

Wool Selling System Review (WSSR)

Issues Paper

Submission

Australian Wool Exchange Limited (AWEX)

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Introduction:

AWEX was established in 1993 as a service provider to the Australian wool industry at a time of major restructure in the industry following the collapse of the Reserve Price Scheme.

AWEX is an independent, not-for-profit organisation whose members are individual companies, organisations and wool growers. AWEX was set up and funded by its members and does not receive subsidies or levies from the Australian Government.

AWEX was established to facilitate self-regulation in the wool industry by providing services required to support the trading of wool.

The AWEX Board consists of five member elected Directors and two independent Directors, including the Chairman and Deputy Chairman. AWEX membership sectors include:

- Growers,
- Brokers,
- Exporters,
- Processors, and
- Private Treaty Merchants.

AWEX accepted responsibility for developing and delivering services associated with quality assurance and auction sales, including selling systems, market information, auction selling business rules, wool preparation and wool pack standards as well as woolclasser registration/education. The development of standards, rules and services is done in consultation with members and industry through dedicated and well-formed consultative structures.

In 1994:

AWEX was the only provider of auction sale infrastructure and services. The auction infrastructure was previously operated by brokers in each state and selling centre. AWEX's role in assuming this function was to rationalise the system and reduce the cost of operation.

There were nine selling centres and generally each broker/seller in each selling centre had its own showfloor. Auction sales were highly structured according to the selling centre and auction selling rules were developed regionally by buyers and sellers to provide order but they lacked the flexibility and national focus of today. Trading was dominated by auction selling and the only readily accessible alternatives of the day were private treaty and tender sales. There were no internet offer boards and the concept of electronic selling remained a discussion point.

AWEX, as an independent service organisation owned by stakeholders, could drive rationalisation and deliver improved services at a lower cost.

In 2015:

AWEX's service priorities are focussed on quality, standards and information services.

AWEX develops commercially relevant standards and systems that meet seller's needs and maintain buyer's confidence through fully informed and transparent markets/market information.

There are three selling centres and AWEX is not the only service provider offering selling system infrastructure and services. AWEX maintains a user pay policy for auction related services e.g. selling systems, data capture, market information etc.

AWEX service fees are published on the AWEX web site www.awex.com.au

Presently, AWEX has:

- 107 Members (Exporters, Brokers, Private Treaty Merchants, Processors & Growers),
- 14 permanent and 5 casual staff (14.0 FTE¹),
- 19,000 registered woolclassers,
- 151 market information subscribers which span the supply chain from wool grower to wool processor,
- Appraisers, Wool Pack Manufacturers, Wool Pack Importers and Training Organisations registered.

Service providers compete with AWEX in providing auction selling services and market analysis.

The auction selling rules and the wool selling program are managed nationally by the National Auction Selling Committee, which operates independently of AWEX, but with a secretarial and administrative function provided by AWEX. The auction selling rules are national and support greater diversity and transparency within the selling system.

As an independent service provider AWEX does not take a position in the market, AWEX is neither a buyer nor seller.

AWEX's key service areas, all of which support the trading of wool in Australia, are:

1. Quality:
 - a. Developing recognised and trusted programs for wool quality and preparation that underpin wool trading including; woolclasser education and training, wool preparation standards, appraisal accreditation, wool pack standards and the National Wool Declaration Integrity Program (NWD-IP), and
 - b. Maintaining open and transparent systems for buyers, sellers and woolclassers on wool quality issues including; wool preparation and the NWD-IP.
2. Information:
 - a. Providing independent, credible and timely market information, market analysis and wool clearing (logistic) services.
3. Administration:
 - a. Maintaining, auction support services (rosters, selling arrangements) and auction sale infrastructure services.

In addition to its quality assurance and market information activities, AWEX undertakes key projects in collaboration with members and industry stakeholders that offer potential benefits to the wool industry; for example, improved quality, faster information flow, cost-reductions in services and along the pipeline.

