

Summary

This submission is based on the best outcome for all in the wool industry is a market based system. Most of the problems within the wool industry has been caused by well meaning, mainly grower based organisations that have tried to interfere with the market. The market is brutal you just need to accept the fact and you should not support participants that have misread market signals. You should not blame the market if the message you receive is not the one you like. Currently broad micron and oddments are at record or near record levels; it is finer micron wools that are not attracting the same price levels yet this is the same area that grower organisations have been encouraging growers to move into. The market is saying one thing the human experts another. This is not a market failure but a failure of the humans who were trying to justify short term positions.

The current auction system can

- Gives a clear price signal to the grower on the current demand for the various types of wool
- Allows growers to sell all or none of their wool
- Has the ability to clear all the offerings
- No central authority dictating minimum or maximum price
- No central authority acquiring stock
- Nothing better has been proposed

There is nothing in the system that prevents the development of a futures market, although the nature of wool not being a constant commodity discourages futures trading, nor is there anything that prevents alternate methods of selling to develop. Growers and buyers can develop a direct relationship and sell outside the auction system if they so agree. The current system has no restraint of trade. There is no compulsory commodity acquisition by a central authority or price control on either the maximum or minimum price. So on the whole the system does not need a major overhaul.

Submission

This does not mean that the current system can not be improved

This submission supports

One national selling centre selling in 2 rooms 4 days per week.

Lots less than 3 bales and with a micron greater than 18.5 be excluded from sale or grouped at end of sale week.

The auction to be available to be viewed over the internet, anywhere in the world

Only Australian based organisation be authorised to bid or sell and that they be registered.

The price quoted at auction is the price the buyers pays. The price quoted is the price to load the wool onto transport. Delivery, counter-marking storage and interest to be to the buyers account. These charges to be on cost plus basis there should not to be a cross subsidy of costs with brokers using these charges to lower costs to growers. .All other charges to the seller.

Wool can be sold by description or by sample box, it is a marketing decision that should be made to maximise growers net returns, let the market give the price signal. This is a decision for the grower to make in consultation with their broker. If buyers require a sample box then they must pay a premium over other wools to justify any additional cost. For too long decision have been made on people's opinion not on the collective decision of the market.

AWEX is too small to be a stand alone organisation and its task needs to be absorbed into other bodies. (For 2014 report Remuneration to executives and key managers AUD 715k revenue AUD 4,019k or 18% of revenue AWI and AWTA remuneration to revenue is 4% as a comparison)

The current software that is used to transmit sale and logistics information is old and privately owned. The industry needs to take control of its means of communication and the industry needs to determine which organisation should own this software. Private owned for profit organisation is the wrong organisation to have such critical ownership. Lack of development money is evident in the current offering.

Current prompt provides financial discipline to ensure that buyers only buy wool to what they can afford and has prevented any major financial default.

A futures market will need to be financial settlement not a physical delivery. It becomes a bet on an indicator to account for the unique properties of wool. Given the tight margins operating in industry the points spread between buy sell will need to be small. This may not offer sufficient margin for major investment.

Specific Issues

Phase 1 Wool preparation

This submission has insufficient information to pass judgements on the issues raised except to the extent that due to the extreme competitive position of brokers costs are being passed into the buyers PSC that should be paid by the growers. This is evident in the differing charges brokers charge in their PSC for wool that is warehoused under the same roof. Buyers simply alter the price paid to account for the difference but this then distorts market reporting and actual costs are not transparent to the grower. By having all costs except those that the buyer can influence, storage interest delivery and head marking to the sellers account total costs are transparent.

As example for wools stored at AWLG (AWH Lara) per bale charges

AWH	22.10	LMKG	25.84	AWNS	28.17
ARCG	24.60	ESMG	26.00		

Phase 2 Delivery and testing

This submission has insufficient information to pass judgement. Although wool once full tested by AWTA should be placed in quarantine accessible only by AWTA staff to prevent altering the actual delivery from the tested bales.

Phase 3 Wool Appraisal

This submission is against sale by description in that it believes it will lower grower returns due to wool being appraised as low as possible by a third party to prevent claims. Wool simply will become a commodity for a niche (and that is what wool is) player in the fashion industry. Just seems confused; wool does not understand itself is it niche or commodity.

