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SUBMISSION TO THE 2015 WOOL SELLING SYSTEMS REVIEW

Overview

The National Council of Wool Selling Brokers of Australia (NCWSBA) supports the Wool Selling Systems Review. It looks forward to and welcomes any positive change in the sale of wool in Australia for the benefit of Australian woolgrowers.

NCWSBA also strongly supports the wool selling systems used in Australia, in particular the principal selling method, the open-cry auction system. The auction system is a very transparent method of selling, permitting an efficient transfer of ownership from small grower lots to large processing batches. The auction system has proven to be the best mechanism for price discovery and is the preferred method of sale by Australian woolgrowers. It also provides participants with a highly secure, low risk trading environment, backed by a strong, transparent and well-understood Terms of Trade and conditions which guarantees payment for woolgrowers.

NCWSBA's support for the auction system is not an argument against change. Innovation is essential for any industry to progress and grow. For this reason, NCWSBA member companies support, use and promote the WoolTrade/AuctionsPlus online platform. There are also issues with the auction system that should and can be addressed. Some of these issues are broad policy issues, notably the management of price risk and volatility. Others are operational issues, such as reducing the costs of showfloor management, reducing the need for hard-copies of sale catalogues and increasing lot sizes. As well, any new online opportunities for selling wool should be pursued, as complements to auction.

The Australian wool broking industry is fiercely competitive in an environment of low wool production volumes. In response to this competitive environment, wool broking companies offer a variety of different service levels to growers which in turn results in a range of cost structures between companies. It has also resulted in innovation in broking services. All of this benefits the wool grower in terms of service choices and price structures. From this range of product and price offers, it is the woolgrower's individual decision about the service level, the method of sale and the price they choose. The wool broker provides advice and ultimately acts on the instructions from the individual grower clients.

This submission from the NCWSBA to the Wool Selling Systems Review addresses the relevant issues and questions raised by the Review Panel in the Issues Paper released on 10th December 2014. It provides an explanation of the role of and services provided by wool brokers in Australia (both to growers and to buyers). It then spells out the strengths of the open-cry auction to sell wool in Australia. The availability of price risk management tools is then summarised, noting that the take-up rate by both growers as sellers and by buyers (notably processors) is low and briefly outlines why this may be so. The fourth section canvasses issues related to industry organisations. The final section presents potential changes to the current wool selling system that would bring efficiency gains and cost savings for the industry, which will benefit Australian woolgrowers.

The Appendix provides NCWSBA's response to each of the 63 questions posed by the Review Panel in the Issues Paper, where the question is relevant to NCWSBA and its members.

1. The Australian Wool Broking Industry

The Australian wool broking industry has been a major contributor to the development of the Australian wool industry since the second half of the 1800s. The wool broker is a vital service provider to the Australian wool grower, to the wool buyer and to the industry in general. The Australian wool broking industry is fiercely competitive. Wool broking companies act on behalf of their grower clients in the sale of their wool and provide a wide range of services. From this range of product and price offers, it is the woolgrower's individual decision about the service level, the method of sale and the price they select.

It is estimated that 90% to 95% of Australia's wool is handled and sold by Australian wool broking companies, mainly through the auction system, a proportion that has changed very little in the past few decades even though a variety of alternatives have been tried. Woolgrowers have clearly expressed their preference for the auction system.

Wool broking companies range significantly in size, from large wool divisions within large agribusiness companies to small, family companies. They also range in scope, from national to state-based and regional operations. The service level provided by each company also varies as do the fees charged by each company. Both the service level and the charges by brokers for these services to their grower clients and to buyers is an independent commercial decision by each broking company operating in a very competitive environment which has intensified in recent years in the face of low wool production volumes.

1.1. Wool brokers' substantial investment in the industry

Wool broking companies have a major and substantial investment in the Australian wool industry. This investment includes:

- Warehouses and offices,
- Machinery including automated core lines, trucks, forklifts, motor vehicles, wool presses and other warehouse equipment,
- Computer hardware (servers, desktops, laptops) and software (accounting, wool broking, HR),
- Staff including wool advisers, wool technicians, risk management advisers, administration staff and warehousing staff, (and training of these staff) and
- Significant bank finance facilities from which to draw to provide finance services to grower clients and wool brokers' own working capital requirements.

The capital investment by wool broking companies in warehouses alone is substantial, with 35 warehouse locations across Australia used by auction brokers (according to AWEX).

As is well known, wool production volumes in Australia have declined substantially over the past two decades, although this decline appears to have moderated in the past 3-4 years. In 2013/14, Australian wool production was 1.933 million bales, a decline of almost 30% on the 2.684 million bales produced in 2003/04. According to data from AWEX, the number of first hand bales offered at auction has fallen by 16%. The decline in wool production volumes has negatively affected the wool broking industry.

The fixed and overhead costs incurred by each wool broking company (staff, warehouses, offices, electricity etc.) are spread over smaller wool volumes. At the same time, wool broking companies, like all Australian businesses, have faced increased costs. For example, according to the Australian Bureau of Statistics wage costs and fuel costs have increased by around 40% over the past decade while electricity charges have lifted by 80% to 170%, depending on the state of operation. The cost of warehousing space has also increased (either a direct cost or the opportunity cost) over the past decade, particularly in major cities. Between 2004 and 2014, the average net rental for super prime warehouse space has increased by 12% in Sydney, 22% in Melbourne and 49% in Perth, according to data from CBRE Australia. Sydney is the most expensive at an average of \$125/m², followed by Perth at \$120/m². The cost of warehouse space in Melbourne is \$91/m². As a result of this cost pressure, wool warehousing has tended to shift to regional locations.

The financial performance of wool broking companies have been under severe pressure for the past decade or more as a result of the decline in wool volumes. Wool broking companies have responded to this decline in volumes and higher per unit costs by seeking efficiency gains (such as reducing staff levels), outsourcing some activities (such as some warehousing and wool handling) and diversifying to livestock sale, real estate and so on.