Key projects have included:

- E-bale: electronic bale-ID (current),
- WoolClip: software for woolclassers (current),
- Wool packs: trials (2011) and new standard (2013),
- National Wool Declaration (2008) and On Farm Inspections (2010),
- Sheep Breed Compendium (2010)
- Wool Development Program (2000),
- National training resources for woolclasser education (1998),
- AWEX-ID (1995),
- Electronic auction sale trials & offer boards (1998-2002),
- Wool Clearing centralisation,
- Hand held appraisal tablets, and
- Sale by description trials (1997-98).

This submission will now address each of the questions relevant to AWEX.

¹ AWEX 2014 Annual Report: FTE – Full Time Equivalent

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Phase 1: Wool Preparation

The quality of wool preparation is AWEX's highest priority as it directly impacts on the performance of the woolclasser, the implementation of wool preparation standards, and the overall perception of Australian wool.

Complaints from Australia's wool customers frequently relate to a "decline in wool preparation", perceived and real. The subjective nature of wool preparation and the process undertaken to present wool for testing and sale is not well understood by all overseas customers.

Over recent years, as producer margins have been squeezed, some producers have reduced their investment in wool preparation, and it has become apparent that the wool market does not clearly recognise/reward well-prepared wool via clear market signals. If the woolclasser and clip preparation are not recognised by clear market signals the medium to long term implications are likely to be significant:

- There will be no incentive for woolgrowers to class wool or use a registered woolclasser,
- The effect of increasing quantities of poorly prepared wool drags down the price of well-prepared wool,
- The reputation of the Australian wool clip will decline,
- Buyers will not be able to source adequate quantities of classed wool,
- End users will report increasing raw wool quality problems,
- There is potential for processors/end users to change their enterprise to other fibres (synthetics) or blends, and
- It will prove more difficult to attract new entrants to woolclassing and the wool industry.

AWEX does not endorse the model of wool handlers being responsible or accountable for the preparation of Australian wool. The Australian wool clip is becoming more complex and technically challenging (e.g. new sheep breeds, Dark and Medullated Fibre management etc.) requiring technical expertise and training in preparation.

Australia's reputation for excellence in wool preparation quality over the past 50 years is supported by:

- Commercially relevant and strict wool preparation standards,
- Woolclasser education & training, and
- Wool packs that are fit for purpose (including Work Health and Safety).

The combination of breeding excellence and well-developed farming husbandry practices, together with skilled and trained woolclassers, provides buyer's with confidence in purchasing Australian wool. This should not be underestimated.

Wool prepared by a registered woolclasser provides buyers with a low risk product and confidence in their purchase whereas the level of risk increases significantly for a buyer should they purchase wool from clips that do not use a registered woolclasser.

The Australian wool industry, through IWTO², recognise the significance of wool prepared by a registered woolclasser in accordance with the definitions of the 'P' certificate³ or 'D' Certificate³.

AWEX actively promotes the value of well prepared wool clips, the value of the skills of a woolclasser and the integrity of the 'P' certificate both in Australia and to Australia's overseas processing customers.

AWEX's philosophy is simple; to consistently achieve a quality end product (at processor/manufacturer/retail level) you must have raw components that meet the needs of the customer and this starts in the shearing shed.

The role of a registered woolclasser is critical in supporting the value proposition that Australian wool is the best prepared in the world and to maintain buyer confidence.

The objectives⁴ of woolclassing are to:

- Prepare uniform, consistent and predictable lines of wool,
- Ensure the product is free of contamination,
- Present a correctly packaged product,
- Correctly describe the contents of each bale, and
- Accurately document the entire clip.

The review of the Code of Practice (CoP) for 2016-18 is underway.

All industry including buyers, sellers (brokers), state and national farming bodies, woolclassers and industry organisations have been invited to make a submission.

