

PRIVATE TREATY WOOL MERCHANTS OF AUSTRALIA INC



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Mr John Roberts
Executive Officer
AWI Wool Selling Systems Review Panel

By Email: wssr@wool.com

Dear John,

Submission from the Private Treaty Wool Merchants of Australia To the AWI Wool Selling Systems Review

Please find following the Submission from the Private Treaty Wool Merchants of Australia (PTWMA).

Brief Introduction

Private treaty merchants have a number of business models, including:

- * Engage in private treaty trading only.
- * Engage in private treaty trading and provide a broking service to wool grower clients who may prefer to sell in this manner.
- * Some private treaty merchants are also wool exporters and buy wool at auction in addition to their private treaty purchases.
- * Some private treaty merchants are part of, or are linked to, a local early stage wool processing company.

The Private Treaty Wool Merchants of Australia (PTWMA) Submission will address the questions outlined in the Issues Paper that are relevant to private treaty trading. It will address the issues related to **PHASE GENERAL – Selling Alternatives** first to provide a description of the roles that private treaty trading plays in the Australian wool industry.

PHASE GENERAL – Selling Alternatives

The Role of Private Treaty Trading in the Exchange of Ownership

Private treaty trading is a long established method for the exchange of ownership. It probably came into place around the time that the Australian wool industry commenced. Its popularity has varied over the years, but has remained as the major alternate opportunity to the open cry auction for wool growers. In the time since the 1950's private treaty trading reached its peak in the late 1960's/early 1970's.

A report "A Survey of Private Treaty Trading in Australia – November 1985", prepared by Jenny Dickson & Associates for the former Australian Wool Corporation in 1985 stated:

1. *The proportion of wool sold privately by growers did not exceed 10% of total sales prior to the 1970/71 season, but there was a marked increase in private treaty trading activity early in the 1970's, reaching approximately 20% of the clip in 1971/72*
2. *During the 1984/85 season, and based on current survey findings (which are considered conservative), private buying accounted for at least 18.2% of total wool sales and maybe even in excess of 21%.*

Data compiled from PTWMA Members shows that their purchases averaged 505,963 bales between 1978/79 and 2000/01. They accounted for 505,138 bales in 2000/01, falling to 154,092 in 2013/14. These figures are conservative as not all private treaty traders are Members of PTWMA.

Private Treaty Modes of Business

Private treaty merchants may be city based, or regionally based. In either case, they have a network of representatives across the wool growing regions of Australia and have close relationships with their wool grower clients.

Private treaty merchants provide their services to the wool industry, as follows:

1. By entering into forward sale agreements with growers for delivery when their wool is shorn at some future date. Such agreements are often entered into to meet a third party exporter's or processor's forward requirements.
2. By taking direct ownership of a grower's wool, or part of his wool, from his current shearing at an agreed price at the farm gate. The grower receives a guaranteed price and is paid more quickly than if the wool had been offered for sale at auction.
Note, the price in points 1 and 2 may depend on the wool achieving agreed test results. If so, it may be subject to adjustment for any deviation from the agreed values after the wool is tested.
3. By purchasing small parcels of wool delivered by growers to the private treaty merchant's regionally based warehouse(s).

The wool from private treaty purchases may be:

1. For orders commissioned by an exporter or processor.
2. Used in processing consignments if bought by an early stage processor who has an in-house private buying business.
This became an important source of wool for local early stage wool processors.
3. Offered for sale to the local wool exporting community.
In this case, the wool is sampled, tested and is normally offered for Sale-by-Sample, (but not necessarily so). The price is subject to negotiation between the private treaty merchant and the buyer.
4. Offered for sale at auction in the private treaty merchant's name, if not already sold to an exporter or processor.
5. Bulk classed or interlotted in the private treaty buyer's warehouse, if it is considered not suitable for sale in its own right. This applies particularly to the purchase of smaller amounts of wool made at the warehouse door.

Private treaty merchants place a high emphasis on turning wool over quickly, once received in their warehouses.

Recent Decline in Private Treaty Trading

The decline in its use by growers in recent years has been associated with:

1. The fall in wool production.
2. The change in the nature of forward business. Former trading with the United Kingdom and Western Eastern Europe invariably included forward trading for wool to be delivered several months in the future. This has fallen away since China became the dominant buyer of Australian wool. Forward trading of the nature seen with the United Kingdom and Europe is not a part of trade with China.
3. The decline in early stage processing in the late 1990's / early 2000's removed much of this outlet for privately purchased wool.

Nevertheless, the high level of popularity of private treaty trading with wool growers at times has demonstrated its ability to provide a simple and acceptable alternate method for the exchange of ownership.