As well, there has been considerable rationalisation in the wool broking industry in response to the lower wool volumes, with amalgamations and acquisitions of (mainly) smaller broking companies. Australia-wide, there are 14 fewer wool brokers selling at auctions in 2013/14 than in 2003/04, a fall of over 28%. [In 2003/04, there were 49 wool broking companies selling at auction, while in 2013/14 there were 35 wool broking companies)¹. There has been a decline in wool broking company numbers all three selling regions, although the Northern Region has seen the largest fall. The number of wool broking companies selling in the Northern Region fell from 29 in 2003/04 to 17 in 2013/14. This is in line with a 30% decline in the volume of first hand bales offered for sale in the Northern Region over this period. The Southern Region has seen a decline in the number of wool broking companies from 22 in 2003/04 to 20 in 2013/14. The Western Region recorded a drop of 1 company, from 8 to 7 over the decade.

While the number of wool broking companies has fallen substantially, there has only been a small 2% increase in the market share of the largest five brokers and a 4% increase in market share of the largest 10 brokers¹. This suggests there is little evidence of concentration of market share. There has been a growth in the medium-sized broking companies over the past decade partly as a result of the amalgamations and acquisitions.

In spite of these efforts to address the fall in wool volumes through efficiency gains, diversification and amalgamations and acquisitions, the increased costs has inevitably led to increases in the charges levied by wool brokers on their grower clients and on buyers for services provided. Competition between broking companies has contained these increases.

1.2. Services provided by wool brokers to grower clients

As noted earlier, the services provided by each broking company to their wool grower clients varies widely between companies. The services provided by individual wool broking companies may include some or all of:

- Sheep selection advice (stud stock, ram selection, sheep classing, purchasing and sales);
- Classing and clip preparation advice;
- Wool appraisal and valuing;
- Market information;
- Transport, handling, coring and storage of wool;
- Services of a financial nature, such as:
 - Shearing advances, and
 - Short term loans for carry-on business finance and so on.
- Insurance (from sheep's back to store, as well as general and farm vehicle insurance);
- Risk management services;
- Risk-free facilitation of the sale transaction (store, core, providing the showfloor, preparation of the sale catalogue, auctioning, post-sale transactions);
- Provision of sale rooms for auctions;
- Data entry (wool lot description as well as National Wool Declaration data);
- Payment of transport costs and testing charges on behalf of woolgrowers. Brokers typically recoup these payments once the wool is sold, which could be weeks, months or even years;
- Livestock sales;
- Farm supplies;
- Real estate and machinery equipment;
- Expertise and knowledge of wool broker staff is drawn from:
 - Own and company sources
 - Training
 - NCWSBA's *Weekly Newsletter*.

¹ AWEX auction data supplied 25th February 2015. The data on the number of broking companies shows the number of 'parent' entities, which may have a number of trading names. It also includes AWH as a 'wool broker' selling bulk-classed and rehandled wool on behalf of clients.

From this range of product and price offers, it is the woolgrower's individual decision about the service level, the method of sale and the price. The wool broker provides advice and ultimately acts on the instructions from the individual grower clients.

A critical service provided by wool broking companies to growers is that they guarantee both payment and the date of payment to their grower clients regardless of whether or not the broker has been paid by the buyer. The terms and conditions of sale set by wool broking companies on behalf of their grower clients provide the cornerstone for the secure transfer of ownership of each grower's wool clip. This provides growers with certainty to ensure their cash-flow is not adversely affected. **It is NCWSBA's very strong view that recommendations stemming from the Review must not jeopardise this security of payment to woolgrowers.**

This critical service by wool brokers to their grower clients means, of course, that wool broking companies must have access to significant finance to fund this working capital.

1.3. Services provided by wool brokers to wool buyers

Buyers benefit from the services provided by wool broking companies including:

- Assembly of wool bales from wool grower clients into consolidated, secure warehouse locations stored in preparation for the efficient and co-ordinated shipment post-sale;
- Samples displayed in centralised locations allowing wool buyers to inspect and select specific wool types on offer (catalogued by centre and by type) to satisfy orders from their overseas customers;
- Providing electronic and hard-copy auction catalogues;
- Provision of sale rooms for auctions;
- Access to wi-fi for data on the showfloor and in the sale room;
- In some cases, provide access to office space;
- Provide an efficient transfer of ownership with timely and consolidated electronic invoicing;
- Provision of secure and insured wool post-sale warehousing facilities allowing the wool buyer flexibility as far as shipping arrangements are concerned;
- Supply meals to buyers;
- In a large number of instances the wool broker assumes the responsibility for organising transport on behalf of the wool buyer for the transportation of wool to the dump; and
- Retrieval of wool bales from warehouse stacks, assembly into shipment loads, countermark (if requested) and load onto transport.

1.4. Joint consumption services provided by wool brokers

There are a number of services provided by wool broking companies that benefit both growers and buyers alike. These joint consumption services include the provision of sale rooms, adjustment to overweight bales, showfloors, auction catalogues, quality control of wool lots being offered (identifying and correcting branding/classing errors before wool passes further up the chain) and lot building (aggregation of grower lots to larger processing batches).

1.5. Broker charges to growers and buyers

As an association representing competitors, NCWSBA has not and cannot investigate or collect any data on the fees charged by its wool broking members. Nevertheless, some general policy-based comments can be made with regard to broker charges.

NCWSBA notes that the costs involved in selling through the auction system are not the most significant cost to woolgrowers in transferring wool from the sheep to the ship. The *Sheep's Back to Mill Report* from AWI shows that harvesting is by far the major cost. It accounted for 62% of the cost in 2009/10 (the latest available data). In contrast, broker costs and purchasing costs accounted for a combined total of 20%. Further detail is provided in section 2.3 below.

