



Celebrating 25 years 1990-2015

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WOOL SELLING SYSTEM REVIEW SUBMISSION

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Preamble

New England Wool Pty Ltd is an Australian Exporting Company with two Italian fabric maker shareholders, namely Reda and Vitale Barberis Canonico. New England Wool predominantly procures fine/superfine wool, (19.0u and finer) on behalf of its shareholders destined for men's suiting fabrics and more recently, fabrics and garments for active sports and outdoors. The Company purchases approximately 40,000bs per year and is the largest purchaser of sound (40nkt+) fleece wools 18.5u and finer in the world.

This New England Wool submission to the AWI Wool Selling Review has been a combined effort from the "management" of all three entities - New England Wool, Reda and Vitale Barberis Canonico.

As for any business, we agree that we must always look to improve efficiency and reduce cost wherever possible, but by doing so we **cannot make any compromises in quality and fairness.**

New England Wool and our shareholders are very focused on quality and also on long relationships with our suppliers. We consider our suppliers (present and future) as very important partners and not at all as COMMODITY partners. We totally respect their skill to produce the very best raw material possible. Our skill begins with the recognition and selection of this quality product, and then combining the experience, heritage and technology of our shareholders to manufacture the very best fabrics possible.

The discussion points below cover areas that are important to us in any wool selling/exchange system because we need to protect our business now and for the future. We have tried to look at this submission from an Industry point of view. In other words, the system needs to have benefits for the buyer and the seller/wool producer - for the Mill and for the Farm.

For the purpose of this document, I have chosen a number of topics/headings that relate to the review and the WSSR Issues Paper, without following its format religiously. There is a risk of repeating a similar theme when responding to the issues paper as many of the topics overlap, so my choice of "headings" hopefully gives an overview of the main points as we see them.

Discussion Points

- ALTERNATIVE SELLING METHODS

- Before making comment on alternate selling methods, I believe it is important to make sure the current situation is not misjudged. All methods of sale and exchange mentioned in the discussion paper are available NOW, and have been for many years. In fact, it could be argued that the options available to the grower for the exchange of ownership are some of the widest available in the wool pipeline. As stated by Mr Les Potts (Symbiotic Pty Ltd) in his submission to the review panel, “it has been well documented that the open cry auction is the most cost efficient mass exchange of ownership method employed by the wool industry. Yet this segment of the ‘chain’ continues to have the greatest focus for change. The bottlenecks may, in fact, be elsewhere?”
- Our Company participates in all types of transactions/exchange including (but not limited to) auction, electronic, contract (with or without broker involvement), offer boards and even Sale by Description. However, in all cases, seeing a sample is a prerequisite OR if a sample is not available, a conservative price is offered in line with the higher risk profile of purchasing such lots. As this review is all about finding the best return for the grower, our submission would show support for methods that provide the widest and strongest competition and/or give us the ability and confidence to offer prices that may be far more than the current market.
- The auction is the market “messenger”. It is the place where the demand and offer components of the market are realized – not the creator of these components. Don’t shoot the messenger!! The “messages” the auction has been giving us in recent years are a lack of financial return (premium) for growers of the best style and best prepared wools above more commodity wool types. Of course the oversupply of superfine wool in general is a message that the auction system is shouting out loud and clear.
- The reaction of our Company to the “messages” above has been to seek methods of wool procurement/exchange that bring us closer to the producer, and the ability to protect our market by paying significant premiums above the rates our competitors are willing to pay. Our “Bring Back the Premium” Contracts of the past few seasons, along with various promotions from both our shareholders have helped to increase returns to our valued suppliers giving them incentive to continue with quality and a forward price from which to budget for the future. I mention this only to illustrate to the panel that our Company is willing to look at any method of exchange to bring about the outcomes we see as important for our business. Right now it is the protection of our market, the protection of the wool we like to buy, and support for the growers who produce it, that is our number one priority. Tomorrow – who knows??

- PHYSICAL INSPECTION

- **We cannot accept a system which does not allow physical evaluation of the wool. Our success comes from the recognition of wool attributes that can only be assessed by seeing and handling the wool sample.**

