

Reply to AWI Review Panel issues paper

Submitted by Techwool Trading Pty. Ltd.



27-Feb-15

Response from Techwool Trading to AWI review panel issues paper

Phase 1 Wool preparation

Although our Brokerage business is quite small compared to our Export Division, I would still like to make some comments.

Direct costs vary enormously as some growers require minimum input as regards to clip preparation and marketing strategy (these growers generally only look for the cheapest marketing costs) while others would have 2 or 3 visits from the local rep and marketing advice and strategy from their head office or qualified staff member.

It would be physically impossible however to aim at a “user pays” system as it would create confusion as to selling rates and could possible damage relationships between grower and broker reps.

The only example of “user pays” is when larger growers who make marketing decisions themselves and have minimum input from Brokers. These Growers may “shop around” for low rates, or pressure their Brokers for a discount.

The classing advice designed to meet with the AWEX code of practice should be strictly adhered to if a wool clip is destined for auction (although always bearing in mind the additional costs in small lot sizes).

If the clip is destined to go direct for export or another outlet, then the alternative classing/skirting method can be used to suit the end user.

The last thing the wool industry needs is classers and owners using various uninformed information in clip preparation.

Although China buys close to 80% of our wool clip, I strongly disagree that there is a more “commodity based” approach these days.

The commodity based era was when Japan, Russia and Western Europe were competing for wool marketed with much less wool specification than now.

The nearly days of Chinese dominance can be derived as commodity based when the large Chinese traders were operating. Now individual customers with all types have their own individual requirements for micron variation, length, strength, yield, colour, cvh etc, with only possible exemption being crossbred fleece types.

The code of practice by and large should be maintained to allow Exporters uniformity of deliveries.

Phase 2 Delivery and Testing

The only benefit to the Grower knowing their test results before forwarding to Broker store would be to gain a closer estimation of the value of their clip. Guidance testing would be a possibility, however this would be a waste of labour and costs for not a large advantage.

Guidance testing is only practical for marketing purposes when a clip is to be priced in the shed.

As far as I am aware there is no industry standard for the retention of the box sample. If a particular Broker retains the sample, then it would be a contribution to gross income.

I can see no more additional characteristics for AWTA to test for as most of these other items must be visually appraised by the Exporters Buyer. Any other test data would only be another cost burden to the Grower.

Phase 3 Wool appraisal

Of the 3 entities inspecting and valuing each lot, the onus falls on the Exporter to ensure his valuation is correct and in line with his customers' requirements. The Brokers and AWEX have no commercial gain or loss as to the accuracy of their valuations. Perhaps if Brokers in the future could use AWEX valuations relating in cost savings. AWEX would have to value in order to "police" the wool clip.

It would be impossible for a combination of AWTA test results and a similar industry accepted valuation standard to provide wool to be appraised from the Exporters view.

Physical inspection is 100% necessary for the Exporter, even for "commodity type merino fleece"

In this instance it would be completely erroneous to look at small cost savings to the industry. The industry must not go down the path of sale by description with the idea of cost savings. In our case, Techwool has spent many years liaising with clients and studying their requirements in order to keep our reputation. With all of these clients we have maintained a policy of inspecting all grab samples, whether auction, private or electronic Wool trade purchases.

It would be impossible to maintain our business if we had to rely on sale by description. Imagine trying to maintain our current business if we were to depend on 50 or so Broker reps valuation to complete roughly 40/50 individual contracts per week.

All the following points must be considered,

1. Who would be responsible for the increased number of claims and rejections which would naturally occur? Surely not the Exporter.
2. Valuers other than our own staff would have no idea of each of our customers' requirements and how much leeway each client gives us, even with merino fleece types.

In addition to the measured details provided for merino fleece types we must physically value or be aware of,

1. Type of Vm

As AWTA manually estimates Vm type, we find many cases of misleading readings where shive, Noogoora burr, Bathurst burr etc. may be inaccurate in their representation.

2. Colour

H1 H2 H3 Every Broker (or Broker rep) has a different interpretation of colour.