The wool broking industry is not unique in charging both the seller (grower client) and the buyer. Other industries which charge both seller and buyer include art auction houses, vehicle and machinery auction houses, fine wine auction houses, and building equipment auction houses. There is no legal or economic reason why there should be a charge only on sellers (the grower) or solely on buyers. It is likely that the current charging arrangement by wool brokers reflects custom and administrative convenience. There are many wool broking costs which are uniformly incurred on all bales, and there are also activities and services which cannot be unequivocally assigned to either grower or buyer. As a result, some costs are recouped through a charge on growers and others are recouped on charge to buyers (as a Buyer Services Charge – called the Post Sale Charge in the Review Issues Paper).

With respect to broker charges for grower clients, these are made clear by each company to each client prior to the client agreeing to use that broking company. They are also made clear on account sales receipt after wool is sold. The charges reflect the services provided and are the result of the competitive environment.

The Buyer Services Charge and other related charges to buyers for each broking company is reviewed annually (in some cases there are within season adjustments). The Buyer Services Charges for each wool broking company is transparent and is provided in writing to buyers each financial year or whenever an adjustment is made. As well, the Australian Council of Wool Exporters and Processors (ACWEP) collects, collates and distributes the information to its members. As with the charge to growers, the Buyer Services Charge for each broker reflect the services provided to buyers and is the result of a competitive environment.

It may be argued that buyers recoup the Buyer Services Charge by reducing the price paid for wool at auction, and that this is not transparent to the grower. Presumably the alternative to a Buyer Services Charge would be that wool brokers only charge their grower clients. Some may argue that eliminating the Buyer Services Charge and transferring this cost to growers will mean that the cost is transparent and result in greater efficiency of wool brokers. This argument assumes two things.

First, it assumes that brokers are currently inefficient and non-competitive. As detailed earlier, this is an incorrect assumption. Changing the incidence of the charges to be entirely on wool growers is unlikely to result in significant increases in efficiency of broker operations (unless there are changes to the operation of some parts of the auction system, as proposed in section 5). The industry is already intensely competitive and brokers have wrung efficiencies out of their operations over the past decade.

Second, and more crucially for growers, the argument assumes that buyers will lift their baremes/buying prices immediately and exactly by the amount of the Buyer Services Charges if these charges were removed. It seems unlikely that in a competitive market such as the wool auction market where prices are determined by prevailing supply and demand conditions and where Buyer Services Charges vary between wool broking companies, that the wool prices will lift by the amount of the Buyer Services Charge. As a result, **growers will be net losers and buyers net gainers if the Buyer Services Charge was borne solely by growers.**

2. The Primacy and Strengths of the Open-Cry Auction System

Since the collapse of the Reserve Price Scheme in 1991, there have been periodic calls for reform of the wool selling system in Australia, particularly at times of low wool prices. It seems that when prices are unsatisfactory, some believe that one reason is that the selling system is inefficient, uncompetitive or that margins for companies operating in the auction system are excessive.

This has led over the past two decades to growers, either as individuals or in groups, pursuing alternative methods of selling wool direct to mills and beyond. In some cases, these methods have involved growers maintaining ownership of the wool through part of the processing chain (to top, yarn, fabric or even finished product form). Anecdotal evidence suggests that many of these attempts have failed, although there are some exceptions. Perhaps the growers or groups of growers involved in these failed attempts under-estimated the challenges and risk involved in the change of ownership and/or over-estimated the margins at each stage of the process.

2.1. Advantages of the auction system

In NCWSBA's view, a key reason for the only isolated success of these attempts at direct selling is that the auction system is the most efficient and transparent mechanism for the transfer of ownership from the grower to the processor. The auction system permits the efficient, least-cost building of (small) grower lots from a diverse number and location of farms to large mill processing lots. Direct supply systems, on the other hand, involve less choice of grower lots and so involves higher costs to build the processing lot.

Furthermore, the auction system is the best and most transparent price discovery mechanism in a competitive buying environment. It allows the determination of the actual price of the specific wool qualities for each grower lot according to the prevailing market conditions. It provides clear market signals on the various wool attributes (both objective and subjective) as well as the lot characteristics (such as the number of bales in a lot, weight of bales etc.). In contrast, with other methods such as direct selling, the woolgrower does not know whether or not the price being offered is the best price in prevailing market conditions.

A third, understated and under-appreciated benefit of the auction system is that it provides an essentially risk-free sale method for growers, with sure, fast and reliable payment for the sold wool 7 to 10 days after the fall of the hammer. NCWSBA notes that an extension of the prompt date as proposed by some exporters will mean that growers will be paid later than currently. Direct selling arrangements by growers/grower groups typically involve a significant time lapse between delivery of the wool and payment.

NCWSBA's support for the auction system is not an argument against change. Innovation is essential for any industry to progress and grow. For this reason, NCWSBA member companies support, use and promote the WoolTrade/AuctionsPlus online platform. NCWSBA members are keen to see further development of WoolTrade/AuctionsPlus and other on-line sale methods as complements to the auction system.

NCWSBA has in recent years investigated other systems (such as the British Wool Marketing Board's electronic auction system). The NCWSBA Board concluded that these alternatives appear to offer no real advances or advantages. In some cases there are disadvantages, such as being slower than the current open-cry auction system.

While NCWSBA strongly supports the open-cry auction system used for the sale of wool in Australia, it supports investigation of alternatives and any subsequent changes that can be shown to bring greater efficiencies and benefits to the whole industry and ultimately to the wool grower. As well, there are issues with the auction system that should and can be addressed. New, more efficient ways of selling wool should be pursued. Some of the issues with the auction system are broad, policy issues, notably the management of price risk and volatility which is addressed in the next section. Others are operational issues, such as reducing the costs showfloor management, reducing the need for hard-copies of sale catalogues and increasing lot sizes. These are canvassed in the final section of this submission.

