Tianyu Wool Pty Ltd   A.B.N. 67 155 215 053
Gate 4, AWH Wool Complex, Frederick Road
Tottenham VIC 3012 AUSTRALIA
Ph: +613 9314 2033   Fax: +613 9314 2044

March 6 2015

Submission to Wool Selling Systems Review (WSSR)

Peter Carey – General Manager Tianyu Wool Australia Pty Ltd

Background information:
Tianyu Wool Industries(Zhangjiagang Free Trade Zone) is a comprehensive enterprise involved in wool scouring, wool topmaking and functional processes. Scoured wool Capacity is 80,000 tons, wool top production 20,000 tons and superwash/mercerised/basolan capacity 5000 tons. We only purchase wool for our own use in Australia, New Zealand, South Africa and South America. Tianyu is also the owner of a medium to large scale farming operation in Victoria with wool production of approx. 200 bales annually.

Current Status of Wool Production
Since the collapse of the Reserve Price Scheme in 1991 which saw the Australian wool clip rise to unprecedented levels of 1,050 million kg gsy approx. 6 million bales. We have seen firstly a dramatic decline in wool production in the subsequent 12 years that it took to dispose of the 4,5 miilion bale stockpile, and more recently a steady but continuous drop as wool has found it difficult to compete with other farm enterprises namely cropping/beef cattle and prime lamb production. Almost 25 years later we have stabilised with a yearly production forecast for 2014/15 of 334 mkg greasy or 1,9 million bales which is a 68% reduction from the peak.
With the current appetite for grain/cereals and meat as a result of the Asian "Dining Boom" it is unlikely that the fall in wool production will stop and there appears to be a strong possibility that production will move back closer to the 300 mkg greasy level in the coming years.

Current status of Buying/Exporting trade

During this period of peak production back to levels last seen in the 1920's we have experienced a massive reduction in staff numbers across all sectors of the Buying/Exporting trade to a point where the total number of staff Australia wide is less than 100 with an average age +/- 55 years, staff under the age of 30 would number less than 10. In the wool buying trade there are little or no employment opportunities and no chance in its present form to attract young people.

This is a dangerous scenario for any business. The medium to long term viability of our trade is dependent on tough decisions to be made now to shape the industry for the next 10 – 20 years.

++++

PHASE 1 – WOOL PREPARATION

	PHASE 1 WOOL PREPARATION	COMMENTS
1.	Are the direct costs incurred by the wool broker in conducting these visits considered to be part of the broker service charge (BSC) incurred by woolgrowers post auction in the account sale? And, if so is there scope for a "user pays" component should the woolgrower not require this level of service?	
2.	During the farm visitations is the wool broker able to provide the woolgrowers and/or classer with recommendations on how best to class and prepare the wool to meet with current customer requirements? Or is the classing advice designed to meet with the AWEX "Code of Practice" for classsers?	
3.	To what extent are the wool brokers providing woolgrowers with information they already have? Do wool brokers have an expert understanding of market developments and implications for sheep husbandry and wool production?	
4.	Is there scope for the wool broker to provide additional services during the farm visitation?	
5.	In the last decade China has become the largest buyer of Australian wool taking nearly 80% of the total wool clip. This dominance has been accompanied by a more commodity based approach to wool usage as a fibre. Does this evolution present opportunities to create greater efficiencies at the point of shed preparation (for example larger lot sizes) and should the classing "Code of Practice" be reviewed to better suit this evolving processing consumer base?	**To achieve maximum competition in the market place wool should be prepared to industry best practice which at present is AWEX COP. There are viable alternatives for growers to prepare wool in a lightly skirted or unskirted form although we consider this more practical when coupled with a 6 – 8 months shearing cycle. If sheep are well classed and stain free procedure is followed the shorter lightly skirted wools are well suited to the knitwear sector. We would not condone the practice of a large scale move to unskirted preparation for merino wool however it could be beneficial on a case by case basis.**
6.	**ANY OTHER COMMENTS**	**There is a widely held view that the South African Clip is prepared to a higher standard than our own wool, they certainly have at least double maybe triple the in shed staff due to the low labour cost which affords them a lot more time. The point that is not publicised is that for in-bale contamination (fertiliser bags/hats/shoes/head scarves/jumpers), instances in South African wool outnumber Australia at least 10 to 1.**