PHASE 1 – WOOL PREPARATION

Farm Visits

The private treaty business model is quite different to that of wool brokers in that they become a principal in the exchange of ownership, rather than an agent. Within that context, the costs of farm visits are viewed as part of "*servicing the client*"; and are absorbed within the business.

There are no service charges to growers in private treaty trading as the private treaty merchant becomes the owner once the wool is received in his / her warehouse.

Wool Preparation

Wool preparation is a critical area of discussion that arises between private treaty merchants and wool growers. Private treaty merchants provide advice that meets the current market requirements (and is consistent with the AWEX Code of Practice) and / or meets the requirements of a particular client to whom the wool will be on-sold. Wool preparation may or may not comply with the all the requirements of the Code of Practice in the latter case.

Lot Size

With regard to lot size, private treaty merchants are supportive of increasing the minimum lot size, but warn of the need not to increase the size of already large lot sizes.

PTWMA is conscious that increasing lot size has proved difficult over many years. Their bulk class and interlotting services provide an opportunity for transforming small parcels of wool into larger lots for sale.

PHASE 2 - DELIVERY AND TESTING

The role of testing applies as much in private treaty sales as it does in auction sales.

On-Farm Wool Sampling and Testing

1. Testing on-farm is an issue that has been raised a number of times in the past. However, it is not as straight forward as it might seem. IWTO Regulations require that certified results can only be issued in Australia when the sampling, bale weighing and testing are done by test house staff, in this case AWTA staff.

This creates logistical issues that limit the potential to conduct any certified testing on-farm. Private treaty merchants and regionally based wool brokers have responded to this by establishing regional businesses and warehouses where wool can be sampled and weighed by, or in the presence of, AWTA staff.

2. This does not prohibit the wool grower, or a private treaty merchant, from taking samples on-farm for “*Guidance*” (non-certified) testing.

Samples can be taken from the bins or bales in shed and submitted to AWTA for “*Guidance*” testing for fibre diameter, yield, vegetable matter content; and for staple length and strength, if required.

The taking of samples by private buyers to assist in determining the price they intended offering to a wool grower became quite popular during the 1970’s. Testing by multiple private treaty merchants soon became an established practice. This form of service lost popularity towards the end of the 1970’s as private treaty merchants realised that the normal laws of sampling and variation meant that:

- * There would be a range of test results.
- * The private treaty merchant with the “*best*” set of result would invariably be the successful bidder.
- * The “*best*” results were more likely to be from the right hand half of the distribution of test results. If so; the results were often hard to replicate when the wool was later tested by AWTA for certified delivery to an exporter or processor client.

3. Superfine and Ultrafine wool growers (and some others) have used portable testing equipment to measure the fibre diameter of individual fleeces to assist at wool classing to create classed lines with a clear separation in fibre diameter.

Demand for these measurements has waned since the formerly high price differentials for Superfine and Ultrafine wool fell to their current levels.

Are there Other Parameters whose Measurements Could be Beneficial?

PTWMA believes that this will ultimately be determined by processors and wool exporters.

PTWMA is aware that the suitability of the measurement of scoured wool colour was assessed in the 1970’s/1980’s; but that there was no ongoing commercial demand because of the generally good colour of Australian Merino wool.

Should There be More Competition in the Provision of Testing Services?

PTWMA is a Member Guarantor of AWTA.

AWTA had four competitors at various times in the past. None was able to establish a viable presence (even when given a guaranteed share of the market) and exited the industry. PTWMA is not aware of any recent proposals from a potential competitor.

While individual problems may arise from time to time, private treaty merchants have good relationships with the AWTA staff that conduct sampling at their warehouses; and receive their test results in a timely manner. Private treaty merchants are significant users of AWTA’s “*express*” testing services, as this shortens the lead time before they can offer their purchases for sale.

Looking to the future, PTWMA believes that AWTA’s corporate structure is the best mechanism for ensuring AWTA’s ongoing commitment to the industry and to containing charges. (AWTA’s Member Guarantors comprise the Associations / Organisations that represent its main client groups)

PHASE 3 - WOOL APPRAISAL

Potential Efficiencies in Appraisal

The questions in this Section refer to the auction and its associated “*many-to-many*” selling concept. This differs from private treaty trading which is done on a “*one-to-one*” basis.

1. Private treaty merchants display samples on a showfloor for appraisal by potential buyers for wool that has not already been sold to an exporter or a processor.
2. This leads to considerable differences from auction, as:
 - * While AWEX staff appraise all wool offered for sale by auction, they do not normally inspect private treaty merchants’ samples taken from wool that is being traded outside the auction.
 - * Private treaty trading is conducted on a “*one-to-one*” basis where the private treaty merchant is well aware of his potential clients’ requirements.