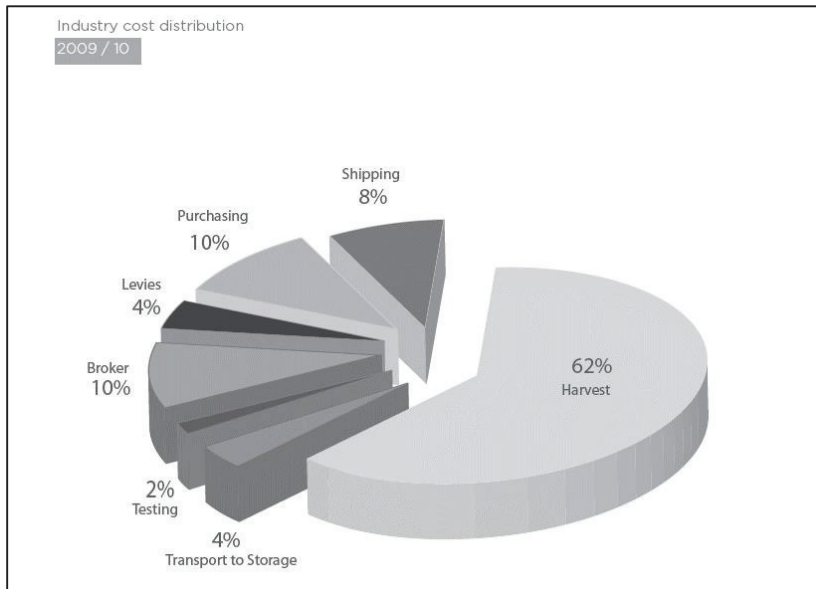
2.2. Buyer competition at auction

Concern has been expressed by some (notably by the CEO of Australian Wool Innovation) about the number of buyers present in auction rooms and the intensity of competition among those buyers. While NCWSBA has some qualms about individual buyers holding orders for too many processor clients, NCWSBA and its member companies consider that there is strong competition between buyers in each auction room. This is based on feedback from and the experience of broking company auctioneers who conduct the sales.

The intensity of this competition waxes and wanes depending on underlying market conditions (the volume and price limits of orders from processors). This, in turn, reflects demand conditions through the wool textile demand chain. If wool textile industry demand conditions are strong, competition at auction is intense. Conversely, if demand conditions are weak, then auction room competition is subdued.

2.3. The cost of selling through the auction system

As indicated earlier, selling through auction is not the most significant cost to woolgrowers in taking wool from their sheep to the ship or processor's door. The figure below shows the distribution of cost as reported in the *Sheep's Back to Mill Report*² from AWI. As can be seen, wool harvesting (shearing, classing, pressing etc.) is by far the major cost. It accounted for almost two-thirds of the cost in 2009/10 (the latest available data). It has been in the past and should be a major target of research and innovation. By comparison, broker and purchasing costs accounted for a total of 20%. Levies accounted for a further 4%, the same as the cost of transport from farm to warehouse. Testing accounted for only 2% of the total, while shipping accounted for 8%.



3. Price Risk Management

Managing price volatility and the risk associated with this volatility has been a constant topic since the collapse of the Reserve Price Scheme. As is well known, there have also been various platforms and systems in use and offered in the wool industry at various times, including Wool Futures on the Sydney Futures Exchange, the ICAP Wool Market and the Riemann Wool Forwards.

Wool broking companies have been and are still active users and promoters of these platforms, offering growers a way to hedge their wool sales. Wool brokers may also arrange forward contracts for growers as part of their competitive service offer. In spite of this support and promotion, only a small number of growers choose to take up these price risk management tools.

In the past two decades, there have been numerous studies investigating the low adoption rate of price risk management tools by wool growers. A report by the Risk Management Solutions Group for Australian Wool Innovation³ in 2005 concluded that *‘all the necessary risk management structures are in place in the wool industry, including exchange contracts, secondary swaps markets and a transparent physical market. What is missing is the sufficient volume of trade through these structures.’* The report argued that that there are two reasons for the low adoption rate.

First, that *“there is a hazy understanding of risk”* within the wool industry, from *“woolgrower’s production risk to topmaker’s processing risk”*. This has inhibited the take-up of price risk management tools by both growers and processors.

Second, it noted that woolgrowers have less at risk from ‘crop failure’ or price declines than a cotton or grain farmer. The report estimates that a 10% shift in cotton prices equates to around 15% of land value for cotton growers while a 10% shift in wool prices equates to only 1-2% of land values for woolgrowers.

² Australian Wool Innovation (2012). *Sheep's Back to Mill 2009/10*.

³ Risk Management Solutions Group (2005), *Wool Marketing and Risk Management Scoping Study (EC740)*. A report prepared for Australian Wool Innovation.

This reduces (but does not eliminate) the incentives for woolgrowers to adopt price risk management tools.

NCWSBA considers that there is an additional factor. Based on the experience of risk management staff of our member companies, woolgrowers are typically concerned about the impact that seasonal variation has on the attributes (micron, length, strength, vegetable matter, yield etc.) of the wool that they are contracted to deliver as part of forward contracts or against futures contracts. They worry that, in spite of premium and discounts schedules as part of these contracts, they will lose out for not delivering the contracted wool type.

Finally, the take-up of price risk management tools by woolgrowers will remain low until all sectors of the supply/demand chain (growers and processors) actively manage risk within their sectors.

4. Industry Organisations

NCWSBA wishes to make some (limited) comments on relevant issues with regard to Australian wool industry organisations.

4.1. Australian Wool Innovation

NCWSBA considers that the 2% levy collected by wool broking companies for the use by Australian Wool Innovation for its marketing and R&D activities should have been part of the terms of reference for the Wool Selling Systems Review, as much as any other part of the wool selling system. The levy is a direct cost to woolgrowers which is deducted from the gross proceeds from the sale of their wool. As well, as noted in section 2, the intensity of competition in the auction sale room is a direct result of the prevailing demand conditions. Sixty per cent of AWI's expenditure is on marketing, which AWI claims bolsters demand and wool prices.

4.2. AWTA

NCWSBA is a Member Guarantor of AWTA Ltd and appoints a Director to the Board. It supports AWTA's vital role as a not-for-profit provider of internationally-recognised, independent raw wool testing services to the Australian wool industry. NCWSBA also strongly supports the current system of wool testing developed over many years, with core and MTS sampling in-store under the supervision of AWTA staff (in locations across Australia) and secure transport of each sample to the independent AWTA laboratories for testing and certification. An alternative system, such as testing in-shed, would raise significant concerns for NCWSBA and its members, notably about the integrity and security of the samples taken.

