

Submission to

AWI WOOL SELLING SYSTEM REVIEW

By

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Background

Beecher Wool Services is a small regionally based woolhandling and brokerage firm. It is based in Cowra NSW and has been operating for 22 years. Cowra is located on the boundaries of three of the largest wool producing statistical areas in NSW (N15,N19,N23) . It is a family owned and run business just like many of its woolgrowing clients. It acts for and on behalf of those clients.

My name is Wayne Beecher and I am the managing director of the business. Below is a brief summation of my wool experience.

Originally off a sheep /wheat farm at Cowra .

Completed Woolclassing Certificate in 1979.

Shore , worked and woolclassed on the family and in district wool sheds .

Owned and operated a sheep grazing farm .

Managed a Private Buying operation in Cowra - purchasing clips and small lots for a small private buyer.

Woolbuyer for a Japanese Topmaker based in Cowra – attending and purchasing wool in Sydney, Newcastle, Brisbane and Goulburn.

NSW and Queensland Trading Manager for Export Division of a large Pastoral House – responsible for quotes / limits and overseeing private purchases for 13 profit centres across NSW and Queensland and co-ordination with export arm.

Currently own and operate Beecher Wool Services – A full wool handling and brokerage operation . Also act as its auctioneer.

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Please find below responses to the request for feedback to the WSSR issues paper.

Wool Preparation.

“a broker canvassing call”

Your outline of the wool preparation phase is generalised. Not all woolbrokers make “a broker canvassing call” . The only time we make what you would call a canvassing call is when we have had a specific request from a potential new client or an existing client request. It is worth noting that before we established our business in Cowra many had not had any contact with their broker, apart from a sale price phone call, for many years .

“Are the direct costs incurred by the woolbroker incurred by woolgrowers?”

Whilst I have clients who do not require a visit every year , I think at least one farm visit per year is a valuable part of a wool broking business . We endeavour to visit most sheds on start-up. It allows us to identify any problems pre-delivery and make recommendations if necessary . These include bale weights , shape and branding. Consultation with the woolclasser ,who may only require a sounding board or a second opinion .We can also convey current market issues that may influence clip preparation and ultimately woolgrower proceeds .eg Inflection points for micron , μm , strength, length, colour etc.

Is there scope for “user pays”?

Our business is to service our clients . If they request a specific service (user pays) we oblige , and have on several occasions. I believe there is already diversity in woolbrokers service levels and woolgrowers have the opportunity to choose their level of service.

“... should the classing “Code of Practice” be reviewed?”

In recent times the uptake of very minimal or non- skirting of fleece wools ,particularly crossbreds ,has increased dramatically. As a firm we have resisted promoting this form of preparation unless it was for a specific contract .Our reasons for not promoting this form of preparation was that generally most clips prepared this way do not have any recognised “quality control officer” in the shed and in the regions where it was well established the “quality” of preparation was deteriorating year by year. Also until just recently the returns overall were less than COP preparation . This may be an anomaly due to market circumstances but this year it was very apparent that crossbreds prepared without skirting ,even though they had a “D” certificate, received MORE money than a COP prepared clip.

Whilst I am not advocating the adoption of this preparation as the standard , it is important that the reputation of the Australian Wool Clip is maintained . We cannot bury our heads in the sand and allow our quality control to be undermined . To this end I believe the use of a “quality control officer” (woolclasser) in the wool shed is imperative for the continuing maintenance of our standards . Wool Classers (Quality Control Officers) could be trained in the requirements when preparing a minimal and unskirted clip . Wool prepared this way would need to be branded with a specific description eg US

(unskirted as a prefix to the current description) so as to maintain truth in labelling. Finally wool prepared this way by a classer and branded appropriately could be issued a "P" certificate ie a farm lot prepared by a registered woolclasser. However, I still believe, when offering wool at auction, wools which contain skirtings should only be offered in Room 2 with other skirting lots. Room 1 should continue to remain the domain of fleece wools only.