There would not be a need for AWTA (or any other independent body) to provide an appraisal under these circumstances, unless requested by the client.

Is Inspection of the Sample Necessary by Buyers and Related Questions?

PTWMA is not in a position to answer this question.

PHASE 4 - PRICE REALISATION

Price Realisation

Private treaty trading provides wool growers with a guaranteed price for wool that is being shorn now or at some time in the future. The price offered is net to the grower, as the private treaty merchant purchases the wool and there are no further charges to the grower.

This is the earliest form of price realisation available to growers.

Level of Competition Between Private Treaty Merchants with Other Forms of Exchange of Ownership

Private treaty merchants are highly competitive between themselves and with all other forms of exchange of ownership, including auction.

The Role of Commission Buyers

Commission buyers are an integral part of private treaty trading (as they are with auction selling) e.g. a buyer that does not have staff in all centres can utilise commission buyers to purchase wool from private treaty merchants in remote centres, creating competition that might not otherwise exist.

PHASE 5 - INVOICING AND PAYMENT

Invoicing and Payment

Invoicing and payment is a relatively simple and transparent process for wool growers, as they receive a net price at the warehouse door when the private treaty merchant takes ownership of the wool.

PTWMA developed a standard contract many years ago that is available for use by all Members when purchasing wool from their grower clients.

Subsequent charges to buyers for services requested by them are transparent and are known to the buyer at the time of purchase.

PHASE 6 - EXPORT PROCESS

PTWMA is not in a position to comment.

PHASE GENERAL **WOOL INDUSTRY INSTITUTIONS**

A Possible Merger of AWEX and AWTA Functions

AWTA plays a similar role in private treaty trading to that played with wool sold at auction, whereas AWEX plays a lesser role in private treaty trading than it does with the auction.

Nevertheless PTWMA recognises the importance of the overall role played by AWEX in the wool industry.

PTWMA also:

1. Acknowledges the part rationalization of services between the two organisations that occurred when AWTA took over the conduct of sampling line quality assurance audits for AWEX.

This saved the need (and cost) for AWEX staff to travel to centres where they do not normally have staff, whereas AWTA had a staff presence in all sampling centres; and was already conducting audits for its own purposes.

PTWMA Members have a significant regional presence and had recommended this change to AWEX and AWTA.

2. Believes that serious consideration needs to be given to a merging of AWEX and AWTA activities to create a single Australia wool standards and technical organization, given that:
 - * Wool production has fallen from 776 mkg in 1993/94, when AWEX was formed, to 341 mkg in 2013/14, a fall of 56.1%.
 - * Both organisations provide standards / regulatory services that are an integral part of the exchange of ownership of Australian wool.
 - * The functions performed by AWEX have increasingly become more of a technical nature, while their roles in the provision of auction related services have tended to be unchanged or lessened, such as when AWH began offering wool trading services in 2005.
 - * AWTA has a strong technically trained R&D Group whose services would be available to AWEX.
 - * As mentioned above, AWTA has a presence in all sampling centres that AWEX could draw on.
 - * Savings should arise from merging corporate services and IT development functions.

Other Changes to Wool Industry Institutions Associated with the Exchange of Ownership

The wool industry Associations servicing the wool industry have responded to falling production and the consequent decline in Membership by consolidating services and reducing operational costs (generally by a reduction in staff numbers).

For example, PTWMA, the Australian Council of Wool Exporters and Processors (ACWEP) and the Federation of Australian Wool Organisations (FAWO) merged their administrative requirements into a single organisation, the Australian Wool Industry Secretariat (AWIS) in 1999. AWIS also provides administrative services for The National Council of Wool Selling Brokers of Australia (NCWSBA) and the Australian Superfine Wool Growers' Association (ASWGA).

There is no reason why other Associations could not utilise AWIS services if they thought it was appropriate, but the opportunities are limited.

Provision of IT Services to the Wool Industry

As stated in the Issues Paper, Talman Solutions provide the majority of wool exporters and private treaty merchants and a large number of wool brokers with wool industry business management IT systems.

The presence of a single dominant service provider is always a concern, irrespective of the nature of the industry.

There is no barrier to entry for any party wishing to offer IT services to the wool industry, and some competition currently exists. However, the firms involved are small and each has a limited client base.

PTWMA is not aware of any other potential competitor at his stage.