As part of the 2016-18 CoP review AWEX received:

- **Over 900 responses to an industry online survey,**
- **Written submissions from industry organisations and from individuals, and**
- **Feedback from the Registered Training Organisations workshop and the National Woolclasser Consultative Group.**

There is considerable interest in wool and wool preparation.

The woolclasser, is the recognised trained/skilled person in the wool harvesting team who is accountable for the preparation of each bale that bears their stencil. This in itself represents the highest level of accountability from the first stage in wool processing (in shed) through to when the wool is ultimately delivered to a processors factory.

The role of the woolclasser is important in maintaining the integrity of the wool clip and confidence of the wool buyer/processor.

Woolgrowers may choose not to use a woolclasser and accept the resulting market price. Buyers can identify this through the certificate type ('P' or 'D' for example) on each lot. Buyers are then able to assess the level of risk they are prepared to accept and go to a market fully informed.

AWEX monitors the performance of woolclassers and where a lot does not meet the CoP, the brokers and buyers are informed prior to sale and the test certificate type is changed to ensure that fully informed decisions can be made prior to sale on whether to sell/offer or purchase a lot. Woolclassers are informed of all relevant issues related to their woolclassing performance.

There are 4 categories of woolclasser:

- Australian Woolclasser ,
- Owner Classer,
- Masterclasser, and
- Classer Associate.

² IWTO – International Wool Textile Organisation

³ IWTO Wool Preparation Categories – AWEX Code of Practice, Preparation of Australian Wool Clips – The Woolclasser, p113

⁴ Woolclasser Primary Objectives - AWEX Code of Practice, Preparation of Australian Wool Clips – The Woolclasser, p1

Questions/Response

Phase: 1 Wool Preparation

- 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?

AWEX receives contact from woolclassers from time to time that indicates a level of confusion over the advice, sometimes conflicting, that they receive in the shed from shearing contractors, wool growers and wool brokers. The motive of each level of advice is different and often the result is a loss of woolclasser confidence (particularly if inexperienced) i.e. the person accountable for wool preparation.

Woolclasser training and the CoP details the ‘minimum standard of preparation’ that woolclassers must meet. This is understood, has been promoted and developed in consultation with buyers/processors. Woolclassers may and often exceed this standard depending on the market segment and wool type being prepared. The rules⁵ governing the use of the woolclassers stencil are explicit.

The profile of the Australian wool market is varied and differing expectations may apply to different market segments: for example the standard of preparation for superfine merino wool is vastly different to that of crossbred wool based on their inherent characteristics and end-use.

The CoP recognises that the standard of preparation differs and is dependent on sheep breed/micron/wool type/environment. It is also reasonable to assume that advice in this area will vary.

The vast majority of wool growers use a registered woolclasser to prepare their wool clip.

If a woolclasser is not employed then the standards do not apply, the level of risk for the grower and buyer increases and the level of confidence of the buyer in their purchases decreases.

⁵ 2013 – 2015 Rules for Woolclasser Registration

- 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?

Whilst it is recognised that China is the largest destination for the processing of greasy wool, indications suggest that they desire well prepared wool rather than a lowering of the standards. It is also recognised that China is not the only destination nor is it the only consuming country. It is worth noting that many Chinese wool-processing plants are joint-ventures with European companies; and therefore, the knowledge and understanding of wool is being transferred. This means that the quality of wool preparation needs to be maintained or improved, not diminished.

Consuming countries interests and trends are very important in determining the standard of wool preparation and they are considered during the triennial CoP review. The review of the CoP aims to reflect the changing and sometimes challenging trends in the industry at any point of time

It is also critical that consuming and processing countries understand the processes that have been undertaken, by skilled and qualified people, prior to them receiving their consignments. AWEX promotes the role of the woolclasser to overseas wool processors and publishes the Code of Practice, AWEX-ID and other information documents such as the National Wool Declaration for the Chinese wool processor, to enhance their understanding of the Australian wool industry.