While there are currently no direct competitors to AWTA for key wool testing service, there have been in the past and there is no legislative barriers to such competition in the future. NCWSBA considers that the absence of competition has not had a detrimental effect on either the testing service provided or on the level of charges for testing services. It should be noted that there are some smaller testing companies which provide guidance testing used by growers for their own flock development purposes and by private treaty merchants for their trading purposes.

4.3. AWEX

AWEX has a significant role in the Australian wool industry, overseeing key aspects of the industry, notably quality via the Code of Practice for woolclassers and providing independent market information and reports on the auction sales each week.

This market information and the reports are very important in providing guidance to all sectors involved in the industry, from growers through to processing mills. On their own, the information provided by AWEX in their market reports are only indirectly useful to woolgrowers for their own clips. Wool brokers draw on the information in the AWEX market reports as a basis for their own grower-focused reports to their clients. The AWEX data is also useful guidance to wool broker staff in their clip appraisals.

NCWSBA supports the continued provision of these independent and internationally accepted market reports and information as a service to the industry.

4.4. Potential merger between AWTA and AWEX

The NCWSBA Board has discussed the concept of a merger between AWTA and AWEX several times in the past few years. NCWSBA considers that there would be cost savings from the elimination of duplicate Board and management structures, computer systems, and office locations. As well, there is also likely to be significant synergies in the services provided by the two organisations (such as quality control), although these would only be identified once there was a merger of the two organisations under one management team. NCWSBA agrees that the concept of a merger between the two organisations should be investigated as long as it brought cost efficiencies to the industry, ultimately to the benefit of Australian woolgrowers.

We understand that there are issues and hurdles which would need to be addressed as part of the more detailed investigation of the concept, including:

- The distribution of the financial assets of AWEX.
- How to achieve the required minimum 75% agreement from each AWEX member category to a merger.
- The Board structure of the new merged organisation.

5. Potential Changes to the Current Wool Selling System

NCWSBA has identified several issues that could improve efficiency and reduce costs for the wool broker in the first instance and to both growers and buyers in the longer run. Each of these are outlined below. It should be noted that issues related to warehousing and storage are commercial decisions for individual wool broking companies, rather than issues that the wool industry as a whole could address. Showfloor operations, lot sizes and hard-copy catalogues, on the other hand, are issues that the industry could address.

Some of these issues have been discussed at industry level (in some cases, many times), with little or no progress. The main reason for this lack of progress is that there are many sellers and many buyers involved, and this means that agreement between a large number of people is required if change is to be achieved. This agreement has failed to materialise.

Some of the issues listed below include those raised by the Review Panel in the Issues Paper.

5.1. Improving the efficiency of showfloor operations

There are several ways in which the efficiency of showfloor operations could be improved. Changes could reduce the amount of double-handling and double-appraising, reduce the showfloor area required and improve the efficiency of handling of samples. A number of the issues below have been considered in the past but, for various reasons, failed to proceed.

a. Not displaying re-offered wool again

A considerable amount of showfloor space is dedicated to showing re-offered wool and a considerable amount of time by broker staff (and buyer staff) is spent on reappraising and revaluing previously offered lots. In 2008 and 2009 there was substantial work done by the NCWSBA-ACWEP Joint Showfloor Management Working Group to run a trial of not displaying re-offered wool, with buyers retrieving valuation details on passed-in lots from their own IT systems. The stumbling block was the funding of the cost to modify the Auction Buying IT System to allow this to be done. It may be that since 2009 more buyers are retaining appraisals/valuations electronically, which could allow the industry to move to not displaying re-offered wool.

b. Sale without sample

NCWSBA supports the consideration of offering wool without sample for certain fairly uniform wool types. In 2006 a trial was conducted on sale without sample. The trial was initiated by Elders and Landmark and involved selected South Australian lots backed by an independent wool appraisal by AWTA Ltd. The trial was not well received by the buying sector (although some buyers did embrace the trial) and was eventually abandoned. One issue that would need to be addressed for future consideration of sale without sample is which independent organisation should guarantee wool type (as AWTA Ltd did in the trial in 2006) to give the buyer confidence.

c. Displaying samples in the sample bags in the display boxes

One suggestion to improve the efficiency of handling wool samples is to display samples in the sample bags in the display boxes, with the edges of the sample bag folded back and around the display box. This is done by some, but not all, brokers in South Africa. This would reduce the time spent by showfloor staff of tipping the samples out of the bags and into the boxes, then repacking the bags from the boxes. It would also reduce the chances of any workplace injuries as a result of the action of tipping the bags out into the boxes.

d. Radical change to the showfloor

NCWSBA suggests there are two proposals for significant change to the showfloor which could warrant consideration.

The first proposal was considered by the NCWSBA Board in 2007 and involved a major overhaul of the showfloor. This proposal adapted and modified a system used in South Africa. Wool would be displayed only once and would be displayed in the week after it is received into store and tested, regardless of when it is scheduled for sale. A substantial majority of lots on the showfloor in any week would be offered in that week's sale but some of the lots on the showfloor would be wool held for a later sale. As well, some lots that are in that week's sale catalogue would not be on the showfloor and would have been displayed in previous weeks. The proposal allows for two showfloors being run – one for buyer typing and one for broker typing, valuation and audit. But, because wool would be put onto the showfloor in clips as it is received, all of the components of any one clip would be shown together and there would no longer be different sections to the showfloor. The proposal envisaged considerable savings in showfloor space because each showfloor would not have to be set up to cater for the peak of the season for different categories but only for the expected flow of wool being received. The NCWSBA Board at the time decided that the proposal would not receive the support of buyers and did not pursue it any further.