PHASE GENERAL **AWEX MARKET REPORTING**

Market Reporting and Access to Market Reporting

The AWEX Market Report provides considerable information for members of the wool industry. The information includes average price data on:

- * An individual micron basis; and on
- * An overall basis within each of the three selling Regions (Northern, Southern and Western).

It also provides some additional data of a qualitative nature.

The data is reported in the media and numerous industry reports and is supplemented by private treaty merchants, brokers and other selling agents when communicating with their grower clients.

Intuitively, this seems adequate for growers in most circumstances. But, it is for growers, not PTWMA, to decide whether the available information is adequate for their purposes.

PHASE GENERAL **CENTRALISATION**

Greater centralisation of auctions is primarily an issue to be determined by growers, brokers and buyers. As mentioned on Page 1, a number of private treaty merchants have broking operations as well as their private treaty business.

With regard to private treaty trading, greater centralisation of auction sales would be expected to have little impact on regional operation of private treaty merchants. It could impact on the ability of private buyers to have their own show floors to display samples from their private purchase that are available for direct sale.

Any negative impact would potentially reduce competition for growers' wool.

PHASE GENERAL **DIGITALISATION**

Can Wool be Appraised Without Physical Access to a Sample?

Many private treaty sales have been completed without the sample being physically appraised. These sales occur because the sale has been conducted on a “*one-to-one*” basis, with the wool guaranteed by the private treaty merchant. This differs greatly from the “*many-to-many*” environment of auction sales.

More recently (in 2009), one private treaty merchant, Bryton Wool, based at Canowindra in New South Wales developed a video base system which allows potential buyers to view samples remotely.

On-Line Selling (as distinct from the need for physical appraisal)

Private treaty merchants are able to utilise existing offer board services, if they so wish. They have also looked at ways of advising potential buyers of wool available for sale by preparing catalogues and distributing them by fax or by email to prospective buyers.

PHASE GENERAL **TRANSPARENCY**

Transparency

Private treaty trading offers total transparency to wool growers through the immediate determination of a net price for wool sold in this manner.

To What Extent do Growers Understand Their Own Costs of Production?

Growers are best placed to answer this question, rather than private treaty merchants. Members' general view is that they have a good understanding of their costs of production.

OTHER ISSUES
INCREASING THE MINIMUM BALE WEIGHT

PTWMA and the Australian Council of Wool Exporters and Processors (ACWEP) were engaged in work through 2013 and 2014 that was designed to assess the opportunities to increase the minimum bale weight for non-speciality wools from 100 kg to 130 kg. It is thought to have been 110 kg since the second half of the 1970s, a time when there was much less use of hydraulic presses.

AWTA kindly made data available for this work. These data were extensively analysed by PTWMA and ACWEP.

PTWMA is aware that ACWEP has included reference to this work in their Submission to the Review Panel, but is including reference to it also, because of the importance that it attaches to this issue.

Background

PTWMA reasons for initiating the work were concerns about:

- * Occupational health and safety issues arising from difficulties in handling.
- * Greater difficulty in core and grab sampling.
- * Problems at the dumps.
- * Problems in stacking bales in-store, on trucks and in transport.
- * Higher costs when per bale charges are converted to a per kilogram basis.

Aims

The aims of the work were to minimise the number of lighter weight bales and to encourage growers to press heavier weight bales (without exceeding the upper limit of 204 kg).

PTWMA Members are experienced wool handlers. Their view was that lifting the minimum weight for non-speciality wools from 110 to 130 kg would significantly reduce the risks associated with the above issues.

Outcomes of Analyses Conducted on AWTA Data

The principal outcomes showed that:

- * 4.4% of all bales were between 110 and 129 kg.
- * 19.0% of lots contained one or more bales between 110 and 129 kg.
- * 80.4% of these lots had an average weight of 130 kg or more.

The latter observations indicated that there is considerable opportunity to lift the weight of a very high proportion of these bales to 130 kg, or more, by more even pressing in the shearing shed.

The data further indicated that much of this could be achieved just by concentrating on the weights of the last two bales.

ACWEP / PTWMA proposals were widely, but not universally supported when presented to an industry-wide meeting in March 2014. The proposals were passed to AWEX, which is responsible for determining the minimum and maximum bale weights; and where the principal industry groups are represented.

Discussion was robust with broker Associations strongly opposed. AWEX initially opted for the 130 kg minimum, subject to some conditions. But, ultimately decided that the new minimum weight would be 120 kg, rather than 130 kg, despite the extensive objective data supporting the 130 kg proposal.

PTWMA believes that that it essential that this work be continued.

Kind regards,



Ben Litchfield
President Executive Director



Peter Morgan

cc Members of the Private Treaty Wool Merchants of Australia