others in previous submissions. Growers are ultimately paying for the AWEX service and perhaps it can be provided by other industry sources at less cost given that most brokers and exporters also generate their own market analysis.

- **Are the auctions basically the same in each of the three major selling centres, or do they differ in some respects? Are there transparent rules governing the conduct of auctions? Do auctions in the different centres generally realise similar outcomes for the sale of specific wool types?**

With the exception of storage centre discounts that are never factored into quotes, the market will generally find a level across the country given time.

- **Are there barriers to entry or other impediments impacting participation at Australian wool auctions? Could those barriers or impediments be reduced by adopting alternative processes? What are the key requirements and/or costs applied in order to participate?**

There is very little in the way of barriers to entry at a broking or buying level. Anyone with a clipboard and a Ute can become a broker, and anyone registering with AWEX can become a buyer. Satisfactory financial performance is required in order to continue in either role, however the industry does little to protect itself against a one-off disaster.

PHASE 5 INVOICING AND PAYMENT

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

- **In what proportions is the Post Sale Charge (PSC) borne by the various participants in the supply chain? For example, is the cost incurred by the exporter reflected in the price paid by the**

overseas customer? Or is it taken out of the initial price they bid at auction for the woolgrower's wool?

Ultimately all costs until the ship's rail are paid by the grower, regardless of where they are levied. The buyer receives a limit or a bid based on delivery to the client destination, so deducts all costs along the way in order to calculate an auction bid price.

The PSC is a point of conjecture among the buying trade as it differs widely among brokers and across storage centres. It can be input into the buying barama to remove anomalies but many growers do not view this as a cost that they ultimately pay.

Should the industry move to centralise all wools immediately on delivery as a means to extract efficiencies in testing, sampling and selling processes, much of this PSC would disappear or revert back to the selling cost side of the equation where it would be much more transparent.

- **What services are provided by the wool broker to the woolgrower that are covered by the Broker Service Charge (BSC)?**

As mentioned above the grower ultimately pays all charges until point of shipment regardless of where they are levied. Providing this holds true, only invoicing the grower for charges incurred until fall of hammer does not provide the true picture and makes it difficult to compare first and second sale wools, or private treaty wools with auction wools. It would make the decision making process far more accurate for growers to evaluate selling options if all charges were transparent. However changing where prices are levied in itself will not reduce costs either.

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- **What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?**

Each time a bale is moved a cost is incurred, similarly there is a charge incurred when counter marks are applied to each bale. RFID trials are continuing which would eventually negate the need for countermarks, but at present they are a cost which provide angst for exporters. Perhaps they need to ask their customers if they really do need them, and could not the countermarks be applied during the unloading process thus utilising cheaper labour overseas?

Not all bales incur the PSC in its entirety, and the industry has developed the charging methodology over decades of evolution, as has occurred in other industries. Local processors and private treaty merchants will need to be given a voice if changes are contemplated about where the various fees are levied.

- **Are all costs incurred by the woolgrower sufficiently transparent (ie. are they generally known and publicised prior to the sale of wool?)**

Compared to other industries such as those who supply to the major supermarkets the costs are transparent. Shifting them around will not reduce them significantly, but competitive pressures do and will continue to restrain any increases. There are enough

people transferring around in the industry that there are no secrets in the trade. Growers are being offered 'cut price' deals every day so they already have the decision-making ability.

- **Is there potential for a more detailed breakdown of the individual selling and buying costs of wool to be made available to woolgrowers to facilitate more informed commercial decisions regarding the sale of their wool? Is there a need for an industry standard invoice or account sale format?**

The cost of selling wool, whilst significant amounts to only somewhere in the vicinity of 20% for both the seller and the buyer of the total cost of harvesting and sale. Given that the market price for wool moves on average around 15% in any 12-month period, arguably a grower can create a larger financial impact by choosing when to sell his wool, rather than how he sells his wool.

The majority of exporters would argue that here is no reason that the terms of sale could not be updated to reflect transfer of ownership at ships rail, or at least the dump facility. However local processors would be disadvantaged under this scenario therefore making it a contentious one.