- Sale catalogues (auction or private) must have the necessary data and information to augment the physical inspection of the sample. The “Contracts” listed previously still rely on the final inspection and ratification of a sample.
- LOT SIZE
 - **It is very important that for any lot size, that the lot must be uniform.** The evenness of the wool is one of the parameters necessary to give the most accurate typing/assessment. In general, the larger the lot the more compromise that exists in the evenness of characteristics such as length, strength, fineness and style. Uneven lots mean either the lowest common denominator valuation by our buyers, (and hence LCD pricing), or in some cases, the placing of no price at all.
- CLASSING AND PREPARATION
 - The classing must not be pushed towards criteria that would compromise the evenness of a lot. **The aim is to add value to the lot, not the contrary.**
 - The ultimate aim of wool classing is to **maximize the return to the grower** by preparing a clip that best serves the requirements of the market. However, it should be remembered that the “market requirements” are quite varied and can change over time. A classer cannot know at the time of shearing what the market will “require” when the wool is finally offered for sale. Therefore, it is prudent for all classers to work towards the highest quality standards every time. The “market” should have the opportunity to see the sample and to witness the efforts of the grower and the classer.
 - There has been a call by some for “unskirted wool” to be included in the Code of Practice (CoP) and recognized as a form of classing. In our opinion, this is the “thin edge of the wedge” towards the lowest common denominator, and/or providing a product to the market that reduces full and healthy competition. “Unskirted” or other versions of preparation outside of the CoP are legitimate in one-on-one private negotiations with a particular user. However, it should never be assumed that this form of preparation should be given the same status as “classed to CoP” wools in other more “public” wool exchange forums.
- SALE BY DESCRIPTION
 - Unfortunately, today it is **NOT POSSIBLE** to describe with measurements all of the characteristics of wool that we are able to see through the physical inspection of the lot. Without visual inspection, another layer of “risk” is added, and our ability to reward (with higher limits) the good efforts of the grower and classer is greatly reduced.
- WOOL AS A COMMODITY
 - We have the impression that some people want to diminish the possibility for all buyers to have access to the wool. We also have the impression that there is a push to move away from “best practice” in classing and preparation. We are definitely seeing this happen now.

The mixing of more types together and making larger lines with the thought of saving cost is, in our belief, a short term way of thinking. The exporter is having less and less access to quality wool and preparation, and more access to wool with less quality. The exporter (who could be a trader, or like us, very close to the consumer), can only market the wool that is available. In the end, this fair-to-average-quality mentality is giving less return to the grower and builds the base for the production of a commodity type.

- We do believe that increasing marketing and increasing the partnership between the buyer and the producer of the wool can really change things. If there is demand for a product, and the signals are clear back to the producer, the way the wool is transacted will take care of itself.

- CENTRALISATION

- 1. Centralisation Of Selling Centres

Our concern with any form of centralisation is the partial or full removal of the wool grower from the marketing process. Obviously, the further away the grower is from the point of sale, if auction is the preferred method, the less likely they are to attend. We believe that viewing of the wool, whether that is their own or that of their peers, and then following that through the sale process is an important way for growers to learn and improve. Disenfranchised growers are more likely to seek alternative methods of offering their wool thus fragmenting the system more. Some buying company's would definitely benefit from this scenario, (those with country/private buying infrastructure), but I question if the grower receives 100% competition. Our company is prepared to develop systems and structures to cater for such fragmentation to protect our market but it will definitely increase our costs in trying to service and offer prices to growers situated a long way from the chosen centralised selling centre.

Even with the reduced quantities of wool available for sale Australia wide, offering the current weekly amounts in one centre would require 4-5 days of selling. Someone still needs to value the wool closely and correctly. Our company would definitely require (at least) the same staffing levels as we employ now to perform our functions adequately. If the scenario explained previously exists where our staff may be needed "in the bush" to service suppliers, my employment/overhead costs may indeed increase.

It may not be relevant to the panel, but as manager of this business, I am well aware that centralisation of selling centres would result in a loss of valuable staff, and hence a void of knowledge and experience that would be difficult, if not impossible to replace.

- 2. Centralisation of Wool Storage/Receival Centres

There may be some synergies in studying a central place for wool receival, dumping and shipping. Logistically, I can see the benefits for our business. There would, however, be an increased direct cost for the majority of growers in wool transportation to the chosen centre, notwithstanding the fact that the grower indirectly pays now for our wool movements to the dump through the brokers PSC. I believe some past projects have studied this wool storage centralisation scenario and could be referred to by the panel.

- SHORTENING THE SUPPLY CHAIN

- Removing a “link” or more in the chain of sale and exchange may or may not result in cost reductions. It all depends if the links are actually removed or if the roles are just performed by another operator. (i.e. remove the exporter and go direct to processor - but there still needs to be the means and knowhow to transact, ship, finance, deliver and guarantee the process).
- The Contracts we have with growers are one method of shortening the supply chain slightly.