The second proposal is for a change to the structure of the showfloor so that wool is displayed in the order that it comes in, not by storage location. The existing rules dictate that lots be shown on a showfloor in centre order by category (MFLC, MSKT, XB etc.). Each centre and section has its own starting point which means that some of the larger broking companies can have up to 30 different sections on the one showfloor. This proposal suggests that lots will still be shown via their normal section (MFLC, MSKT, XB etc.) but all lots within these sections are shown together regardless of their centre location. This would save considerable floor space on showfloors as there are dozens of empty display boxes each week in rows left for each storage location.

5.2. Larger lot sizes

NCWSBA supports an increase in farm lot sizes. An increase would result in significant savings in handling and administration for wool brokers. There would no doubt be savings for the buying sector from an increase in lot size. It should be noted that there has been an increase in the average lot size in the 2014/15 season to December. Based on data from AWTA, the average lot size of lots tested in the first half of 2014/15 was 5.86 bales per lot, up from an average 5.66 bales per lot for the same period in 2013/14. This is only a small increase compared with what could be a target for the industry to achieve.

One concern NCWSBA has about aiming for larger lot sizes is that the industry needs to avoid having mixed wool types in the larger lots. This would bring complaints from Australia's mill customers in China, India, Italy and others about quality and preparation standards.

5.3. Rationalisation of wool selling centres

As the Review Panel would know, this issue was examined in detail in 2008/09 by Mick Keogh of the Australian Farm Institute under contract from the Australian wool industry. NCWSBA was the initiator, having first raised the idea with the other industry associations in 2008. The project was a benefit-cost analysis, supplemented by face-to-face interviews. The results were presented at an Industry Meeting on 1st June 2009.

At the time there were four selling centres, as Newcastle was still operating. The study investigated three wool selling models for the auction system:

- a 3-centre model (i.e. the closure of Newcastle);
- a 2-centre model (one in eastern Australia and one in Western Australia); and
- a 1-centre model (most likely in Melbourne).

The study found that about half of the industry participants surveyed thought that changes to selling centres were essential or highly important.

The study estimated that there would be annual savings of \$7.2 million (around 2 c/kg) by moving to a 1 centre model and \$6.1 million (around 1.7 c/kg) to move to a 2 centre model, with one-off costs of \$7.5 million and \$5.3 million respectively. The net present value to the industry of moving to a 1 centre model was \$21.6 million over 5 years, while the NPV of moving to a 2 centre model was \$19.2 million.

The Industry Meeting decided that there would be no collective industry action to rationalise or centralise sales.

The NCWSBA Board subsequently discussed the potential benefits to the industry of integrating the Sydney and Melbourne selling centres in June 2010 (at that time retaining Newcastle as a selling centre). Modelling of scenarios was undertaken to support the discussion using 2009/10 production levels and showing the expected week-by-week flow of wool to auction. The Board concluded that integration of Sydney and Melbourne selling centres was feasible, albeit with several hurdles with regard to the number of lots being offered in the peak of the season and other logistical issues. It also concluded that there may not be sufficient benefits in every case to justify the change. Finally, it noted that where a wool broking company sold wool was a commercial decision solely for each company.

5.4. Electronic ID of wool bales

The introduction of electronic identification would assist handling of wool bales and significantly reduce the cost involved in handling and remove the need for bale markings. NCWSBA therefore supports the industry-wide adoption of some form of electronic ID-ing of wool bales. The electronic IDs must be in all wool packs, otherwise the benefits will be dramatically eroded.

AWEX is well advanced with a project investigating the use of Radio Frequency Identification (RFID) of wool bales, and is conducting trials. AWI has also recently undertaken a project and trial on alternative RFID and Bluetooth technology. NCWSBA is aware that a study conducted for AWEX found a significant industry financial benefit from moving to RFID on all wool bales. It also found that brokers and wool handlers would realise a significant part of the benefits in the first instance.

5.5. Reducing or removing the hard-copy sale catalogues

Printing and collating of the hard-copy catalogues is a significant cost to brokers. The issue could be investigated to see if satisfactory alternatives can be found. For example, a survey of buyers could be conducted to investigate the requirement for hard-copy sale catalogues. It should be noted that even if buyers did not require hard-copies, growers who are visiting the sale to view their wool being sold may wish to have access to hard-copies of catalogues, which individual brokers may choose to provide as a service to their grower clients.

5.6. Better use of warehouse space/reducing the cost of storage

Warehouse space and storage of wool is a significant cost for brokers, particularly for warehouses located in or near major population centres. As noted previously, some firms have increased storage of wool in locations away from the major population centres as the cost per square metre is lower. In the more expensive locations and where the warehouse structure permits, companies have developed alternative vertical (or racking) storage systems in some locations, which reduce the footprint of the area required for stored wool and which permits quicker, more direct and more efficient access to bales. The capital investment required for these systems is significant. As well, these systems are not suitable in some locations as they cannot be installed in the older style wool warehouses due height and layout restrictions.

Improving the use and efficiency of warehousing space is an issue for individual companies to make commercial decisions, rather than an issue that could be addressed at industry level.

6. Conclusion

The National Council of Wool Selling Brokers of Australia supports and welcomes the Wool Selling Systems Review. It also supports the wool selling systems currently used in Australia, in particular the open-cry auction system, which is a very transparent method of selling, allowing for the efficient transfer of ownership of smaller grower lots to larger processing batches in a highly secure, low risk trading environment. This system operates in a highly competitive wool broking and buying environment.

NCWSBA's support for the wool selling system in Australia is with the understanding that there are issues that can and should be addressed to improve the efficiency and effectiveness of the sale of wool to the benefit of the Australian wool industry, in particular the Australian wool grower. NCWSBA therefore welcomes any positive change in the sale of wool in Australia for the benefit of Australian woolgrowers that may arise from the Wool Selling Systems Review.