In recent times I have been requested by Woolclassers completing their woolclassers certificate to help with some of their theory work. It has brought to my attention the overcomplication of the course. I believe a lot of the material is unnecessary to become a competent shed woolclasser. Some of this material could be an extension course for classers wishing to advance their careers or just for interests sake. However for the general shed woolclasser the course could be simplified and shortened, so as to concentrate on the important aspect of shed woolclassing. Too much emphasis and time is spent on topics other than preparation of wool in a shed environment. It is a barrier to entry for some very competent wool people and conversely produces some less than capable wool people with good theoretical skills. Someone with a more hands on approach needs to have a good look at the curriculum.

Delivery and Testing

".....benefits to the woolgrower in knowing results prior to delivering their wool to a brokers store?"

There is no impediment to woolgrowers testing their wool prior to delivery. They can take mid-side samples pre-shearing or during shearing. They can also take a guidance core during shearing or after shearing. Alternatively they can contract an in-shed tester during shearing. Except where premiums exist, from time to time, for splitting lines at certain inflection points I believe this just duplicates test costs and adds handling costs on farm. Generally it is more difficult to test wool on farm.

"Is there a more efficient logistical process.....?"

As wool handling agents we are always exploring avenues to improve our logistical efficiencies. When handling and storing a bulky physical product each minor efficiency gain directly benefits the bottom line. This allows us to continue to offer significantly reduced handling costs to our woolgrowers. AWTA email each wool handler a sample line benchmarking report each week. Wool handlers can then measure their performance when compared to other coring facilities. Our business always sits in the top 10% of sites in NSW/QLD.

"Can AWTA testing be performed on-farm or at another regional location?"

While not impossible the barriers for coring, grabbing and storing wool on farm are numerous. According to the NSW Wool Industry and Future Opportunities Report in NSW alone there were 15,800 farms with sheep in 2011 of which 10,500 farms ran merino operations. The logistics of moving AWTA staff around to oversee weighing, coring and grabbing of wool on farm on this scale would be extremely expensive. Also as wool needs to be weighed at the point of coring to reflect changes in wool yield the accuracy of scales at each and every location would also be a expensive logistical exercise. Whilst larger

woolgrowers may be able to overcome these barriers they are then presented with the shipment of bales to dump in a timely manner. Each woolclip is made up of several lines of wool which are usually sold to several different buyers . In this just in time era , each line would be required to be delivered into a dump on varying delivery dates , therefore requiring multiple trips by a carrier to the farm to load wool for shipment to the dump. This would all need to be done within the 48 hour time frame required for delivery.

Regionally based wool handlers/woolbrokers have established themselves close to production bases thereby solving the barriers discussed above. It allows for the more efficient use of coring , grabbing and weighing equipment (far less duplication of resources). It is a more efficient use of AWTA staff and allows the aggregation of wool deliveries into more cost efficient loads. All this has happened without any outside intervention.

Currently the delivery process involves two stages .

1. Farm gate to wool handling facility.
2. Wool handling facility to dump.

It is important not to ignore either stage when making a point on costs . The total of the two is the industry cost. One is borne by the Woolgrower and the other by the Exporter.

Wool Appraisal

“standard turnaround time is approx. 3-4 weeks ...”

Our maximum turnaround time is 13 days and our minimum 7 days. Most regional brokers would have similar turnaround times.

“ ... can efficiencies or cost savings be achieved within the appraisal stage ... ?”

The woolbroker appraises the sample for two purposes . The first is for the purpose of establishing a type so as to be able to calculate a pre-sale valuation for their client. The second is for that type to be transmitted for use in AWEX compiling their market reports. We do not charge AWEX for this service as we are already appraising the wool. Our business appraises this wool at the sampling line during the wool grabbing process . This is of very minimal cost and time to our business , as the grab-operator is already employed to grab the wool and the sample is immediately available to him before sealing. It also means any wool placed on hold already has a type on it for ease of on-going valuation.

