



**Office:**  
143 Barrington Street  
Bibra Lake Western Australia  
Tel: (08) 9418 8448  
Fax: (08) 9418 8450 (08) 9418 8449

**Postal Address:**  
PO Box 1367 Bibra Lake  
Western Australia 6965

ACN: 074 110 419  
ABN: 73 960 840 896  
Email: [admin@wcw.com.au](mailto:admin@wcw.com.au)

**Submission**  
**Wool Selling Systems Review (WSSR)**

**To:**  
**Australian Wool Innovation**

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## **WESTCOAST WOOLS REPONSE TO AWI'S WSSR REVIEW**

Westcoast Wools have been involved in both Brokering (W.A) and Exporting Australian wool for the past 20 years and would like to submit the following for AWI to consider in relation to their WSSR review.

Wool Brokers have a responsibility to ensure clip preparation is maintained to a high level of compliance during their grower visits.

As far as a "Tiered System" is concerned it would only create confusion with growers in respect to what services they expect and how much they pay for those services. A good broker should provide all clients a high level of service based on their current commission basis. Simply if a grower doesn't believe he is being provided with the correct market information and being serviced to his required needs he can simply change to a Broker he believes will.

### **Phase 1 - Wool Preparation**

Is of extreme importance to the Industry for the following reasons:

- 1) To ensure the Grower receives maximum buyer support at auction and therefore highest price available for properly classed lines as per AWEX code of Practice. One area of cost cutting would be more precise lotting information from Classers on which lines could be lotted together to minimise small lots in a particular clip.
- 2) Enables Exporters to buy with confidence. They are the ones who pay the claims from the processor if a lot is not "true to type".

The AWEX code of practice provides the industry a clear set of guidelines for classing Australian Woolclips.

### **Phase 2 - Delivery and Testing**

Wool is most probably subjected to the greatest range of testing of any Commodity on the World markets. It provides both the exporter and end user multiple measurements that are used to complete orders to Specification (Exporter) and assist in the Processing (End User). Considering the laboratory, equipment and staff required the cost of testing to a grower is very reasonable. Once again lot size is where growers have the greatest possibility of cost savings.

Testing on farm is an added cost to growers as these test results cannot be used in final marketing of their woolclip. Even if the wool is purchased on farm the clip requires retesting for either on sale to the trade or direct export.

Each Broker has their own system as to what happens to the grower sample. As long as the grower is aware of his particular Brokers procedures and then considers it in his overall cost of marketing his wool there is no great cost saving to be made.

### **Phase 3 - Wool Appraisal**

Currently there are 3 entities who inspect and value the lots in any given Catalogue

- 1) Broker: to supply grower with AWEX id when sending valuations to their clients.
- 2) Awex: To ensure lots meet AWEX Code of Practice Guidelines.
- 3) Exporter: To value for particular orders, house types and particularly in oddment categories for length, colour and VM.

Whilst having 3 parties value the 1 sample seems excessive they all do so for their relevant needs. The appraisal that has the most crucial role in pricing to the grower however is the exporter valuation as this determines the final price paid to the grower. He is at the greatest risk because if his valuation is wrong he will pay in the end by a claim from the end user. This is where the Sale by Description model falls down as the Brokers and AWEX do not have the expertise to determine length on carding types. Other non-testable characteristics include colour, bulk and style. With market trends moving towards shorter wools in Open Top and Carbonising types it would open a virtual minefield of claims and counter claims between exporters, brokers and Awex. Therefore the buyer must always be able to value a sample, be it a fully tested fleece sample or a stain crutching carding type.

### **Phase 4 - Price Realisation**

The current Auction selling system of three selling centres has proven to be the most transparent, capable of gaining maximum value and accepted means of growers marketing their woolclip. As a W.A based company we believe our growers would be significantly affected by Centralisation if it is an issue for the following reasons.

- 1) Cash Flow: W.A's efficient procedures can have grower's proceeds in their bank within 21 days of receipt. Under a centralised selling system this would most likely increase several weeks.
- 2) Growers will be disadvantaged due to an inability to view samples to check on any Classing issues or the ability to physically attend the auctioning of their wool.
- 3) Employment: With the elimination of skilled woolbuyers, auctioneers and general redundancies the ability to attract young people and therefore ensure the future of the wool industry will be greatly reduced.
- 4) Warehousing: There will be no savings whatsoever in regards to receiving, lotting and testing of growers clips. In fact the transportation and the subsequent risk in losing samples would only add to grower's costs.

Growers do have other means of marketing their woolclip outside of the Auction system. These include Computer based selling (Wooltrade), in store price or direct purchase on farm by a Private Merchant. All 3 are viable and effective marketing strategies available to growers.

**Comment:** With the reduction of the Australian woolclip and reduction of international customers the days of mills and end users buying in large quantities are long gone. There is very minimal price protection available through wool futures or any other such products as in the past. We are therefore price reliant on hand to mouth purchasing by our major customer China. This means daily fluctuations in purchase price by Chinese buyers is limited to around 10-20 c/kg clean. We therefore believe that current marketing options available to the grower are satisfactory and price effective and there is very little scope for cost savings.

## **Phase 5 - Invoicing and Payment**

Current data systems, procedures and industry based rules allow for the most efficient commodity payment and change of ownership system available. Whilst an increase to the prompt date to 14 days may assist some exporters it will mean the grower is disadvantaged by receiving his funds a minimum of 2 days later. Whether, at current low interest rates (around 5%) there would be any savings for growers is debatable.

The PSC has increased at a higher rate than Broker charges. However so has the broker's costs in relation to the day to day operation of their woolstores. Growers need to consider their overall selling costs and packages to work out what is best for them. eg do they pay storage fees after a set time, do they receive shearing advances from their broker, woolpacks at discounted prices etc.

## **Phase 6 - Export Process**

All exporters are continually chasing the best available shipping freight rates. Also financing rates on the current money market are the lowest and most competitive for years. Even with the demise of 2 major buyers last year funding for the industry as a whole is sufficient.

Whilst believing that 3 selling centres is the best-selling system an area that could be investigated is the amalgamation of the Northern markets wool. Currently one of the biggest disadvantages the growers in this area face is the exporters ability to transport wool to their respective dumping organisations on an as is time basis.

## **General Comment**

We believe that the Current Systems (Marketing and Data Transfer) and Rules (Brokers Terms and Conditions and AWEX) under which we operate provide a clear and transparent platform for Receiving, Testing, Selling and Exporting the Australian Woolclip. We are firm believers in the old adage "If it isn't broken don't try and fix it".

There is nothing surer than if a grower is unhappy with his Broker he will quickly change as there are plenty more available for him to turn to.

Where we can see future security and grower returns increasing is in the following points.

- 1) There has been a definitive fashion switch away from the traditional suit to more casual attire. This casual attire requires shorter wools so some research into shearing every 8 months could greatly benefit growers.
- 2) Maintain constant visual marketing to all sections of each community in any given country.
- 3) We currently have an oversupply of the finer microns. We need to convince studs with the ability and bloodlines to provide broader micron rams to ease this oversupply. The Chinese still buy 22.5 micron and 24.1 micron wools. However the quantities available of these types available on any given auction day is too few for an exporter to sell any quantity with confidence.

Prepared by  
Malcolm Edinger  
Director Westcoast Wools