Appendix: Responses to questions posed by the Wool Selling Systems Review Issues Paper

| Number | Question | Comments |
|-----------------------------------|---|---|
| PHASE 1 – WOOL PREPARATION | | |
| 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? | This is a commercial decision by both brokers and growers. Some brokers include this service as part of their commission, while others do not include such as service. Growers choose between the service and fee offer from competing brokers. In some cases, a broker company offers different service levels to individual grower clients, and is the result of a commercial negotiation between broker and grower. For example some growers require additional services such as sheep classing and ram selection. |
| 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 classers? | Both. This a part of the major role of the broker on the road. Recommending how best to class and prepare wool in line with buyer requirements is the purpose of a shearing visit by broker staff on the first day of shearing, with the overarching aim of maximising grower’s returns. The broker is the grower/classer link with current market/buyers requirements In most cases the advice is to prepare wool in line with the COP. There are times when the COP is not appropriate. Unskirted XB preparation is an example of recommendations on preparation that does not meet COP but is, at times, put forward as an option to maximize returns. |
| 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? | Brokers add value to the grower through their advice. Brokers have an expert understanding of current market requirements as well as production and marketing process. They follow the market trends and conditions market daily and continually liaise with processors, exporters and buyers to pass on information and knowledge to clients. Brokers provide advice throughout the year, not only at shearing time. Some broker staff are experts in sheep husbandry and wool production. Sources of information for broker staff including the NCWSBA Weekly Newsletter, which contains analysis of the market conditions in the global market from retail back to production. |
| 4 | Is there scope for the wool broker to provide additional services during the farm visitation? | Already occurs. For example, ram selection advice, livestock (such as inspecting livestock for sale or selling farm supplies on sale call), finance, insurance, merchandise. Brokers play many roles. In times of severe financial and seasonal stress, woolgrowers look to their broker to provide them with moral support. Personal relationships between broker and grower are forged as a result of many years of dealings. |

| Number | Question | Comments |
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| 5 | <p>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?</p> | <p>There is a constant desire by growers to improve their efficiencies, whether it be in shed or in other aspects of their operation. Brokers pay a significant part in working with growers to achieve this.</p> <p>With regard to clip size specifically, increasing lot size without sacrificing clip preparation is possible for a high % of clips. This should be one of the major options for growers to make savings. However, care needs to be taken to ensure that the quality of prepared wool (and therefore the Australian wool clip as a whole) is not compromised by pushing unmatched lines together. As well, the hurdle is the possible market discounts at auction if lines are too large in the current auction. The trade recommend not making lots to large – generally 15-20 maximum for auction orders.</p> <p>NCWSBA also notes that AWEX already use the feedback that they receive from overseas customers as part of their approach to certain issues in relation to the Code of Practice. This feedback is seen as very important for AWEX in establishing the guidelines and specifications in its Code of Practice.</p> |
| <p>PHASE 2 – DELIVERY AND TESTING</p> | | |
| 6 | <p>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?</p> | <p>There may be benefits for some growers to obtain guidance testing, as currently happens. However, an alternative system to the current arrangement of certified testing in-store (such as testing in-shearing shed) would raise significant concerns, notably about the integrity and security of the samples taken. As well, there would be losses in efficiency as the current arrangement allows for large volumes of wool bales from various properties to be core and grab sampled.</p> |
| 7 | <p>Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?</p> | <p>There may be, but NCWSBA does not know of any. Testing standards and the integrity of the system and the test results is paramount.</p> |
| 8 | <p>After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?</p> | <p>It is a commercial decision for each broking company. Some brokers provide a rebate on the sample as part of the brokering agreement with the grower.</p> |
| 9 | <p>Can AWTA testing be performed on-farm or at another regional location of the woolgrower’s choice if such alternatives are preferred?</p> | <p>See above regarding on-farm. Regional hubs are possible and already available. Testing standards and the integrity of the sample and the test results is paramount. This would cause logistics and cost issues (e.g. if AWTA required an AWTA sampling officer to be present when samples are taken in-shed).</p> |

| Number | Question | Comments |
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| 10 | 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 amount and choice of tests are sufficient. It should be noted that none of the tests (including micron) are mandatory. The grower's choice of test is in response to market signals and what buyers require. |
| PHASE 3 - WOOL APPRAISAL | | |
| 11 | 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? | Wool broking technical staff appraise and type wool. In addition to putting an AWEX-ID on the lot, these staff also check for issues like incorrect test results, poor preparation or lotting errors. There are potential efficiencies which could be investigated. |
| 12 | 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? | It could be done for a standard <u>typing</u> of some straight types of wool, but not an industry accepted <u>valuation</u> of those wools. Broking and buying companies differentiate and compete on their technical abilities to value wool. |
| 13 | 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? | Some types require sample inspection, but others may not. Currently buyers require to inspect the sample in a significant amount of, if not all, instances. The broker through the current process preserves the integrity of the sample being representative of the physical bales in the sale lot. |
| 14 | 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? | NCWSBA supports the consideration of offering wool without sample for certain fairly uniform wool types. In 2006 a trial was conducted by Elders on sale without sample, with AWTA guaranteeing wool type. The trial was not well received by the buying sector (although some buyers did embrace the trial) and was eventually abandoned. One issue, among several, for future implementation is that an independent organisation needs to guarantee wool type to give the buyer confidence. In |
| 15 | Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs? | None of the tests (including micron) are mandatory - it is the grower's choice in response to market signals and what buyers require. Past analysis on the issue show clear premiums for standard wool tests (micron, VM etc) for all wool and for Additional Measurement at least for Merino fleece wool. |