As an example with crutching for the same micron we have 4 types based on observed length, colour cott and dag chip. The price differential even within the same micron maybe a AUD 1 per kg. This is based on our experience in running an early stage wool processing plant and knowing the uses of the various types of wool. By simply calling everything a for example 21 micron crutching the premium for better prepared crutching is lost

However the market is the best place to decide the question, to achieve this there should be an ability to sell both by description and by sample boxes and this will allow the market through price signals to growers to decide which sale method they wish to take rather than a central authority making that decision.

While this is an individual's submission it is based on experience in working for an organisation that process closer to 100,000 greasy wool bales annually. We are continually surprised at the topping up of bales with wools that clearly are not the same as where the grab sample is taken. The Australian industry needs to review the criteria for taking a grab sample to include the top and bottom of the bales.

Phase 4 Price Realisation

To support competitive tension it is this submission view that you put all buyers and sellers in the one centre selling 4 days per week with Friday set aside for finalising positions of the prior week and offerings for the following week. This submission is concerned that under the current 3 centre model there is insufficient volume to justify recruiting and training new entrants and that the existing entrants are aging. By having one central location each buyer is more likely to have an exclusive buyer rather than a buyer who represents multiple parties.

The open cry auction system should be able to be viewed online allows great transparency to overseas mills and growers as to the actual prices paid.

By increasing volumes into a central buying centre duplicate costs such as employment auction room rental can be eliminated. While we doubt that these savings will be passed onto wool growers it will assist the financial viability of more players in the auction system to increase competitive tensions.

There is a comment that in the paper that should downstream interest be involved in the buying of greasy wool. First comment is that there is nothing under the current system to prevent them from doing so, in fact about 25% of the top 15 buyers are from downstream interests. It is a decision for the downstream interest to make where they choose to enter the supply chain, they will make their decision on what they consider to be in their best interests. The industry job is to ensure that they can participate to the level they choose. The current system allows them to do that.

Phase 5 Invoicing and Payment

This submission has made comment previously on the PSC . We are in support of the current system of a Friday after the sale prompt date in that it is protection to the industry of a major default by a buyer.

We recognise that the buyer side has lost the big trading houses with their lines of finance and this has put pressure on the financing of the clip but this submission does not believe the relaxing of the prompt is the answer. Relaxing the prompt only shifts the financing of the clip from the buyer to the grower. What we need is a removal of costs not the shuffling of costs.

Phase 6 Export Process

It is this submission view that the more urgent need is for the industry to take control back over its IT infrastructure rather than dumps and warehousing. In wool dumps you have up to 3 dumps in each major centre to provide competition. It is this submission that it is competition that will drive best outcomes for the industry so an industry owned facility can lead to a monopoly situation with the result of lazy management.

Phase 7 General

As outlined in the summary given AWEX remuneration to managers and directors is 18% of its revenue (on the assumption that it is paying market rates to achieve the skills needed to operate) this submission is that it is too small to operate as a stand alone unit. Their function needs to be absorbed by a bigger body or for AWEX to be given a bigger role and revenue by the industry. This submission supports the role being absorbed by other bodies as yet undetermined.

This submissions view is that the industry needs to immediately address its IT issues. The lack of development in this area is frankly an embarrassment to an AUD 2 to 3 billion industry. We recognise Talman is a private run organisation and it has responded as it should to the shrinkage of the industry but it has got to the stage that this runs a major risk of failure and needs to be in the hands of an organisation that has industry good as a concern.

As a side line this submission believes that the industry should recognise the situation on farm where wool is one of the options that a grower has to maximise his returns. The industry should consider that growers are sheep producers rather than wool growers with a revenue stream of both wool and meat and that consideration should be given to amalgamate the sheep meat division of Meat and Livestock Australia and AWI into a single entity covering the sheep industry. AWI has pushed an exclusive wool story and encouraged growers to produce fine wool which the market is showing is oversupplied when to maximise grower returns the traditional 21-24 micron big body sheep bred for both wool and meat would have given growers better returns. On a price per kg of wool the price paid for the wool maybe lower but by cutting more wool, producing more meat and delivering more lambs offering better return per sheep which is the ultimate decider for grower and we need them to staying in the sheep industry.

For other issues raised in the paper this submission believes it has covered them or is not in a position to comment.