- BROKER COSTS VS BROKER VALUE

- Our company works very closely with its suppliers, and in many cases, this is with the help of some very enthusiastic, knowledgeable and respected members of the wool broking fraternity who are truly representing their clients – as they should be. It is not for us to comment on the value of a broker to the wool grower. That is for them to decide and to react accordingly. However, there are some areas of brokerage that I believe could be discussed with the hope of enhancing the value of this sector to us as an exporter.
 1. Post sale charge (PSC) – all our company asks is to understand how this charge is made up. Are there charges in the PSC that are not required by us? Or, on the contrary, maybe we require a different or better service – more or less.
 2. Why is there no discount for early payment?
 3. Why is it that for some brokers we cannot avoid paying storage, even if we pay the same week as the auction and provide delivery orders 6/7days before the prompt date?
 4. Why does an electronic transfer of funds take up to 3/4 days to be recognized by some brokers?
 5. Why is the PSC charged for Contract wools (where there are no auction-day costs/limited marketing/no need for broker valuations/generally a much higher price than auction paid), the same as the PSC charged for normal auction purchases?
 6. A grower should be able to receive direct access to their pre-sale data at least at the same time as the broker, if not earlier. I am sure the grower (knowing their wool very well) could pick up anomalies like a wrong micron/VM, or a lot that should be PR/NM etc. very early in the process and actually assist the broker in creating a correct catalogue.
 7. Why does there seem to be push-back from some brokers when exporters ask for, or question information in the catalogue (like mulesing status), when this information can clearly help the grower receive premiums that exist in the market?

- LACK OF COMPETITION IN WOOL DUMPING / LESS WOOL BEING DUMPED

- This is self-explanatory. It becomes a larger problem for our company as we ship our wool to Europe – not a prominent import or export destination for Australian goods – at 3 times the cost of sending a container to China. We really need to dump our wool to fit as many bales in a container to be economical. The reduction in overall wool has reduced the

number of investors in the dumping business. Additionally, cheap freight rates to China mean it is economical to pack containers without dumping, so it is difficult to see how the dumping charge will not continue to increase.

- IT / DATA

- Data is the lifeblood of the wool industry. We use it every day, in all facets of our business, and we manipulate it in ways that make it useful for our downstream shareholders and customers. We study it to understand about selections, and particular farms, and trends in quantity and quality of wool production. Why then have we allowed the industry to be so entrenched, and thus vulnerable to a system (TALMAN) that is antiquated and inflexible? It is not the fault of TALMAN, in fact, lucky they are there, but it highlights the fact that investment by the wool industry in such an important issue has been lacking.
- The industry could be smarter in our use of data.
 1. It should be simpler than it is to transmit data and transact wool outside the normal auction scenario. Some brokers struggle with the creation and transmission of “private” lots which requires exporters to manually input sometimes pages of purchases.
 2. Maybe more “Apps” could be developed allowing simple transaction of sale lots between parties, or data to be downloaded, manipulated and analysed. Maybe a central data “bank” could be developed into which we could all “plug in”?
 3. The Industry seems to be paying far too much for data compared to other industries. I would have thought that a paper/printed catalogue would be far more costly than an electronic version yet we only pay (directly) for the latter. Offers have been made by alternate service providers over the years to supply required data (mainly catalogue and sales data) to the industry. For some reason, we have stuck with the current system and cost. Maybe it is time to revisit this again, especially with the improvements in technology/communication.
 4. Can the current network and data flow be improved and/or be made more flexible for individual use?

- THE EXPORTER

- The number of wool exporting companies in Australia (and around the world for that matter) has decreased over the past 20/30 years. The structure of exporting firms has also moved from largely corporate firms to more family owned or specialised companies. The “number” and “type” of exporters today is a true reflection of the highly competitive nature, and low margins that exist in the exporting fraternity. There is no doubting the “competitive tension” that is alive and well in the export trade!
- The role of the exporter should not be underplayed in any method of exchange. Every day our buying staff actively transmits, promotes, and markets individual grower lot details to our clients. We provide market reports, offerings and analysis to create demand for the grower’s product. We use sophisticated in-room bidding and wool management systems, developed at our own cost, which handle large amounts of data in real-time to assist our buying decisions. All this investment is purely based on making our business as competitive and relevant as possible. Costs associated with doing business are managed closely, so it

should be understandable that costs that are out of our control, or unsubstantiated, are a concern for our business. All costs including PSC, freight (local and overseas), storage, countermarking etc. that are borne directly by the buyer are indirectly passed back to the grower through price differentials at auction or any lot for sale. I am unsure if the average grower understands the genesis of these costs or really understands the role of the exporter.

- Interest and shipping freight rates are two inevitable costs in our business. We are continually negotiating the lowest price and the best service from both our banks and our shipping companies. I doubt we could reduce these costs much further, and in the end, competition from other exporters requires us to strive for the best outcomes.