AWEX audits the woolbroker client and checks for any wool preparation issues. By removing this process very little cost would be saved . It should be a very easy calculation to be make .

The woolbuyer/exporter guarantees the product they deliver to their individual clients . They are the ones who have the close relationship and understanding of that clients requirements. No typing system can cover for that understanding . The typing system has basically been developed for market reporting purposes . If the display of the sample was to be removed from the sale process someone would have to

then bear the cost of that guarantee . It is important that the cost of having buyers appraising lots is compared with the cost involved in separately guaranteeing deliveries. I do not know of any other market where a third party guarantees a buyers delivery ?

It is important to remember that a grab sample is still required to be taken so as to achieve a length and strength measurement and importantly to be able to appraise a lot. Currently this sample is transported to Sydney for tufting at AWTA . The tufting machines are located at the showfloor . As long as the tufting machine is located close to the showfloor space limited efficiency gains are to be made here.

Removal of the sample from the sale process still does not remove the necessity to initially appraise the lot and have some sort of audit process, particularly if a third party guarantee was to be given. This means some form of sample display area is still necessary and preferably central and located adjacent to the tufting machine. This may enable some reduction in showfloor space . Relocation of showfloor space to a less expensive location is also an alternative. Showfloor space costs savings will still be only minor on a per bale basis.

“... would the woolgrower be disadvantaged by relying solely on appraisal?”

I would contend that a buyer looks at a sample to see whether he can fit it into an order , whilst an appraiser gives you all the reasons why not to purchase a lot! That definitely disadvantages a woolgrower.

Price Realisation

“What other selling alternatives exist?”

Wooltrade offer both an electronic offer board and electronic auction sale. It costs 4 cents/kg greasy to sell wool on Wooltrade whilst AWEX sale room costs for selling at auction are about 1.2 cents/kg greasy. An auction sale has definitive showfloor costs whilst Wooltrade quite often still requires sample inspection and some form of showfloor cost . It would be more costly at auction but not by a significant amount , certainly not 2.8 cents/kg greasy.

You can sell wool privately in the shed . Our company still performs this service . Whilst there are no direct charges to the woolgrower , except the wool levy , the truth is a margin is taken out before offering a price . This margin allows for any on-farm testing, visit to farm to inspect the wool, cost of transport from farm gate , handling and testing in store, insurance and any test/price risk. Both the on-farm testing of wool and on-farm appraisal of wool are additional cost incurred in private buying . Also there is usually more than one buyer engaged in the quoting process so unsuccessful bid costs will need to be covered in any forthcoming offers. The on farm testing and appraisal processes are very time consuming . They involve the manual coring of bales and the physical opening and closing of bales. Also travelling to quote on ultimately unsuccessful offers is a cost that needs to be factored into any margin. One benefit of selling wool privately is any Test/Price risk is removed from the woolgrower , as he knows exactly what he will receive before it leaves his farm gate.

In your "Table 3 - Selling Methods in Wool Supply Chain .." there is some significant oversimplification of some of the alternative selling methods. As discussed above the on- farm private buying alternative requires a visitation to both core and/or appraise the wool and this is quite often performed without purchasing any wool . This is not included in the chain and is a significant cost . As with Traditional both alternatives may or may not require a canvassing call . If it is included in one it is reasonable to expect it is necessary in the other .

" ... commission buyers.....What effect ... with respect to competition for a woolgrower's wool?"

As commission buyers are only paid on the amount of bales they purchase there is more than enough inducement to buy wool. I cannot see how it discourages competition even if they are operating for several clients. This is fairly common practice in the meat buying fraternity . It is better to have one buyer in attendance bidding for multiple companies than only one buyer bidding for one company and the balance of the company limits not operating.

'Are auction results communicated in an efficient and timely manner?'

Up until recently all auction results ,including the buyer were available on-line via the AWEX Eclipse format. Due to exporter issues the buyer of each lot is now not disclosed . While only a minor issue the unfortunate outcome of this process is that there is now no way of growers being able to verify the purchaser of their wool.