PHASE 2 - DELIVERY AND TESTING

	PHASE 2 DELIVERY AND TESTING	**COMMENTS**
1.	For a woolgrower to receive a fully certified AWTA test result on their wool they must first have delivered their product to a wool broker's store that has AWTA certified core and grab sampling facilities. Would there be any commercial benefits to the woolgrower in knowing their final test results prior to delivering their wool to a broker's store?	
2.	Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?	**The logistical processes currently used were developed and honed during a production period with volume three times what we have now, this would suggest that inefficiencies are volume related. ie. some core lines are underutilised**
3.	After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?	
4.	Can AWTA testing be performed on-farm or at another regional location of the woolgrower's choice if such alternatives are preferred?	
5.	AWTA currently tests for a multitude of measurements including micron, vegetable matter (VM), yield, length, strength, CVD, CVH, position of break, wool base etc. Are there additional characteristics AWTA should test for that would enhance the objective description process and possibly open up alternative processes for the sale of wool?	**Current suite of tests is more than adequate to confidently assess the processing performance of wool after subjective appraisal of a representative sample.**
6.	**ANY OTHER COMMENTS**	

PHASE 3 - WOOL APPRAISAL

	PHASE 3 WOOL APPRAISAL	COMMENTS
1.	Can any efficiencies or cost savings be achieved within the appraisal stage of the wool supply chain through some consolidation of the three forms of inspection? For example, why not just have the AWTA apply an AWEX type rather than have the wool broker and AWEX both complete this task?	**Of the three parties who inspect the showfloor sample prior to the sale of the wool, only the exporter has the responsibility to guarantee the performance of what they will subsequently own and deliver.** **The biggest inefficiency/cost in the wool appraisal process is directly related to lot size. In any given sale week approx. 1/3 of the lots are less than or equal to 3 bales in real terms this means 30% of the samples that are appraised only represents 10% of the wool offered in a week.**
2.	Can a combination of AWTA test results and a singular, industry accepted valuation standard provide an online platform for wool to be appraised and valued? If so what efficiencies and costs savings (if any) can be achieved?	
3.	To what extent is physical inspection a necessary element of appraisal and valuation? Would the woolgrower be disadvantaged by relying solely on appraisal and not displaying the physical wool sample?	**The appraisal and physical inspection of the wool is the basis upon which we conduct our business. Whilst there are certain types of fleece wool types that can be adequately described for use in the commodity/volume sector of the market, we would have no confidence in the description of wool for use in the knitwear market . These wools are sold predominantly in the skirting and Carding catalogues.**
4.	Should the industry be seeking to achieve a wool selling system based entirely on sale by description? Are multiple systems needed to address diverse buyer needs?	
5.	Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs	**Wool growers already have the options available for which tests they request and how to lot their own wool. It is a commercial decision.**
6.	Does the information provided on the showfloor meet buyer needs? What, if any, additional information would be useful? What information could be dispensed with?	**Showfloor and test information is more than adequate.**
7.	**ANY OTHER COMMENTS**	

PHASE 4 - PRICE REALISATION

	PHASE 4 PRICE REALISATION	COMMENTS
1.	What other selling alternatives exist for woolgrowers in the market place today and how do the selling costs to the woolgrower compare to the traditional auction method? What other methods are worthy of investigation?	
2.	Do or could other selling alternatives generate a comparable or greater level of competitive tension at the point of price realisation relative to traditional auction?	**In every selling season there are generally 5 – 10 auction days where the market is rising sharply and on the other side there is a similar amount of selling days where there appears little or no demand and the market falls by a similar magnitude. These down markets are generally protected by high pass in rates and presale withdrawals. In theory if would be great to try and harness the "competitive tension" that we see exhibited on these "hot market" occasions but in reality this is determined by demand and emotional forces. Other selling systems that move away from the auction room would lose the emotional factor.**
3.	If the auction system delivers the highest level of competition for growers' wool are there more cost and time effective methods that would ultimately benefit the woolgrower (for example: online selling) and would these savings be passed down to the woolgrower?	
4.	The present auction system is dominated by exporters purchasing wool on behalf of their clients. Is there further potential to shorten the supply chain and involve downstream interests earlier in the ownership of wool with a view to removing or reducing costs?	
5.	The Panel understands that due to a reduction in weekly auction volumes a number of exporters no longer employ a full time wool buyer in each wool selling centre of Australia. This has resulted in a number of commission buyers holding multiple buying limits from a number of exporters. Against this background, is it well known whom a commission buyer is acting for in respect of individual purchases? Do commission buyers confront any conflicts of interest in their purchasing decisions when buying on behalf of clients with similar interests? What effect (if any) do such issues introduce with respect to competition for a woolgrower's wool? Is there a need to cap the number of clients one commission buyer can buy for?	**There is concern from some sectors of the trade that buyers/exporters acting as commission agents reduces the competition in the auction room. This concern can be debunked with an analysis of the South African market that has a total of 9 companies operating at auction with the top 4 taking 90% of the volume. The South African market is fully centralised for selling and storage and regularly sells at a premium to the Australian market on a comparable wool basis.**
6.	Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?	
7.	Are auction results communicated in an efficient and timely manner to market participants and thereby enhance the dynamics of the price	