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The CoP is written from the perspective that the woolclasser does not know who will buy or process the wool, nor the timing of sale. Consequently the preparation standard adheres to the following criteria:

1. CoP lines are designed to be accessible to as many potential customers as possible to maximise competition at point of sale. (For example some preparation practices such as not skirting are known to exclude some buyers therefore reducing competition).
2. As the sale date is unknown at the point of classing, the preparation policies have to be based on medium term end user technical requirements. (Preparing a clip for today's market assumes the same market signals will exist when offered for sale – this may not be the case).

Once a woolclasser has prepared the wool and applied their stencil to the finished bale on-farm, the next person/company to open that bale (in most cases) will be the wool processor. Therefore the relationship between wool harvesting and wool processing needs to be close – they are a direct customer.

LOT SIZE

AWEX believes there is opportunity to increase sale lot sizes. This can occur on farm and post farm.

On-Farm

There is evidence of overclassing in some sectors and some clips. This is frequently a consequence or legacy of “market based” classing where lines are created on marketing advice e.g. “creating a fine line”.

The CoP does not advocate over-classing or over-preparation of wool. The core tenet of the CoP woolclassing policy and woolclasser training is the creation of main mob lines with outliers removed (such as short, cotted, colour etc). This was proven to be both an efficient and statistically relevant method of classing.

The CoP also recommends the woolclasser provide lotting advice to the broker with respect to combining similar wool from mobs via instructions on their specification sheet. AWEX believes the woolclasser is well placed to provide this advice having sighted every fleece in each mob.

The only segment where the CoP suggests classing to higher levels of uniformity could be considered is in the Australian superfine merino sector.

Post Farm – Lot Building

In recent times the decline in wool production has meant there is excess lot capacity in the auction system. This has, to some extent, resulted in more 1, 2 and 3 bale clip lines being offered. When access to auction space was restricted, these bales were consigned to lot building systems.

Well prepared lot built wool attracts competitive prices at auction. In AWEX's view, post farm lot building is a necessary and essential component for handling small lines of farm wool, particularly cast lines.

Phase 3: Wool Appraisal

Developed in the mid 1990's AWEX-ID is the descriptive language used to describe the non-measured characteristics of greasy wool.

In principle, a complete description of a line of greasy wool can be achieved by combining the objective (measured) characteristics of greasy wool with a subjective (non-measured) appraisal of characteristics of greasy wool.

AWEX-ID does not describe or indicate wool processing performance. AWEX-ID was developed in consultation with buyers and sellers and is supported by a set of Appraisal Guidelines. Both the AWEX-ID Type Scheme and Guidelines are reviewed periodically.

Initially introduced for market reporting, AWEX-ID is now used by some for trading wool. From time to time there are comments that AWEX-ID is not as technically powerful as its predecessor (AWC type) and not suitable for trading. This is not the case: AWEX-ID is able to describe all wool to the same level of precision as the AWC type scheme and more clearly in some sections. Furthermore the strength of AWEX-ID lies in its capacity to evolve as required and to convert to other typing systems.

AWEX-ID is also used to provide detailed feedback and assessment of appraiser and woolclasser performance. AWEX uses technology extensively to provide greater productivity and flexibility in service delivery.

The benefits of AWEX-ID include:

- Having a descriptive language for greasy wool that is readily communicated and understood through the supply chain: woolgrowers, sellers and exporters,
- Provide detailed market information based on greasy wool characteristics,
- Provide descriptive feedback to woolclassers on preparation issues, and
- Provide quantifiable feedback to appraisers on their appraisal performance.

The AWEX-ID program includes training, accreditation and registration of AWEX-ID appraisers. These appraisers are usually employees of wool brokers. The benefit of having trained and accredited appraisers is that they can apply AWEX-ID in a consistent manner, receive feedback on their appraisal performance, attend workshops to calibrate their skills and they are kept informed by AWEX of developments with respect to AWEX-ID and industry issues related to appraisal.