"Are the auctions basically the same in each of the three major selling centres?"

One difference in the North when compared to the south is rostering . In the North brokers operate on a continual rotational basis , whilst the South operates on a generally fixed selling day per broker.

Invoicing and Payment

Most woolbrokers have a seven day payment period from the Friday of the sale week , with all funds due by that prompt date, before any wool deliveries can be affected . On page 11 of the issues paper you state that "the woolbroker generally agrees to pay the woolgrower 7 days **after** receiving payment from the buyer." In our case we pay our woolgrowers on the next business day after the prompt date and I believe that this is the case with most woolbrokers.

“What services are provided by the woolbroker to the woolgrower that are covered by the Broker Service Charges?”

Our brokerage fee has two components . The first is a charge for all bales and the second is an additional charge for one and two bale lines (whether they are interlotted or sold as is). Our charges exclude pool bales or bags and butts which are purchased as a principal.

Included in our brokerage fee are a shed start visit , receival , marshalling , core and grabbing ,insurance from sheeps back , AWEX selling charges , showfloor costs , Sale EDI transmission costs, auctioneering and a period of free storage. Separate charges are AWI Wool Levy and AWTA test certificate costs . The grab sample is not refunded and is used to fund part of the showfloor expenses.

I think it is important that there should be a clear distinction between when a broker is acting as an agent and when they are acting as a principal. If you are a broker and acting as an agent , and therefore charging a brokerage fee, there should be no hidden margins or “secret” agents fee . If you are broker but acting as a principal it should be disclosed and there should be no brokerage fee charged.

“What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge?”

Our Post Sale Charge has two components . The first is a freight component for delivery of the wool into a defined area in Sydney. The second is for any post sale costs associated with the delivery of the wool. It includes delivery EDI costs, location and retrieval of wool from within the wool store ,marshalling and checking lots ready for countermarking and loading ,coordination and consolidation of loads with the carrier, cartage note generation and loading of the wool on the truck . Most deliveries require completion within 48 hours.

One area of contention with exporters is the significant difference in Post Sale Charges between brokers. I think some form of transparency is needed in this field to highlight to woolgrowers these costs , which can indirectly effect their bottom lines. This could easily be achieved in the form of a website or the requirement of some form of disclosure on the Account Sales. When acting as an agent/broker I think it is important that all costs charged at the point of sale/transfer of ownership are fully disclosed whether that be to the woolgrower or exporter.

It is worth noting that electronic transmission in the wool industry has been firmly entrenched for about 30 years . This is far in advance of any other agricultural commodity and is quite often understated. There is electronic transmission of AWTA certificate data to woolbrokers and from woolbrokers to exporters . There is electronic transmission of the sale catalogue , electronic transmission of sale data to woolbrokers and exporters and electronic transmission of invoices from brokers to exporters .

General

Wool Industry institutions

“Would there be an advantage in combining the activities of AWEX and AWTA?”

There are three main industry bodies . AWI’s functions are Research and Promotion , AWTA’s function is that of a Testing House and AWEX’s functions are Wool Sale Management , Market Reporting and Wool Classer Registration and Training .

AWTA was originally established as a testing house for wool but has since branched out into other areas of testing . It does have a monopoly position in the market place , however it has unique not for profit charter and has industry control (although outdated). In the past , another commercial testing house , SGS , tried to establish itself as a competitor but it failed . AWTA’s expertise is **testing** and I believe they have no role to play in the other functions highlighted above .

AWEX is a public company established by wool industry participants to administer wool sale arrangements in Australia . It has a clear role in providing a framework of business rules ,standards and codes of practice . Its members represents both buyers and sellers of wool in Australia and they are the ultimate decision makers in establishing and implementing these rules, standards and COP’s. AWEX has continued to downsize its operation as volumes have declined and is now a lean operation staff wise , however some further investigation of remuneration may be required given the now small corporate structure . AWEX has a definitive role to play in this function as the participants in wool selling are making the ultimate decisions . Neither of the other two institutions have a role to play here.