	discovery process? Why is it necessary for AWEX staff to attend auctions to record information for their market reports? Couldn't this information be automatically generated at lower cost?	
8.	Are the auctions basically the same in each of the three major selling centres, or do they differ in some respects? Are there transparent rules governing the conduct of auctions? Do auctions in the different centres generally realise similar outcomes for the sale of specific wool types?	
9.	Are there barriers to entry or other impediments impacting participation at Australian wool auctions? Could those barriers or impediments be reduced by adopting alternative processes? What are the key requirements and/or costs applied in order to participate?	
10.	**ANY OTHER COMMENTS**	

PHASE 5 - INVOICING AND PAYMENT

	PHASE 5 INVOICING AND PAYMENT	COMMENTS
1.	In what proportions is the Post Sale Charge (PSC) borne by the various participants in the supply chain? For example, is the cost incurred by the exporter reflected in the price paid by the overseas customer? Or is it taken out of the initial price they bid at auction for the woolgrower's wool?	
2.	What services are provided by the wool broker to the woolgrower that are covered by the Broker Service Charge (BSC)?	
3.	What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?	
4.	Are all costs incurred by the woolgrower sufficiently transparent (ie. are they generally known and publicised prior to the sale of wool?)	
5.	Is there potential for a more detailed breakdown of the individual selling and buying costs of wool to be made available to woolgrowers to facilitate more informed commercial decisions regarding the sale of their wool? Is there a need for an industry standard invoice or account sale format?	
6.	Given a move to a more transparent invoicing standard, would there be a demand for the broad introduction of a tiered wool broker service/price offering, such as: Premium, Standard and Basic?	
7.	Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period? (ie. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?)	
8.	**ANY OTHER COMMENTS**	**Because of the wool industry strict policy for prompt payment, there are never cases of wool growers not being paid for their wool. Often we read in the press stories of grain and fodder companies going broke owing millions to creditors.**

PHASE 6 - EXPORT PROCESS

	PHASE 6 EXPORT PROCESS	COMMENTS
1.	Whether there is scope for the exporter and processor sector of the industry to leverage its combined scale to negotiate more competitive freight rates from shipping companies and freight forwarders.	
2.	Whether the exporter sector of the industry can leverage its combined scale to negotiate more competitive rates from wool dumps and whether there is scope for an industry owned and/or managed facility.	
3.	he exporter's ability to achieve consistent and competitive funding lines from banking institutions, particularly considering a high percentage of wool is shipped prior to receiving payment for the goods.	
4.	**ANY OTHER COMMENTS**	

PHASE GENERAL – Wool Industry Institutions

	PHASE GENERAL WOOL INDUSTRY INSTITUTIONS	COMMENTS
1.	AWEX undertakes a variety of tasks, including market reporting and ensuring accuracy in wool description, that help the wool market to perform efficiently. In a similar vein, AWTA supports market efficiency by providing critical data describing the range of wool characteristics. Would there be advantage in combining the activities of AWEX and AWTA?	
2.	Is there an opportunity to increase competition in wool testing services currently provided by AWTA? Should woolgrowers be able to nominate what tests they would like performed on their product and pay accordingly for the services provided?	
3.	Are there other changes to the institutions serving the wool industry that would reduce costs or enhance returns associated with the first exchange of wool ownership?	
4.	Talman Solutions provide the majority of wool exporters and a large number of wool brokers with inventory management IT systems. Do the systems provided by Talman Solutions generally meet the requirements of their customers? Is there potential for greater competition for this service offering within the wool industry?	
5.	**ANY OTHER COMMENTS**	

PHASE GENERAL - AWEX Market Reporting

	PHASE GENERAL AWEX MARKET REPORTING	COMMENTS
1.	Does the AWEX market report meet the needs of both the buying and selling sides of the market and if it is deficient in any way, how should it be amended?	
2.	Is there sufficient access to AWEX market information?	
3.	What influence (if any) does the AWEX market report have on purchasing decisions made by overseas wool processors when negotiating with Australian wool exporters?	
5.	**ANY OTHER COMMENTS**	

PHASE GENERAL – Centralisation

	PHASE GENERAL CENTRSLISATION	COMMENTS
1.	What are the benefits and costs of any move to centralise the sale of wool?	
2.	Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool?	
3.	What impact would centralisation of wool selling centres (Sydney, Melbourne and Fremantle) have in relation to cost reduction and competitive tension for woolgrower’s wool?	
4.	What financial impact would centralisation of wool storage centres have on the exchange of ownership process?	
5.	Did previous studies on centralisation identify tangible financial benefits within the exchange of ownership process? And if so what were the barriers to progressing with centralisation?	
6.	**ANY OTHER COMMENTS**	

