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Ausfine Submission to the WSSR Panel

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Ausfine Introduction to the Panel

Ausfine has never engaged in the agri-politics arena of the Australian or international wool industry.

Ausfine is used as a commercial vehicle by Australian wool growers of quality, traditional super fine and fine wool merino, to identify, differentiate and promote their product as being of a higher quality and prepared for market in the private and open market place.

Ausfine Wool Company Pty Ltd is an ongoing concern with the membership base peaking at 230 members. The downturn in prices over the past eight years, age demographic and alternative land use has seen that number fall below 100 for the first time since commencing but still represents upwards of 10,000 bales per annum with a raw wool value exceeding a\$15 million.

Ausfine Pty Ltd licenses the Australian use of the quality assurance program, brand name, bale branding system and logo trademark to the Ausfine Wool Company Pty Ltd. The Ausfine Wool Company Pty Ltd manage, audits and directs the licensed use of the Ausfine brand name and logo trademark in relation to all aspects of wool and sheep production, education, quality standards and marketing within Australia, for the use of super fine and fine wool producers.

Ausfine Pty Ltd manages and directs the licensed use of the Ausfine brand name and logo trademark in relation to all aspects of wool manufacturing and marketing internationally.

History

Ausfine Pty Ltd and Ausfine Wool Company Pty Ltd were both established and Australian company registered in year 2002.

Establishment of Ausfine quality assurance and bale branding scheme for super fine wool in 2002, with a State Government recognized education module scripted by Ausfine Pty Ltd for use of Ausfine Wool Company members and TAFE NSW included in the deliverance of the overall concept program.

Ausfine as a brand name and its identifying logo has been an international and domestic registered trademark since 2002.

In 2006, the Ausfine program for Declaration Compliant Wool commenced with assistance of the Retailer's Association of America and Les Targ of AWI in an attempt to placate the activist element targeting Australian wool production.

Ausfine Fine Wool Merino was established and launched in the year 2008 to allow expansion into the broader micron (19.0 to 20) categories whilst retaining the quality and preparation boundaries. As part of the fine wool merino program a new branding system was developed by Ausfine, separate but similar to the original and successful super fine wool project.

The Ausfine New Market Discovery Program commenced in late 2008 with focus on India, Japan and China to provide new markets for the better and finer end of the Australian wool clip. Since inception, Ausfine branded wool has been partnered with companies through Australia, Italy, Japan, USA, Chile, South Korea, China, Hong Kong, Papua New Guinea and India.

AUSFINE SUBMISSION

We applaud the decision by AWI (Australian Wool Innovation) to appoint and fund the panel to review the selling systems and associated costs, transparency of these costs, and whether further competition can be applied to the current structure to see if more income can flow back into the pockets of Australian wool growers. As a wool grower marketing company, we believe new demand creation to be the vital aspect in the process of extracting more for our product, but that is not under review here.

We respectfully acknowledge the right of all trade and ancillary participants within the industry to have their say and protect their "space," but ultimately this review is funded by wool growers for the benefit of wool growers. If the panel can identify better processes that help woolgrowers stay in business, but subsequently adversely effects the bottom line of others, then so be it. All of industry should be aware of the rising input costs associated with a wool growing enterprise and also be cognisant of the basic fact that without wool being grown, every wool business is potentially in peril. As Ausfine represent predominantly super fine wool growers, this is particularly salient, given the low prices presently being paid for the very best of our fibre product.

Rather than analyse each area of the very comprehensive issues paper, we would like to submit for your consideration the following concerns, statements and queries a number of our membership wish to put on record.

- Percentage charges within the industry disadvantage the growers of the higher priced wools, in almost all cases super fine and ultrafine Merino. Whether it is a brokers' commission or the wool levy, the super fine grower ends up paying more per bale.
- Inequity in AWTA testing charges when applied to the small lots. To core test and AM a one bale lot is only a few dollars less than a five or six bale lot. Surely a

larger price gap should exist when considering you are coring/grabbing and man handling five or six times more bales? As the market (Italy and prior to today Japan and Korea) over the years has demanded an exacting preparation within the super fine categories of Australian clip, our members quite often have to prepare several lots in the 1 or 2 bale category to give the best chance of extracting premiums out of the market.