- **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?**

Contrary to what some believe this system exists currently, as it does in any free market situation. Over regulation from on high by stipulating service levels and the fees charged is the last thing anyone should wish to impose on an industry. The relationship between wool broker and client is not just about wool in many cases. Some companies provide a basket of services, whilst others are specialist providers. Competitive forces currently exist which allow the grower to have that discussion at any time with his service provider.

- **Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period? (ie. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?)**

A change in the prompt payment date would simply force growers to fund their client's business and put in jeopardy the secure and guaranteed payment process which currently exists. It should be avoided completely.

PHASE 6 EXPORT PROCESS

- **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.**

Given the current rates for shipping containers to Asia in particular where most of the cargo is back loading otherwise empty containers it is highly unlikely any improvements could be obtained. Again it is but a fraction of the total selling cost and efforts should be directed elsewhere.

- **whether the exporter sector of the industry can leverage its combined scale to negotiate more competitive rates from wool dumps and whether there is scope for an industry owned and/or managed facility.**

The current scenario of only one or two dumps in any shipping centre has come about due to the lower wool production in recent years. The only way to encourage further entrants back into the industry and perhaps provide more competitive pressure is to increase the

dumping work available in a centre. It is highly questionable whether an industry owned facility would be any cheaper than the current operators.

- **Q** **Q**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.

Whilst this is certainly a problem for exporters at present, there is little the industry or growers can do without incurring extra risk, which should be avoided.

- **Q** **Q**AWEX undertakes a variety of tasks, including market reporting and ensuring accuracy in wool description, that help the wool market to perform efficiently. In a similar vein, AWTA supports market efficiency by providing critical data describing the range of wool characteristics. Would there be advantage in combining the activities of AWEX and AWTA?

The issue has been explored in the past and there are some issues to address, but there are no major deal breakers to prevent it from taking place. The potential benefits would outweigh the difficulties to get there.

- **Q** **Q**Is there an opportunity to increase competition in wool testing services currently provided by AWTA? Should woolgrowers be able to nominate what tests they would like performed on their product and pay accordingly for the services provided?

At present there is no legal impediment to prevent an alternative testing service operating. However like many of the services throughout the chain, the continual reduction in production over the past 20 years has seen the number of service providers dwindle – except in broking.

Growers, on the advice of their broker now have the option to decide what tests to perform and pay for.

- **Q** **Q**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?

From experience in the industry from the farm gate to early stage processing at every point the margins are very slim. There are very few if any barriers to entry at any stage, so tweaking the service providers here and there are unlikely to provide any major change.

Only a wholesale structural change such as centralisation to some degree will generate significant cost savings.

- **Q** **Q**Talman Solutions provide the majority of wool exporters and a large number of wool brokers with inventory management IT systems. Do the systems provided by Talman Solutions generally meet the requirements of their customers? Is there potential for greater competition for this service offering within the wool industry?

As with many other service providers, Talman has become the last man standing to a degree. The IT industry is evolving more quickly than any other industry on earth however, and other service providers would offer alternative

- **Q** **Q**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?

AWEX operates on a commercial basis and is thus compelled to sell its report to anyone it can. Many exporters prefer to generate their own report to provide more detail and customised in a particular way. It could be argued that AWEX should only generate the basic level report and allow exporters or other service providers to create and sell market

information. This may lead to a cost saving for AWEX and therefore lower levies on the industry.

- Is there sufficient access to AWEX market information?

Some would say too much, and some would infer that at times the information is wrong or not 100% accurate.

- What influence (if any) does the AWEX market report have on purchasing decisions made by overseas

wool processors when negotiating with Australian wool exporters?

Any purchasing manager around the world would consult market reports of some sort, and AWEX reports are readily available so they would be used. Could this role be filled by other providers?

Centralisation

- What are the benefits and costs of any move to centralise the sale of wool?

The issue has been analysed previously and the benefits calculated. No doubt there would be some disquiet from sections of the trade, however it is an issue which needs repeated and further discussion as a driver for meaningful change.

- Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool?

In itself centralisation would not create immediate avenues for alternatives which do not currently exist, however the potential is obviously far greater in a post centralised world than at present.