AWEX ‘s role in Market Reporting and Wool Classer Registration is less defined . It seems that both these roles were “left overs” and AWEX took up the role. Market Reporting best fits the Research function of AWI but Im not sure there would be any cost savings . You would only be moving staff from one institution to another . You could also contract out both these roles but I am still not sure there would be any savings.

“Are there any other changes to ... institutions ...that would enhance returns ?

The exclusion of AWI from this Wool Selling Systems Review is disappointing to say the least. AWI represents a significant portion of wool grower selling costs but has been quarantined from this review process. Both the woolbroking and woolbuying fraternity are subject to market forces. Market forces bring about change .

AWI has two main functions namely research and promotion. I think research is difficult to bring under market forces but promotion should be subject to some sort of commercial pressure . If woolgrowers

had choice in which promotional company they invested their funds for promotion you would have a commercially driven market . Growers could then opt for their own promotional companies based on their previous performances and/or based on the woolgrowers specific requirements/enterprise . This could all be done similar to the wool poll vote whereby each three years woolgrowers would nominate where their funds are directed .

Centralisation

Moving sales from one expensive rental site to another expensive rental site has already been shown to have **very little if any** impact on **overall costs** (approx. 30 c/bale according to the most recent study) .If volumes were to deteriorate to a level which may justify the combining of Northern and Southern Sales it would be more appropriate to locate that showfloor site in a far less expensive rental region with easy access achieved by both regions.

Digitalisation

One area where the sample display area may be able to be rationalised is by the use of digital recording .However again this will only work if exporters will accept this form of appraisal . As I stated earlier they are the ones financing and guaranteeing the deliveries. However if acceptance could be agreed upon the following could be a good procedural outcome .

Grab samples could be sent to the AWTA tufting site and a digital picture (possible 3-D) taken during the tufting stage so as not to duplicate any handling of the grab sample . Wools not requiring tufting would just need to be digitally recorded . AWTA is best suited to perform this role as they act as the independent body , just as they do in overseeing the weighing ,grab and core procedures. The digital image would need to be of exceptional quality . These images could then be appraised by both the buyer and broker without the necessity to have a showfloor and its associated costs. The sample would need to be sealed and held for any physical inspections that may be required or any disputed samples.

Forward Selling and Risk Management.

Personally our company has been involved with most of the forward selling mechanisms that have been on offer over the last 25 years. I was a registered futures advisor for some of that period.

Wool is a textile so the only other agricultural commodity you can use as a useful comparison is cotton. Cotton is a high input cost commodity which presents greater financial risks for the grower and, in particular, for banks. The input costs for cotton may exceed the value of the land. Hence the adoption rate of risk management in cotton has been pushed heavily by banks.

The Rieman platform is the only current offer board available to woolgrowers. We use this facility and find it simple and easy to use and cost efficient. It has less risk than a physical forward contract. The specifications that growers are required to meet for a physical forward contract namely; volume, micron, vm, yield, length, strength, POB and type make these contracts very difficult to fill. Woolgrowers just want to be able to lock in a market level and take any risk or gain on their basis.

Unfortunately both the buyer and seller sides are not as active as they could be. There could be several reasons for this.

1. Woolgrower input costs are not high when compared to land value.
2. When the price of wool is high there is more interest and activity by woolgrowers but this usually coincides with less volume and activity by buyers. There is also less activity in the later dated months by buyers. Maybe a more sustained level of profitable prices would increase the percentage of uptake.
3. Locking in prices when margins are tight is not attractive for both sides of the contract.

SUMMARY

The harvesting of wool, and the logistical handling and movement of wool represent the greatest cost in the sheep to ship chain. In our business the physical logistics of handling wool is by far our greatest cost. All the other costs are extremely minor by comparison. The savings that are likely to be made by trying to rationalise these other areas are not the panacea for a significant increase in profitability for woolgrowers.