The registered Appraiser applies AWEX-ID and includes this with their catalogue. AWEX will then audit these types. AWEX allocates 1.7 Full Time Equivalent (FTE) staff resources to the audit function. AWEX-ID is audited at the showfloor as it offers the most efficient method in terms of cost and use of staff resources.

An AWEX auditor will assess each wool sample for:

- Wool preparation standard,
- AWEX-ID, and
- Compliance to lotting and catalogue standards.

AWEX has its own national calibration program for AWEX staff to ensure national consistency in the application of AWEX-ID by AWEX auditors.

AWEX uses the wool preparation information to provide feedback to the seller, woolclasser and wool buyer, identifying the agreed fault. Where appropriate AWEX will advise Australian Wool Testing Authority (AWTA) of the need to change the test certificate type e.g. 'P' to 'D' in accordance with agreed procedures. Buyers are also notified of any issue pre-sale. The woolclasser is advised each month of any outstanding issues in relation to their woolclassing performance.

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AWEX staff provide several appraisal services, including:

- Audit a catalogue – this is the most common function where an AWEX staff member will “check/audit” the appraisal provided by an accredited appraiser.
- Appraisal/Audit – where no appraisal is provided, AWEX will appraise the lot for the purposes of being able to include the data in market information services and provide the appropriate feedback to industry,
- Early audit – this is where AWEX will audit/check a catalogue to provide feedback to the seller before the official catalogue is transmitted prior to official cut off times.

The combination of the above appraisal/audit routines provides flexibility for AWEX to provide an efficient service.

The AWEX audit team inspects and audits every lot of wool offered at auction (>300,000 lots p.a). Some of the benefits of the AWEX appraisal services include:

1. AWEX's appraisal is independent of the buying and selling function,
2. AWEX audits are often used by sellers as a check appraisal,
3. Sellers use the AWEX appraisal in the event that passed-in wool is to be re-offered or offered electronically,
4. Buyers contact AWEX for an independent opinion in the event of a dispute,
5. The AWEX pre-sale appraisal report identifies preparation and fault issues for buyers and sellers,
6. The feedback to appraisers assists in the calibration of the appraiser, identifying any weaknesses or areas in need of improvement, and
7. Early appraisal services provide a timely feedback opportunity for sellers to consider their options before committing to offer for sale.

- 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?

A consolidated independent appraisal service could potentially realise increased efficiencies and cost savings in the industry. The benefits would be likely to accumulate as the number of participants using the appraisal service increases.

Whether a broker or buyer would choose to use this appraisal service would be their commercial decision.

The consolidated service would most likely replicate the current structure and include:

- A centrally located sample showfloor,
- An (small) experienced and qualified appraisal team in each region,
- Appraisal and check appraisal (where required),
- Calibration routines, and
- A guarantee system.

AWEX-ID would need to be reviewed to ensure that it was fit for customer purposes.

There is no technical or operational obstacle to this initiative, however, the key question is whether there is market demand?

- 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?

The key to any successful future selling options will be whether there is market demand and whether the buyers and sellers will have confidence in the system and the applied industry appraisal ("valuation standard").

The success of Auctions Plus in the livestock industry is evidence that an electronic system can meet the needs of customers with clear and obvious benefits. The benefits of lower transport costs, lower transaction costs (if passed-in) plus the animal health and welfare benefits are significant and readily understood by the grower.

In wool; there are some wool types that buyers are more likely to have confidence in purchasing provided the required information and sample is available but not all wool types lend themselves to be assessed without a sample. Some wool types, for example carding wool, oddments and superfine wool may be best suited to physical appraisal due to the variation in type and end use application.

The wool industry has initiated selling/appraisal trials over time to objectively assess the viability and acceptance of this type of proposal. This could be investigated further.

Ultimately, whether a system such as this succeeds will be driven by demand of both buyers and sellers.

- 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?

Wool buyers maintain the need to inspect the sample to guarantee type and processing performance.

