

# AWI Wool Selling System Review

Submission from Modiano Australia

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## Overview

This submission presents Modiano Australia's key comments regarding the wool selling review currently being undertaken by AWI.

Modiano has addressed the following main points:

1. The importance of sample inspection;
2. The benefits of the auction system;
3. Ensuring wool production meets market requirements;
4. The need to persuade Government to exempt wool from GST;
5. The transparency of sale of wool charges and;
6. The parameters and timing of this review.
7. The need for centralisation of selling centres.

### 1. The importance of sample inspection

Modiano Australia purchases wool in Australia for our parent company in London, and then it is processed in our mill in the Czech Republic. We run one of the largest topmaking mills in the world. Our entire buying system in Australia is based on the inspection of the sample drawn from the bale. This gives us the ability to accurately assess how the wool will process in our plant.

The inspection of the wool sample immediately enables us to assess the maximum processing performance of any particular lot, giving us the greatest confidence and certainty in what we buy.

The main reason we do not support a move to sale by description is because the AWTA testing fails to provide Modiano with an accurate and consistent assessment that meets our key requirements. We have already begun to see the inconsistencies and undervaluing of the AWEX-ID applied to auction wool,

giving us zero confidence in buying wool valued by some Joe Bloggs, with no knowledge of our business.

The following statement in the AWTA submission, in relation to processing, causes Modiano great concern:

*“AWTA Ltd will provide a guarantee, based on an assessment of the display sample taken in accordance with IWTO Standards, that the AWEX-ID determined is a fair and adequate description of the non-measured wool characteristics as applied by a qualified AWEX-ID Appraiser. This guarantee does not extend to processing quality or performance.”*

As stated above, the AWTA has made it perfectly clear that, “This guarantee does not extend to processing quality or performance”.

This failure to guarantee both the AM test and the appraisal from a wool processing perspective renders both completely worthless to Modiano.

Therefore, the greatest question remains, and that is, who will guarantee the processing performance and appraisal of the wool?

At present we value all lots before sale and also double check all wool bought at auction before shipping. It is hard to comprehend the suggestion that the first time we will be able to inspect the wool is when it is sitting in our mill in the Czech Republic. Who will come and collect it if it is wrong? Who will make up for delays in production due to wool deliveries unsuitable for the orders they are allocated to? Will payment only be finalized after we have ratified the wool when it is received in Europe?

**It is plainly clear that this failure to guarantee processing performance and removing our opportunity to directly interact and appraise the product would have negative consequences for our company. If there was any move to sale by description, Australia would fast become an unreliable and high risk source for acquiring wool, forcing us to rely more heavily on New Zealand and South Africa.**

## 2. The benefits of the auction system

Any move to an on line selling system would have dire consequences for the Australian wool industry and in particular the growers.

**Essentially, selling on-line would expose wool growers to the full force of China's collective pricing, subjecting the market to the possibility of collusion beyond the control of Australian checks and balances. Potentially, growers could suffer substantial monetary losses as a result of lower prices.**

Admittedly, cheaper wool would no doubt benefit Modiano as a processor in the short term, but the long term affects could be devastating. We believe the market needs to be at levels that achieve sustainability for wool growers. This is the only way we can secure a long term source of wool to meet our production needs.

Finally, there is currently no system available that can sell the volumes required, nor provide adequate market feedback for buyers.

## 3. Ensuring wool production meets market requirements

It would appear that many wool growers have been led down the garden path and are now growing the wrong wool.

Increasingly wool is put up for sale that Modiano cannot even bid on, because after processing it would make a wool top that is unsaleable to our clients. The current trend to increase the cut per sheep has resulted in a mass of overlong wool coming to market, a product that very few topmakers can use.

In addition, an oversupply of poor quality fine wool on the market has resulted in below average prices for all grades of fine wool.

Poor clip preparation is also contributing to lower returns for growers. Every week, many wool growers throw away vast sums of money in a misguided belief that they are saving a few dollars by not skirting fleece wool.

In short, growers are producing wool that many processors can't use, reducing the saleability of their clip. This only serves to decrease competitive tension at the point of sale.

**Modiano believes that growers need to be intelligently informed about what is required from both topmakers and also spinners and weavers. This will enable them to make their own sound business decisions about what wool to produce and supply.**

It's simply a matter of working together more efficiently within the industry as a whole.

#### 4. The need to persuade Government to exempt exported wool from GST

The current GST arrangements only serve to restrict the cash flow of companies exporting wool.

As with all wool exporters, we are in a continuous cycle of paying GST and then claiming it back. This repetitive rigmarole affects our cash reserves, limits our purchasing ability and ultimately results in unnecessary market fluctuations.

**Making wool exempt from the GST would provide all buying companies with improved cash flow resulting in a more stable market.**

#### 5. The transparency of sale of wool charges

Current charging arrangements only serve to mask the true cost that growers have to pay to sell their wool.

There is no commercial pressure on brokers to keep sale charges at a minimum. Brokers dictate these cost and exporters have no opportunity to negotiate these terms.

Unfortunately for growers, they ultimately end up paying the additional charges that brokers have demanded from the exporter.

Modiano strongly recommends that this system of charging is reviewed and overhauled so that wool charges are made transparent for all parties involved

in the process. At the very least, this will ensure growers are clear about where their money is going, creating an opportunity to put commercial pressure on brokers to keep charges lower.

**By making wool charges transparent, we are creating an environment of greater accountability by ensuring that brokers charge fair prices to both the exporter and the grower.**

#### 6. The parameters of this review

While a review of the selling system may bring some benefits to wool growers, more needs to be done to ensure their long term financial viability.

The only way we can clearly and significantly benefit the wool grower and therefore maintain production levels, is to increase demand for wool through effective marketing strategies and campaigns.

Therefore this review should utilise the skills and insights of the review panel to examine the effectiveness of marketing strategies in encouraging people to buy wool. While a wool levy for marketing purposes is essential, we are left with the issue of value for money and how best to use the funds collected.

The timing of this review also begs the question about why AWI is focussing on the selling system and a lack of competitive tension, rather than effective marketing in a wool poll year.

**To put it simply, we have to put more effort into increasing the demand for wool, rather than simply trying to create a smoke screen using a review of the selling system. We need to focus on the long term and broaden our thinking. Increasing grower returns by \$15.00 a bale is not enough, they require more like \$150.00 to \$200.00. This can only be achieved through effective marketing.**

## 7. The need for centralisation of selling centres.

Modiano supports the move to bring together all three selling centres to one location. This will help ensure the long term viability of the wool industry in Australia. With the ageing of wool buying staff across Australia the centralisation of selling centres will provide greater opportunities to train and develop new staff, with minimal impact on companies.

### Conclusion

This is a brief overview of the position held by Modiano on these range of issues.

In summary, it seems that the only people in favour of sale by description are those who have nothing to do with buying and processing wool.

The points presented in this submission are those of an international processor who relies on seeing the wool sample, buying the product in an open auction room and ensuring transparency and integrity at each stage of the process.

We need to support the grower while putting our efforts into encouraging people to buy more wool through effective marketing.

Modiano trusts that this submission will be well considered as part of the review and that the sentiments of major buyers and processors of Australian wool will hold appropriate weight when the final recommendations are handed down to the industry.

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**For further commentary and information, please contact either**

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