- 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?

Competitive tension is brought about more by market demand, in that when demand is high, auction room tension is high and vice versa. It would allow buyers to regain independence rather than being forced to operate for more than one principal as it currently common, however it would not necessarily increase the number of overseas clients, which is what ultimately drives competitive tension.

- What financial impact would centralisation of wool storage centres have on the exchange of ownership process?

For some regional operators it may be detrimental, however to the industry as a whole it would lead to cost savings that would inevitably reduce the burden on the grower as they pay for the majority of these costs at present.

- 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 outcomes have been clearly outlined in other submissions. There is always resistance to change in any industry, and the wool industry with such a vast array of vested interests

has in the past found it difficult to agree. Sometimes for the benefit of all, a decision needs to be made by the industry.

Digitalisation

- **Q** Can Australian wool be appraised without physically handling a wool box sample? And if so would that appraisal be accurate enough to allow an exporter or processor to deliver wool in accordance with a specific mill or customer's requirement?

In many cases yes, as shown by the trial some years ago, however the central point remains that of providing a guarantee, which is currently provided by the exporter to their client. Unless another party is prepared to step into this space, buyers and exporter need to view the sample in order to maintain this service.

- **Q** 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?

Wooltrade and Wooltrade plus operate currently, and there remain opportunities for these platforms to be expanded. With some modifications the number of buyers can be increased.

- **Q** What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it?

Given that the sample still needs to be provided, or access to the sample needs to be provided the cost savings under an online selling system will be minor. The only saving will be that of actually running the auction process. It would require a total revamp of the sales process for online selling to achieve major cost savings.

- **Q** Why have previous attempts at the online selling of wool failed?

A perceived lack of independence by the buying fraternity, or lack of support from growers to list wools on the system both contributed. However the current system does operate in a limited fashion, and there is scope to improve the usage.

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Transparency

- **Q** What scope is there to allow woolgrowers to make better informed decisions in relation to what it is costing them to sell their wool? More specifically would greater understanding of the costs and returns reflected in their final price received facilitate improved commercial decisions concerning their own wool growing enterprise?

Growers are fully aware of the costs at present as they receive the net returns, however the various submission being published at present will highlight some areas in more detail. If the review creates enough momentum to bring about wholesale change to the industry and the way in which wool is sold and ultimately leads to lower selling costs that will be a positive outcome. However the industry has always been resistant to change, and it will require some strong directives to force change upon the industry as a whole. At the end of the day, a wool growers commercial success will be determined by the underlying price of wool, dictated by the volume of demand, rather than the selling costs and any reductions thereof.

- **Q** To what extent does the woolgrower understand their own cost of production before their wool leaves the farm gate? Is there scope for a greater understanding of both production and selling costs to facilitate more informed commercial decisions for woolgrowers?

The work already done by AWI in this space has been beneficial but definitely needs to be updated now. From the submission received more data can be added to illustrate the costs borne by the industry but not necessarily charged to the grower directly.

As in all primary industries, some producers would be very aware of their cost of production whilst others only have a vague idea. A lot more could be done with the grower's levy to improve this situation to allow growers to be better informed about their business operations.

In general the growers have a lack of understanding of the uses of their product, the drivers that provide prices, and the market signals that matter. AWI has a large role to play in educating growers about their product and how to calculate expected returns in a more accurate manner. The fact that many growers only consider the greasy price achieved, or a per bale return when the rest of the trade use clean cost is a major concern.

- **??**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.

Auction provides a very transparent price discovery, and which all other forms of selling rely upon to value wools. While it remains the dominant method of selling, it will be the default preference for most growers. Breaking the nexus will be difficult indeed, as the auction system has not been shown to be inefficient as a process.

- **??**Why has there been minimal woolgrower adoption of these alternatives?

A lack of financial incentive exists, as does the preferred or easy option of letting the market decide if the price is right via the auction system. Not many growers in Australia have a sale price in mind, which is commercially viable, until their wool is tested and lotted for sale.

This makes it extremely difficult for an exporter or overseas mill to purchase wool on a forward contract for example. Growers tend to be reluctant to commit in case better returns are available later.

