



Elders submission to the Wool Selling Systems Review (WSSR)

Elders has a long, 175 year history of investment and innovation in the Australian wool industry. With production continuing to fall at a significant rate during the past 2 decades, Elders has simplified its wool business and moved away from investments further up the supply chain to a clearer focus of assisting on-farm and delivering wool marketing options for the benefit of woolgrowers.

The below submission outlines our experience in early stage processing and wool trading, selling alternatives and new product solutions. All are clear examples of Elders trying new initiatives to increase competition and demand for Australian wool, whilst also exploring the most efficient and effective 'route to market'.

Examples of previous experience in the wool processing and wool trading.

- Elders has previously invested heavily in early stage wool processing with the ownership of Bremer Woll Kammerei (BWK) top making operations in Germany, Australia (Geelong Wool Combers) and Turkey. This vision provided our clients an opportunity to value add to the greasy wool they produced, with a small number of growers choosing to retain ownership up the supply chain, mostly to the wool top stage. Generally these experiences were not profitable and more complex than expected. Because of these experiences other growers were reluctant to take on the extra risk associated with value adding. The BWK operations became victims of the global over capacity of early stage processing and the competitive edge China was establishing and therefore closed some years ago.
- The closure of Geelong Wool Combers and relocation of the plant created the opportunity to establish a joint venture partnership in a fully integrated facility in Nanshan, China. Nanshan was a modern, state of the art facility involved in all stages of worsted processing right through to marketing the finished garments at retail. Leveraging the joint venture to benefit Australian woolgrowers was difficult. A product called "Indent Grid" was used to offer growers a price direct from the mill at, or up to six weeks prior to, shearing. The uptake of this option was small as growers often chose the transparency of the traditional auction rather than a direct order. The joint venture was exited some years ago as we moved to simplify our wool business.
- Our investment in Elders Wool International (EWI) provided specialist in-house buyers in the three major selling centers. Whilst the benefits of access to market intelligence and marketing options were helpful, the high costs associated with running a wool trading operation in a shrinking market failed to generate a reasonable return on capital. In 2011 Elders exited the wool exporting business.

Examples of previous experience with launching new selling alternatives.

- In 2004 Elders, with the support of the Nanjing Wool Market, held an open cry greasy wool auction in China. These sales helped to educate the Chinese wool buyers and processors about Australian wool types with bidding in Mandarin and the display sample split and displayed in both Australia and China. From these sales Elders built an online sales channel 'Global Wool Auctions' to provide an alternative to the traditional auction system. Local buyers reluctantly supported the online sales and woolgrowers were apprehensive. Elders struggled to offer reasonable volumes at the bi-monthly auctions and

eventually closed the platform. These sales did prove that Chinese mills could successfully purchase Australian wool online by description.

- Elders were heavily involved in the 'Wool Appraisal Trial' when the concept was floated and trialed in late 2006, early 2007. With the cooperation of growers and brokers of South Australia, lots were typed by AWTA employed accredited appraisers. These appraisers were former wool buyers with many years of experience. Types were guaranteed by AWTA and the selection of lots was restricted to 'bread-and-butter' 20-23 micron SA Merino fleece lots. The trial petered out; although there was support from buyer principals, some of their staff were not so enthusiastic.
- Over the years, numerous specialty and bloodline sales have been held which gave processors an opportunity to purchase parcels of wools from similar genetics or similar growing regions and allowed studs to self-promote. Studs were hopeful of some level of premium to be paid by processors for offering a large parcel of similar types and optimistic ongoing relationships would be formed. This rarely eventuated as clip test results changed along with the mill requirements. Over time, enthusiasm for these sales dwindled. Feedback from these events indicated wool growers' ideas on large parcels compared to that of wool processors were vastly different.
- In 2008 Elders was the first broker to trial the hosting of a 'non-mulesed online sale' to allow buyers access to this parcel of wool. Growers were hopeful of a premium compared to mulesed wool which did not occur. Holding wool to participate in a "one off sale" such as this did not suit a number of growers and the varied types made it difficult to buy large volumes of compatible wools.

Examples of previous experience with new product solutions.

- Elders Risk Management (ERM) was established by Elders to offer clients a specialist risk management service. A number of Elders District Wool Managers studied and became registered representatives of the Sydney Futures Exchange, and workshops to educate woolgrowers on the mechanics and benefits of risk management were held in all states. Elders have always been strong and active supporters of derivative and over the counter hedging products such as SFE, Macquarie Bank, Icap and Reimann, also encouraging the use of Options for managing risk. Through the Elders Exchange Desk, Elders has promoted our Auction Forward hedging product which is popular with clients as a simple and effective hedging tool (these clients still sell wool at auction), in recent years Elders has been the most active broker to use the Riemann and Icap platforms.
- Additionally, the Portfolio Management System, developed by Elders, was aimed at providing clients with tailored marketing information to make better decisions and lead to higher returns.
- Elders lead the way with quality assurance. ClipCare was heavily promoted to our clients to provide contamination free clips to processors. Our staff worked on-farm with growers to educate and audit sheds to ensure they complied with appropriate standards. In recent years the DMFR and NWD have become more important issues for the industry and participation in Clipcare is now extremely low.
- Tailored selling options such as indent grids or open mill orders from Elders joint venture in Nanshan and other mills through our EWI connection have been promoted. Although as previously mentioned, most growers' preference has been the traditional auction. Our experience indicates that crossbred growers are more supportive of these alternatives.
- Mill Directs which enabled larger growers to bypass the auction and offer container size parcels of wool direct to overseas processors also received limited support, with price always compared to current auction. This option has struggled due to limited grower feedback, minimal relationships established, as clip test results changed with seasonal conditions, and growers looked for a better price than auction.

- Elders is a major shareholder and active user of online selling options AuctionsPlus and Wooltrade. Wooltrade has become popular with growers and is very effective for listing passed in lots reserved above the passed in offer, especially in volatile or rising markets. For the AuctionsPlus online platform to succeed it must attract wool away from the traditional open cry auction. Progress has been slow but we continue to support and offer wool on this system weekly. We believe it is inevitable that more wool will be transacted this way in the future.

In summary.

Over the past fifteen years, the Elders wool business has reacted to the falls in volume and production. With a smaller support base centralised at a national centre in Melbourne, reduced duplication, and dual field roles incorporating livestock, stud stock as well as branch management positions, combined with the closure of technical offices in Gillman, Lara, Brisbane and Newcastle, we have had to improve efficiencies and change our business model to reflect the size of the market.

Although a different business than in previous years, Elders is still widely recognized as one of the few companies who continually employ and train young staff for future careers in the wool industry, this is something we are passionate about and committed to. We continue to conduct grower tours to China to assist our clients and staff with understanding the wool supply chain and are supportive of industry trials and events that support our wool clients.

Our role is now clearly focused both on-farm and facilitating the exchange of ownership between the grower and the first buyer in the supply chain. An example of our on-farm commitment is our new Livestock Production division; these roles aim to lift livestock and wool productivity similar to the AWI Life Time Ewe Management and Bred Well Fed Well programs which a number of our wool staff are involved in. Elders will continue to offer marketing options to Australian wool growers, explore processes to increase efficiencies and reduce duplication for the benefit of Australian wool growers.

Please note that additional information is contained within the NCWSBA's submission.