- Centralised storage, testing and dumping should be investigated. At our reckoning (guess) there must be upwards of 50 storage and testing points within Australia, each having a team to undertake this same procedure, and AWTA having to send a representative. Given that a very high majority of the wool grown is destined to be just packed into a container and sent to the wharf for shipment overseas, surely some massive cost benefits would ensue? Also the buyer's confidence in the security and integrity of the bales may be enhanced. Consideration of establishing bonded warehouses should be tabled. Additionally if or when a "green Carbon tax" is introduced, the less a bale is moved by fossil fuel driven vehicles the better.
- Investigate the risk of whether centralised selling would actually reduce competitive tension. We believe there must be some form of competition existing between the three auction centres, as the AWEX quotes rarely match between centres, particularly on the finer microns.
- If centralised selling is found to be not feasible, as seemingly was the case when the Australian Farm Institute reported to the wool industry a few years back (Keogh report), investigate whether regionalisation of the auction sales could be a way forward to reduce costs. As the vast majority of our grower members sell into the Sydney auction we will restrict our comment to that centre. If Sydney moved to the Goulburn/Yass region for example, we believe that would not only reduce costs, but also may attract the Riverina growers, whom mostly now sell into Melbourne, to the Northern centre. This would assist in providing a more even flow of wool onto the market, eliminating the current circumstance of severely imbalanced offering volumes between the two eastern selling centres.
- The sale sample box at present is vital to our membership. We believe that the cost in exhibiting a sample for the eventual buyer is a very cost effective form of insurance. If a move to eliminate the sample is pursued, the cost of indemnity against claims insurance by a guarantor (probably the grower again) of type should be identified. More importantly for the Ausfine member is that they are often paid a premium for their wool's crimp definition, style and compression qualities, which are subjective characteristics not measured by any test, but by visual appraisal by the exporters.
- The third item of the key objectives warrants close attention and has a good chance of successful implementations arising in our opinion. At present we can only describe the full transparency of transaction charges as non-existent. Accurate charge estimation is almost impossible to compare accurately for most wool growers. Charges always seem to head back to the grower wallets, so at the bare minimum, clear and consistent language should be adopted by all participants on the account sale back to the grower. Perhaps even a standard account sale could be implemented. All the post-sale charges (PSC) paid by the exporter back to the broker should be publically accessible. Perhaps an independent web site that lists all costs for each broker at each storage centre

could be started. These figures, or versions thereof, were previously published annually in “The Land” some years back, but that practice has ceased.

- Investigate whether the dearth of under prepared wool being allowed into the mainstream selling system (D certs) are hampering or can eventually erode the prices received in general for the Australian wools. Australia has (or had?) a reputation as an impeccable source of properly prepared wool clips with no nasty surprises for our processors. These exemplary preparation techniques historically led to better prices than our overseas competing wool growers, we have been led to believe by our customers. There is an industry code of practice, and why this crucial industry agreement is being denigrated is bemusing.
- Why are wool packs so heavily levied and regulated? Why are wool packs listed on the restricted imports goods list with customs? By our reckoning every wool pack imported into Australia incurs an additional 75 cents per pack due to regulations, including label fees and the registration fees imposed on manufacturers and importers.
- Any alternative mainstream selling system put forward must make allowances for the continuation of the accreditation of traditionally shown 1PP lots. Whilst small in number, they form the “Rolls Royce” end of the market and premiums at the moment are substantial to say the least. A large percentage of these 1PP lots are from Ausfine members farms.
- Only an extremely minor question is why are growers of 1PP lots charged a fee for the accreditation of such wools? Logically this is a recognition award from industry and should be gratis. The expert judging panel of exporters charge zero, so why the cost?
- Of a more general in nature concern, Australia is at the mercy of overseas wool manufacturing nations as a price taker. Whilst we have a solid, yet relatively small volume throughput, base of scouring and carbonising plants, as a country we lack the infrastructure to “make something” out of a product we harvest 2.5 billion dollars a year of. The rest of the world knows this and consider us just as a source of raw material so they can make the big margin. Without the ability to convert most of our greasy wool into a saleable product we will forever remain accepting of someone else’s price. Competitive tension at the manufacturing stage could easily be enhanced with some local capacity to turn at least a portion of our wool into garment. How this can become reality could be the focus of a whole new study and not just involving the wool manufacturing industry we hazard a guess!

We concede that the collective experience of the review panel is vastly superior to our own in their respective professional areas, but hopefully some of the issues listed above can be addressed and perhaps ruled upon by an “outsiders” fresh set of eyes.

Best regards and good luck with the review.

Murray Picker
Director and Company secretary.
Ausfine Pty Ltd and Ausfine Wool Company.