- **??**Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these

selling alternatives?

The savings tend to be small given that the majority of selling alternatives still require the same testing procedures to be followed in order to generate an IWTO certificate for export purposes. The sample may not need to be shown, but it still needs to be taken for testing purposes.

In order to keep the grower's options open in case the wool does not meet the criteria of the contract normal lotting and classing procedures need to be followed. This negates the possibilities of cost savings in most instances.

- **??**Does the industry have the necessary skills, knowledge and expertise to utilise these options?

Yes, but the auction will remain the default system until a clear reduced cost, risk equivalent system is provided.

- **??**Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options?

Not training per se, but breaking down the misconceptions between buyers, exporters and their processing clients and the growers is badly needed. Brokers are the natural conduit to the growing fraternity as they have a long standing relationship. When companies like Elders and Landmark had export arms some good education work was done. Lately there has been little opportunity for this to occur. The excellent article written by Michael Lempriere on the role of the exporter needs to be understood by growers.

Growers who have travelled overseas and met with mill owners have a much better understanding of the industry as a whole, and the forces driving their returns. Most of these growers no longer think that the buyers are trying to screw them, which is unfortunately a popular misconception.

- **Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction?**

In short, no they have less competition. This does not mean that the price is lower however.

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Forward selling and risk management

- **Only 8% of Australian wool is sold forward. This compares to other Australian agricultural commodities such as cotton at 70%, lamb and wheat at 60% and beef at 50%. The Panel is seeking input as to why wool has such a low percentage sold forward.**

It has long been a source of frustration personally, but having been a grower, I can also see the optimism around prices in the distant future and especially when you consider the 'murky' world of the exporter/processor from most growers' viewpoint.

In many instances growers are keen to sell when the market is high, and buyers want to buy when the market is low, creating an obvious miss-match. A lack of liquidity results and the markets die a slow death.

Some have suggested that uncertainty about being able to deliver the specifications has been a cause, however various forward selling options remove this risk.

Financiers have not encouraged their clients to hedge, presumably because the production risk for wool is so much lower than for other agricultural commodities.

Processors have not been encouraged, or able, to utilise the forward markets in Australia given that the majority are domiciled overseas. Any viable forward market needs to include producers, buyers, processors as well as speculators to maintain liquidity.

- **What forward selling mechanisms currently exist in the market place for wool producers? What systems might be introduced and are worthy of further investigation?**

At present only the Riemann platform is alive and running. Spot contracts from processors occur from time to time for selected types, however they are usually restrictive in the specifications and types available.

- **The Panel understands that there have been a number of forward selling platforms within the wool industry that are no longer available. Why were they discontinued? And are there aspects of these platforms that could be retained if developing future forward selling mechanisms?**

A lack of liquidity has always been the cause of their demise. A deliverable contract is preferred by many buyers and speculators, however the growers in general have an aversion to this type of contract for obvious reasons.

A platform that allows participation by overseas operators is paramount to adding volume, as well as incorporating entities further along the processing chain.

- [🔗🔗](#) In other markets, automation and connectivity has made it easier for the development of derivatives products such as futures and options. Would such products create new hedging opportunities for woolgrowers and other market stakeholders?

It does not solve the liquidity problem in itself by having the ability to trade on your iPhone, but hopefully someone will take the best bits from other successful exchanges and have another crack at it. Wool's historical volatility is its own worst enemy as many have been burnt by sudden price spikes and the industry needs to provide a risk management tool for not only growers, but for all stages of the process.

[Disaggregation](#)

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

Not unless the selling system is changed. The process of sampling, testing, valuing, transferring ownership, countermarking, dumping and transporting must occur no matter who pays for it. Growers can and do, sell their wool on farm currently, but those charges are simply deducted from the price they receive.

Unless the industry is able to significantly change the method of operation to remove some steps they will always need to be paid by someone. Only if the need for countermarking for example, is removed will there be a cost removal.

The best outcome from a grower's perspective will be to radically change the geographic footprint of the industry, post farm gate in order to achieve economies of scale and meaningful cost savings that can be passed back to the grower. Incidental changes will be lost in the mix and not affect the grower's bottom line.