- WOOL INDUSTRY INSTITUTIONS

- The majority of wool industry institutions are represented by all sectors of the industry. (AWI obviously a grower based organisation). AWTA and AWEX have Boards comprising members representing each major wool sector. Therefore, we (the industry) all have a legitimate stake and influence in their performance. If they fail or become too costly, we should all take some responsibility. If there are synergies to be found by some amalgamation and/or a reassignment of duties between say AWTA and AWEX (and I do not mean these two groups exclusively), then they should be studied, but this should not result in a lessening of the quality standards required in the roles they perform. I see AWEX having a very important role in promoting, training and registering wool classers and undertaking QA of the Australian wool clip. (I reiterate that if the Industry is not satisfied with how this is currently done, then the Industry makes the required improvements). AWTA has the important role of the management of a large chunk of the “data” required for the most common forms of exchange. Maybe this data could be made available on more flexible and cost effective platforms, employing the most up-to-date technology, for the whole industry to use and benefit from. I see AWTA and AWEX as quite different entities, both performing necessary roles in the Industry in areas that they are most specialised. Of course, their cost structure must be in line with their value to the industry.
- An example of a “doubling up” of functions, and therefore cost, could be seen in the parallel study by AWEX and AWI of bale ID/transponder options. As mentioned below, we see traceability of farm bales as very important and a worthwhile investment by the industry. We have been actively involved in the AWEX trials but I am sure there could have been savings and synergies with a collaborative effort. This is an example of “competitive tension” actually costing the Industry money.
- The AWTA’s monopoly status means that the Board should strive to keep testing charges at a level that would be expected if AWTA had a serious competitor.

- MARKET REPORTING

- Our Company has no issue with the publication of an independent market report. The fact that at times the “report” may be at odds to our own assessment of the market should not always be seen as a negative. I have tried to make it quite clear in this submission that wool is not so easily described, and that only the company buying the wool can have a real idea

of the use for, or the place of processing of, the wools they buy or attempt to buy for their customer/s. That is why every Company would also generate their own specific market reports. The AWEX market report should be a valid summary of the market on any given day – no more, no less. Individual lot/price/buyer information is a “must” for our buying systems and dissemination of market data, but I understand that the availability of this information to parties not related to the initial transaction can be problematic. Control of market data is a difficult issue – not one that is restricted only to the wool industry.

- BALE ID, SUSTAINABILITY AND TRACEABILITY

- Efforts should be made to enhance the development of Bale ID and overall traceability of bales along the entire pipeline, in order to be more efficient and reduce cost. We understand that both AWI and AWEX are investigating bales chip technologies which we applaud, BUT as mentioned before, why not work together? Successful Bale ID would save cost in our shareholders processing plants, but could also provide a strong link back to the source of the bale. This could enhance the provenance value of the wool (something that is becoming increasingly important to consumers), and also a strong asset in any “bio-security” alert that could occur.
- Our company has just released the SustainaWOOL Integrity Scheme to our valued suppliers, bringing together “declared” information which demonstrates clearly to our clients (and consumers) just how well wool growers look after their stock and their environment. I only mention this because we see the “sustainability story” as an important and growing requirement from the wool market. Regardless of what method is used to transact the wool, this sort of information will enhance the future demand and should be promoted by growers, service providers, exporters and wool industry institutions.

- ONLINE SELLING

- We believe online methods create a loss of psychological aspects and of human acting. We are not against the idea completely, as long as a sample can be seen beforehand. However, to replicate the “competitive tension” of the saleroom via on-line methods would be damn near impossible. I don’t think onlookers have any real appreciation of the competitive and positive nature of the open-cry wool auction system. The auction system is a far more complex operation than the Discussion Paper suggests.
- Current on-line platforms whereby passed-in wools are placed on an offer board with a reserve price work very well as the buyers have a record of their own valuations on the lot.
- I believe that the number of trials and evaluations over the past 20 years of on-line mechanisms would provide enough information for the panel to make assessments of its value as a form of exchange.

Conclusion

I would like to thank the Review Panel for the opportunity to make this submission on behalf of New England Wool and its shareholders. Whilst the industry should always strive to be efficient, and to cut waste where it can, I believe that we cannot talk about cost-cutting alone. If cost-cutting means a reduction in quality or service, then this is counterproductive. Service Providers within the industry much strive to be relevant and provide “value” to the system. Growers must be given the tools to make informed decisions on what they grow and how they market it. Signals from the marketplace must be allowed to flow freely to the grower in a positive and transparent manner, not guarded or watered-down by those who feel threatened by the buyer getting too close to the seller.

Marketing and creating demand for a quality product will ultimately give the growers the return they deserve. New England Wool is doing its “little bit” to create demand, and to encourage professional wool growers to “hang in there”, but we are only a small entity in the scheme of things.