Not all wool types lend themselves to be assessed without a physical inspection. Predictive typing cannot take into account subjective quality issues such as colour, cott and stain etc. These faults are more likely to be random i.e. not predictable.

If there is no sample inspection then the on farm preparation becomes even more important. Wool prepared by a registered woolclasser has a higher degree of predictability, confidence and lower incidence of fault compared to a wool clip that is not prepared by a registered woolclasser.

- Should the industry be seeking to achieve a wool selling system based entirely on sale by description? Are multiple systems needed to address diverse buyer needs?
- Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs?

Currently multiple methods of trading wool exist in the wool industry. Some are more successful than others:

- Open-cry auction,
- Private treaty sales,
- Electronic offer board,
- Electronic auctions (trialled and attempted),
- Contracts (Direct),
- Forward sales,
- Futures, and
- Consignments.

Approximately 90% of all wool is traded through open cry auction, however, other systems and methods have been trialled and exist today.

One of the arguments in favour of, but equally also against, the further diversification of selling systems is the relatively low volume of wool (lots) offered for sale.

Unrealistic comparisons are often made between the auction system and the stock market: the stock market trades in stocks of considerably higher volumes (13 - 15 million trades per month), higher dollar value and five days a week. By comparison wool is of low volume (25,000 – 30,000 lots per month), offered over 45 trading weeks per annum nationally, averaging approximately 2 days selling per week. There is no comparison.

The benefit of an aggregated system, regardless of type, is to provide more robust market signals than might otherwise be achieved.

The fragmentation of selling systems will lead to weaker market signals and higher operating (infrastructure) costs due to lower volumes and liquidity. A majority system, regardless of type, is preferable.

Phase 4: Price Realisation

AWEX has 41 Exporter and Processor members as well as 14 Private Treaty Merchant and 23 Broker members all of whom may participate at auction as either buyer or seller. There are several companies that participate as both an auction buyer and seller.

Auction sales are conducted under the terms of sale of each seller. There are a number of examples where a seller may contract a third party to provide the auction showfloor and selling functions on their behalf.

AWEX selling system services (on a per lot basis) are published on the AWEX website: www.awex.com.au

Questions/Response

Phase 4: Price Realisation

- 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?

AWEX is aware of expressed concerns over potential conflicts of interests with buyers holding multiple buying limits. This issue has been raised by broker members with AWEX on several occasions. However, AWEX has no evidence to suggest that it is reducing prices of wool.

Currently, wool buyers who buy on behalf of another buyer generally transfer their relevant purchase to their client prior to the closing of a sale on the day. This is an efficient method of 'transfer' for the buyer and the seller, with reduced paperwork.

It is unlikely that the client will be known in the first instance, at the point of sale, but AWEX rules determine that a buyer must have a Brokerage/Transfer Agreement in place prior to sale, otherwise the transfer will not be processed through AWEX's system. This does not stop a transfer taking place or selling after the system has closed for the day but rather it gives AWEX an authority to process as part of the sale.

If this practice did not exist then the likely result would be that the transfer of ownership would be driven underground.

AWEX supports a fully transparent selling system.

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

Electronic Auction Trials

AWEX trialled electronic auctions in 1999. The trials were intended to scope the potential of introducing a new, lower cost selling system.

As part of these trials, AWEX set up an “electronic trading room” at the Melbourne selling centre where select catalogues and wool types were offered for sale. As part of the trial, bidding access was also available from buyers’ on-site offices. Several brokers and many buyers participated in the trials. Whilst the electronic system was a technical success it ultimately failed to deliver greater efficiencies in terms of lots sold per hour than the current auction selling system. The trialled electronic system achieved 220-250 lots per hour, compared with 250 lots per hour with open-cry auctions..

Whilst the system was successful in allowing bidders to complete transactions remotely, some buyers noted that they lacked the ability to easily recognise market signals and competitive tension, at least in a manner that was familiar to them. (This might be seen as a disadvantage for growers, and a plus for remote, electronic bidding!)

