AWI Wool Selling Review

March 2015

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NSW Farmers' Association Background
The NSW Farmers' Association (the Association) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, Livestock, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.

Executive Summary

NSW Farmers' welcomes the AWI's review into Wool Selling. Noting the intended scope is 'shearing shed to ship's rail', we would urge the review panel not to stop at the ship's rail, but to make the most of the opportunity and also deal with major customers, especially if the key objective is 'to increase returns to wool growers'. Ultimately, growers will receive better returns when they are more responsive to market forces.

The fact that the vast majority of wool is sold via the 'open cry' system underlines the conservative nature of the industry. Nonetheless, future use of new technologies to achieve improved operational efficiency is dependent on all players in the supply chain recognising the value of the opportunities available. Industry tradition has perhaps stifled advances made available to growers by service providers within the existing supply chain, resulting in unnecessary costs.

Better education of growers to the already extant alternatives, via extension or market forces, may be – in the end – more efficient than making radical changes to the existing system. However, this should not exclude rigorous examination of selling systems which have the potential to improve the efficiency of wool trading.

TABLE OF CONTENTS

1. Wool Preparation

1.1 General Comments

As noted in the NSW Government's recent report on the future of the wool industry, NSW has the largest sheep population and is the largest wool-producing Australian state. If it were a country, it would be the world's fourth-largest supplier.[1]

NSW Farmers are supportive of moves to make wool preparation simpler and cheaper while still meeting processor requirements.

Notwithstanding the comments in the executive summary on the nature of the industry, nothing currently prevents an individual grower coming to an arrangement with their broker, or indeed from taking up other opportunities to sell wool via other systems.

1.2 AWEX Code of Practise

Some of our members would argue that the Code of Practice is not relevant to their activities and sometimes seems inconsistently applied.

The object of the AWEX COP should be raising standards, however the experience of NSW Farmers membership is that there can be unintended consequences by concentrating grower efforts on issues that do not result in better returns. Some investigation of the standards set for minimal preparation that might lead to another certification prefix being recognised by processors would be helpful – we query whether the buyer understands what steps a grower takes in preparing his or her clip.

2. Delivery and Testing

2.1 Samples

Most brokers no longer pay a credit on the sample, because the costs of renting show floors in big cities have long overtaken the value of the sample.

3. Wool Appraisal

3.1 General Comments

NSW Farmers note the duplication in appraisal and we query whether it is really necessary to have three groups look at a grower's wool before sale (AWEX, broker and

[1] Pattinson *et al.*, 2015 *NSW Wool Industry & Future Opportunities*, Department of Primary Industries, p. 24

buyers). NSW Farmers would encourage the review to explore ways to increase transparency throughout the supply chain while being mindful of costs.

4. Price realisation

4.1 Selling Centres

The NSW Government's report on the future of the wool industry notes that there has been a shift in auction volumes from NSW to Victoria in recent years.[2]

NSW Farmers opposes rationalisation of wool selling centres in NSW unless there are demonstrable benefits to wool growers. We would seek data on the impact of moving to one selling centre (say a lower cost regional centre) before taking a view. There is competition between the regional centres and big traders could manipulate a market if there was only one centre, NSW Farmers suggest a study of comparative markets before proceeding in this regard.

Different selling systems, such as the one put forward by Dr Cottle (NSW Farmers have recently forwarded a letter of support for further examination of this system), may produce better results across a range of areas. New systems like this have the potential to improve the efficiency of wool trading by providing a significant degree of automation to that process. NSW Farmers see such systems as potentially strengthening competitive tension in the market place, not least through its capacity to accept orders from remote locations.

5. Invoicing and Payment

5.1 Terms of payment

The review should canvas opportunities for commercial players to facilitate increased liquidity in the first point of sale. NSW Farmers would see value in exploring bank finance for the purchase of clip on a commercial basis. Letters of credit from Chinese buyers typically take 90 to 120 days. The costs involved in storing the goods under such late payment are eventually worn by the growers. However, prompt dates and payments to growers must maintain or improve on the current payment terms.

6. Phase General

The NSW Government's 2015 report into the future of the wool industry found "a lack of a clear and shared vision / direction for the NSW wool / sheep industry" and judged that this is likely to "inhibit confidence and investment".[3] The report notes that over the three decades to 2011, the number of farmers in Australia declined by 40% while sheep producers have increasingly shifted to meat, with wool becoming just one, small component of a mixed farming system. There has perhaps been minimal adaption of other selling methods due to the dispersal of producers.

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[2] *ibid.*, Paper 3, p. 7
[3] *ibid.*, p. 7-11

Over the last two decades, China has become the dominant buyer of Australian greasy wool and, despite more stringent environmental regulations and rising labour costs, is expected to remain the main processor of Australian wool.[4] The China Australia Free Trade Agreement will assist this relationship but NSW Farmers would urge the panel to go beyond the ship's rail and ensure that recommendations (and the pathways to achieve them) take into account the major customers.

Conclusion

In conclusion, NSW Farmers would like to see the review widened to include customers, open minded to innovation in selling mechanisms and proactive in practical assistance in regard to financing options. In closing, and in line with the previous submission from NSW Farmers, we urge the report to include implementation strategies for its key recommendations. This is particularly important in areas where AWI does not have jurisdiction.

[4] *ibid.*, p. 27-31