PHASE GENERAL - Digitalisation

	PHASE GENERAL DIGITALISATION	COMMENTS
1.	Can Australian wool be appraised without physically handling a wool box sample? And if so would that appraisal be accurate enough to allow an exporter or processer to deliver wool in accordance with a specific mill or customer's requirement?	
2.	Can price realisation between the seller and the buyer be achieved via an online platform whilst still maintaining a comparable or improved level of competition for woolgrower’s wool?	
3.	What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it?	
4.	Why have previous attempts at the online selling of wool failed?	
5.	**ANY OTHER COMMENTS**	

PHASE GENERAL - Transparency

	PHASE GENERAL TRANSPARENCY	COMMENTS
1.	What scope is there to allow woolgrowers to make better informed decisions in relation to what it is costing them to sell their wool? More specifically would greater understanding of the costs and returns reflected in their final price received facilitate improved commercial decisions concerning their own wool growing enterprise?	
2.	To what extent does the woolgrower understand their own cost of production before their wool leaves the farm gate? Is there scope for a greater understanding of both production and selling costs to facilitate more informed commercial decisions for woolgrowers?	
3.	**ANY OTHER COMMENTS**	

PHASE GENERAL - Selling Alternatives

	PHASE GENERAL SELLING ALTERNATIVES	COMMENTS
1.	Whilst there are numerous selling alternatives to traditional auction that are made available to woolgrowers they can generally be grouped into five categories – Direct selling, Private buying, Physical forwards, Forward Basis contracts (cash settled against micron indicators) and online selling (currently performed by Auctions-Plus). The table below illustrates the process flow and relevant costs or each selling avenue.	
2.	The table suggests that in all cases the alternatives to traditional auction present fewer stages and more potential cost savings compared to traditional auction. Yet more than 90% of Australian wool still sells by traditional option.	
3.	Why has there been minimal woolgrower adoption of these alternatives?	
4.	Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these selling alternatives?	
5.	Does the industry have the necessary skills, knowledge and expertise to utilise these options?	
6.	Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options?	
7.	Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction?	
8.	**ANY OTHER COMMENTS**	

Tianyu Wool Pty Ltd A.B.N. 67 155 215 053
Gate 4, AWH Wool Complex, Frederick Road
Tottenham VIC 3012 AUSTRALIA
Ph: +613 9314 2033 Fax: +613 9314 2044

TABLE 3. SELLING METHODS IN WOOL SUPPLY CHAIN FROM AUSTRALIAN GROWERS TO FIRST BUYER

RAW-WOOL PROCUREMENT VALUE-CHAIN SEGMENT WSSR AREA OF SCOPE

	PHASE 1 WOOL PREPARATION			PHASE 2 DELIVERY AND TESTING		PHASE 3 WOOL APPRAISAL			PHASE 4 PRICE REALISATION	PHASE 5 INVOICING AND PAYMENT		PHASE 6 EXPORT PROCESS		
	STEP1	**STEP 2**	**STEP 3**	**STEP 4**	**STEP 5**	**STEP 6**	**STEP 7**	**STEP 8**	**STEP 9**	**STEP 10**	**STEP 11**	**STEP 12**	**STEP 13**	**STEP 14**
WOOL SELLING PROCESS	Broker canvassing call	Shearing and wool preparation	Broker shearing visit	Delivery to broker store	Core and grab sample – AWTA testing	Wool presented on show floor	Wool inspected by AWEX and broker	Wool inspected by exporter	Wool auctioned	Exporter pays for wool within 7 days	Broker pays grower within 7 days	Wool dumped /containerised	Wool railed to wharf	Wool shipped
RELEVANT COSTS	Travel cost	Shearing and classing	Travel cost	Wool transport costs	Wool sampling and storage fees	Show floor rental	Show floor staff and wool valuer costs	Wool buyer costs	AWEX & industry costs, broker man hours, BSC, PSC	7 days from fall of hammer	7 days prompt date	Per bale fee	Per bale fee	Exporters cost
SELLING METHOD														
TRADITIONAL AUCTION 14 steps														
DIRECT SELLING 9 steps								Optional			Extended prompt date			
PRIVATE BUYING 10 steps		**Minimal skirting**					Private buyer inspects	Optional						
PHYSICAL FORWARD 9 steps		Minimal skirting									Extended prompt date			
FORWARD BASIS											Extended prompt date			

CONTRACT
10 steps