It is AWEX’s opinion that, in part at least, the failure of the electronic auction trials was that it was developed to replicate the auction selling system, that is, lot by lot selling in the traditional format of auction sales, rather than introduce a new selling system. Electronic auctions require a cultural shift in the approach to trading from both buyer and seller due to the significant change in environment.

A volume based trading system was also discussed, where a ‘page’ of lots (9 lots) would be traded at the same time. However, this was not trialled.

AWEX introduced Eclipse in the late 1990’s as an offer-board service which was later superseded by e2. The service was launched at a time when internet and web services were developing quickly.

Eclipse ran as a secondary market (7 days a week) to the auction system and was used by buyers and sellers for opportune purchases/offerings depending on market conditions, shipping and client orders.

Over time, web-based services were developed in competition to the AWEX service and AWEX made the decision to withdraw from this service on commercial grounds.

Electronic offer-boards are currently available.

AWEX’s view is that successful electronic trading will, as a bare minimum, rely heavily on providing adequate information including full objective and subjective information from a trusted source – wool prepared by a woolclasser/classing house and appraised by a trusted and registered appraiser.

- 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 Issues Paper incorrectly states that AWEX attends all auction sales and implies that AWEX is the sole service provider to auction sales. This is not correct.

In terms of auction services AWEX has a limited presence at all three auction centres. This has been the case since 1994. AWEX provides casual sale room data entry staff on sale days where AWEX provides selling system services to brokers. AWEX is not the sole service provider of auction services.

AWEX has a technical staff member assigned to each selling centre; assisting the data entry staff where services are offered, resolving broker/buyer queries and creating the local market reports. The total market information resource nationally by AWEX is 1.7 FTE.

AWEX does not require a presence at auction centres to generate market reports: however the same resource would be required at another office to perform the same task. The benefit of using regional personnel is

- more efficient use of resources across all of AWEX's functions,
- the personnel have wool technical, IT and auction skills, and
- the trade feel the report is coming from the source.

AWEX recently rationalised its regional market reporting systems to one single central database. This has resulted in productivity benefits and cost savings.

Sale results from both auction service providers are supplied to the EDI network frequently during the day (~every 10 minutes) and are available for download by buyers and brokers.

In addition, data from both service providers is supplied to AWEX for market reporting – this supply is real time (if AWEX processing) or near real time (if other service provider). AWEX in turn makes the lot and transaction data available for immediate download or viewing by (buyer or broker) subscribers in a variety of formats and screens.

The question of automation of market information is valid.

The vast majority of AWEX market information or data exchange is automated. Approximately 75% of all AWEX market information and data exchange is produced automatically with an estimated saving of 1.5 FTE.

AWEX has attempted to automate key aspects of the market reporting process several times over the last 20 years, including generating the daily Market Indicators and Micron Price Guides. A number of techniques have been attempted (regression et al.), however, these have not proven reliable or accurate.

As volumes continue to decline, the number of lots that contribute to each type quote in the Market Indicators are fewer meaning increased manual intervention to finalise each quote.

- 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?

From a higher level perspective, the auctions in each region operate in much the same way. There are regional differences in terms of catalogue composition, and some operational rules (e.g. auction start times, broker rotation policies and catalogue availability). The operational rules for each region do change periodically as circumstances require.

The Auction Rules are administered by the National Auction Selling Committee (NASC): a committee of eight elected representatives (four brokers, four buyers) with an independent Chairman.

AWEX tends to support the proposition that similar outcomes/trends for the sale of specific wool types are achieved in each centre. There are differences between auction centres for the same type on any one day, which can be attributed to artefacts of offering quantity, location, and competition, but in broad terms, the market movement trends in each centre tend to be similar if taken over a longer term.

Phase 7: General

Wool industry institutions

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

AWEX and the AWTA have explored this issue on several occasions and as recently as 2007. On each occasion and after consultation with AWEX members the decision has been made by AWEX not to proceed. It is noted that constitutionally AWEX and AWTA have different membership structures.