3. Cott

Similar valuation problems to colour

4. DMFR and Kemp

Probably the largest single potential problem with the possibility of contaminated wool going through to the topmaking state and causing untold damage.

5. Integrity

This could range from a Brokers rep giving "kind" valuations to a pet client, to individual small operators committing straight out deceit and fraud. There is no doubt that deception will increase if sale by description is implemented.

6. Specialty types

We have these types even with medium micron merino fleece, where as well as the above, wool must be valued for crimp and visual length regularity.

The problems associated with merino fleece sale by description would double or treble with carding types and skirtings sold on a sale by description basis.

Phase 4 Price realisation

We must have an auction system selling at least 60/70% of our wool clip for

1. Price discovery
2. To enable rapid and accurate completion of sales

Direct selling on farm is one option which is generally beneficial to the Grower and Exporter if the Exporter has testing and warehousing facilities.

I can see no way to shorten the supply chain as a way of reducing costs.

As the wool clip reduces, so have the number of customers and as known we must have China as by far our main consideration.

These present times due to the method of mills buying and the transparency of business in China the daily contracted price for a particular type would vary no more than 10Usc per kilo.

As a result of this, whether employed Buyers or commission Buyers are used catalogue prices would not vary much between Exporters. So commission Buyers would cause little or no conflict of interest or more importantly, Growers returns would not suffer.

At present, auction processes and results are adequately handled by AWEX.

Auctions with the main types currently vary very little, with shipping being a factor in some cases.

Phase 5 Invoicing and payment

PSC has increased by a much higher proportion than Broker selling commissions over the last 10 years or so. I presume that this is relative to the reluctance of Brokers to increase their charges for fear of losing clients to the opposition. Naturally this figure is allowed for in the bidding limit at auction.

There is definitely a need for a full and comprehensive breakdown of selling costs (why buying costs, do you mean Exporter costs?)

No need to introduce a tiered Broker service, this is not Growers would expect.

If the prompt period was extended to say 14 days.

Phase 6 Export process

Major Exporters are already negotiating the most competitive rates for freight and dumping.

Funding is very competitive with attractive interest rate margins and in general lines are adequate to maintain business.

Phase General

AWEX market reporting is more than adequate and not deficient.

AWEX Chinese quotations especially for some reason can conflict with our quotes. This at times can be damaging with customers who have access to AWEX quotes and can prohibit us from concluding business.

Centralisation

At present, quantities offered in all centres are sufficient and do not warrant centralisation. If in the future, the wool clip reduces significantly, then perhaps consideration would be necessary.

Centralisation would not alter my mind as to alternate selling methods.

At present no significant cost reduction or price improvement with the clip at its current level.

Centralisation of wool storage centres would place pressure on warehousing costs with the possibility of having a negative effect on cost savings.

It would be a bonus to Exporters however for logistical reasons.

Digitalisation

Wool cannot be appraised without handling the sample and the sample must be appraised by the Exporter. We cannot expect a customer to accept this requirement and it would be fraught with danger to go down this path.

We must forget the cost benefit with online appraisal and selling. This process is flawed and not the road to take.

All previous attempts at online selling are far too slow and cumbersome and should not be considered until a much smoother and more efficient model is delivered.

Transparency

Like all business, there are efficient and non efficient Wool Growers in my opinion. It is up to the Grower to co-operate with a knowledgeable Broker to make himself aware of costs.

Selling alternatives

In this environment of many overseas customers being under capitalised to forward sell for distant months becomes on a customer's behalf highly speculative and risky. Any enquiry that does come to us is looking for levels well below the current spot market and is therefore unacceptable to Growers. The proof of this has been the demise of forward selling platforms.

Disaggregation

I cannot understand this section. Even if making costs transparent within the supply chain were implemented, why would this be of benefit to the Wool Grower other than perhaps influencing him or her to change Wool Brokers.

Although my knowledge of the wool industry is not comprehensive, I have tried to put an unbiased view to all of my comments and not from my personal company view.

Rod Franklyn

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