The roles and functions of AWEX and AWTA complement each other. Both organisations are skilled in their respective fields, work cooperatively together and are committed to providing cost effective and transparent services to industry.

Whilst there would be some cost savings by combining the two organisations such as reducing some overhead costs:

- One Board of Directors,
- A single Corporate office,
- Rationalisation of some staff (duplicate functions e.g. administration, management), and
- Rationalisation of regional offices.

However, these savings might easily be eroded by increased costs that could flow from relocation costs, and losses of key staff, loss of skills and loss of corporate knowledge.

On balance, we believe the risks would outweigh the benefits.

AWEX market reporting

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

AWEX commenced market reporting in 1996 and is approaching its 20th year. AWEX Market Information is supplied on a fee for service, subscription basis. AWEX market reporting subscription rates are published on the AWEX website: www.awex.com.au

AWEX reviews its market information product range and content annually. Market Indicator components and calculation methodology are reviewed every three years and AWEX frequently surveys its subscriber base to determine its needs. Additions or changes to market information products are often the result of customer feedback. AWEX supplies generic (public) reports and private customised services.

Subscribers are able to access AWEX market information by e-mail, sms or online. Information is supplied either in a static form (e.g. end of day market report) or (near) real time auction viewing. Like all suppliers of electronic information (e.g. newspapers), AWEX faces the challenge of unauthorised redistribution or use of its products.

AWEX reports the current market but does not seek to predict or forecast market behaviour. It has to strike the balance between providing “too much” and “not enough” information. What is sensitive to one sector may be acceptable and desirable to another.

The AWEX Market Information ethic is to provide credible, responsible, timely, independent and accurate wool market information to its subscribers. It is possible that overseas processors may use or refer to higher level AWEX information (market reports). AWEX Members are able to subscribe to all levels of AWEX information services (reports and data). AWEX does not offer access to data to overseas enquiries.

ADDENDUM

In the Issues Paper (IP) itself, and in the submissions which we have had the opportunity to review, there are a number of statements which are factually incorrect or demonstrate a lack of understanding of what AWEX does and/or how the current selling system/industry operates.

1. IP: page 9. The woolclasser stencil placed on a bale indicates that the lot has been prepared on farm and in accordance with the CoP (this then qualifies the lot for a 'P' certificate). If a lot prepared by a registered woolclasser does not comply with the standard set out in the CoP then the stencil is removed, the certificate changed from a 'P' to a 'D' and buyers are advised of the preparation issue.

Wool is not "pulled from sale" by AWEX. A grower may make this decision in consultation with their selling agent.

2. IP: page 11. The question, whether it is "necessary for AWEX staff to attend auctions to record information for their market reports" has already been identified and answered in the body of our submission.

Process: The current auction sale system relies on independent recording of the transaction data (by the service provider) and in-room verification of lot/price/buyer details by both the selling agent and the buyer. If there is no dispute the transaction is finalised and transmitted in accordance with well-established rules.

This methodology has provided low cost and trusted services as well as transparent information.

3. Reference in the Australian Wool Testing Authority Ltd. (AWTA) submission has been made to a table published in the "2009/10 Sheep's Back to Mill" (SBTM) which highlights the changes in industry costs along the pipeline between 2006/07 and 2009/10. AWEX supports detailed and transparent information, because it is potentially an excellent resource for wool growers and industry alike. However, the information must be accurate and reliable.

In the 2009/10 SBTM table referred to in the AWTA submission, AWEX costs per kg greasy were shown to have increased by 228% between 2006/07 and 2009/10. This was not correct, and was acknowledged in an exchange of correspondence with AWI.

The cost of providing the AWEX quality assurance activities is recovered almost entirely through the sale of bale labels to wool pack manufacturers, and so is included in the price of the woolpacks. The cost is approximately \$0.50 per woolpack, or about 0.3 c/kg greasy.