| Number | Question | Comments |
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| 16 | Does the information provided on the showfloor meet buyer needs? What, if any, additional information would be useful? What information could be dispensed with? | This is a question for buyers. NCWSBA also questions why brokers are required to display each storage location separately (our concerns are spelt out on page 10 of this submission). |
| PHASE 4 PRICE REALISATION | | |
| 17 | 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? | There are a large number of methods of exchange of ownership currently available to woolgrowers, including auction, WoolTrade, AuctionsPlus, tender, private, direct to mill, forward sale, hedge sale. Wool brokers may choose to offer any or all of these alternatives as part of their competitive offering. The method individual growers choose is their own commercial decision. |
| 18 | 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? | No. The auction system is the most efficient and transparent mechanism for the transfer of ownership from the grower to the processor. The auction system permits the efficient, least-cost building of (small) grower lots from a diverse number and location of farms to large mill processing lots. Direct supply systems, on the other hand, involve less choice of grower lots and so involves higher costs to build the processing lot. The auction system is also the best and most transparent price discovery mechanism in a competitive buying environment. Finally, the auction system provides an essentially risk-free sale method for growers, with sure and reliable payment for the sold wool. INCREASED DEMAND = INCREASED COMPETITIVE TENSION. |
| 19 | 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? | Other marketing options, including online sales, do not necessarily guarantee equal prices or lower costs to either grower or broker. They are already available and are used by some growers for some wool as an adjunct, not instead of, selling by auction. Within the auction system, there is significant cost incurred by brokers in the area required for showfloors. This could be reviewed in detail to see where changes can be made to reduce the showfloor space required. Commercial competition would see savings passed back to growers. |
| 20 | 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? | This has been tried in the past by growers (either individually or in groups). Many attempts have failed. We also note that a number of auction buying companies in Australia are owned by overseas processing companies, including the world's two largest wool combing companies. |

| Number | Question | Comments |
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| 21 | <p>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?</p> | <p>NCWSBA and its member companies consider that there is strong competition between buyers in each auction room. The intensity of this competition waxes and wanes depending on underlying market conditions (retail demand and orders, volume and level of orders from processors and so on), which in turn reflects demand conditions through the wool textile demand chain.</p> <p>Nevertheless, NCWSBA has some concerns about individual buyers holding orders for too many processor clients.</p> |
| 22 | <p>Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?</p> | <p>Over the past two decades growers (either as individuals or in groups) have pursued alternative methods of selling wool direct to mills and beyond. In some cases, these methods have involved growers maintaining ownership of the wool through part of the processing chain (to top, yarn, fabric or even finished product form). Anecdotal evidence suggests that many of these attempts have failed, although there are some exceptions. Perhaps the growers or groups of growers involved in these failed attempts underestimated the challenges and risk involved in the change of ownership and/or over-estimated the margins at each stage of the process.</p> |
| 23 | <p>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?</p> | <p>Yes. The current system works well, with results recorded by AWH or AWEX in the sale room provide the sale result for the buyer and those in the gallery to view. AWEX representatives attend sales currently as potential arbitrator, which ensures that the auction system remains very transparent.</p> |
| 24 | <p>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?</p> | <p>Yes, auctions are conducted under the same transparent rules in all centres.</p> <p>Some price variation may occur due to the volume of a particular wool type in a particular location.</p> |

| Number | Question | Comments |
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| 25 | <p>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?</p> | <p>There are few barriers. Those that exist relate mainly to the financial capabilities of each participant. Before being able to operate in the auction system there needs to be certain proof of an individual or company that they are able to fulfil their financial requirements and meet payment terms. Participants are also required to adhere to a strict set of rules and regulations. These requirements are in place to protect the integrity of the auction system.</p> |
| PHASE 5 - INVOICING AND PAYMENT | | |
| 26 | <p>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?</p> | <p>This is a mainly a question for the exporters. It is the buyer/exporter's commercial decision on how they deal with the PSC.</p> |
| 27 | <p>What services are provided by the wool broker to the woolgrower that are covered by the Broker Services Charge (BSC)?</p> | <p>A list of these services are provided in the NCWSBA submission (pages 3 and 4). Note that some services are joint consumption services used and benefiting both growers and buyers (see page 4).</p> |
| 28 | <p>What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?</p> | <p>Examples of the services provided by brokers are given in the NCWSBA submission (page 3). It is the buyer/exporters commercial decision on how they deal with the PSC.</p> |
| 29 | <p>Are all costs incurred by the woolgrower sufficiently transparent (i.e. are they generally known and publicised prior to the sale of wool)?</p> | <p>Each wool broking company informs each client prior to the client agreeing to use that broking company. They are also made clear on account sales receipt issued after wool is sold. The charges reflect the services provided and are the result of a very competitive environment.</p> |
| 30 | <p>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?</p> | <p>The information provided by wool brokers is already clear and transparent and is a commercial matter for each broking company operating in a competitive environment.</p> |

| Number | Question | Comments |
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| 31 | 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? | This already occurs now, with each broking company offering different service levels and cost structures to their clients. It is a grower commercial decision as to which company they select. |
| 32 | Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period? (i.e. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?) | Any extension of the prompt period would mean that growers would be paid later, which would be detrimental to the grower as it would cause cashflow issues to them. It would obviously be an advantage to buyers. |
| PHASE 6 - EXPORT PROCESS | | |
| 33 | Is there 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? | Not applicable to NCWSBA and its members |
| 34 | Can the exporter sector of the industry 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? | Not applicable to NCWSBA and its members |
| 35 | The 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. | Not applicable to NCWSBA and its members |
| PHASE GENERAL | | |
| Wool industry institutions | | |
| 36 | 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? | Yes. More detail provided in the NCWSBA submission (page 9) |

| Number | Question | Comments |
|------------------------------|---|---|
| 37 | 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? | There would be no advantage. Testing fees have been well managed and increases have been below CPI due to AWTA's other revenue streams (see further detail page 8 of the NCWSBA submission). There is no legislative or other institutional barrier preventing competition to AWTA now. Growers already have the choice of what tests they would like performed (see earlier responses to questions 10 and 15). |
| 38 | 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? | Yes. The Review should scrutinise the 2% levy, AWI's operations and its claim to provide price benefit to Australian woolgrowers (see page 8 of this submission for further details). |
| 39 | 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? | This is an individual commercial decision. Not all NCWSBA members use Talman. For example, AWH provides IT services for their clients. |
| AWEX Market Reporting | | |
| 40 | 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? | Meets requirements when used in conjunction with broker reports and advice. |
| 41 | Is there sufficient access to AWEX market information? | Yes. |
| 42 | What influence (if any) does the AWEX market report have on purchasing decisions made by overseas wool processors when negotiating with Australian wool exporters? | Not applicable to NCWSBA and its members |

| Number | Question | Comments |
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| Centralisation | | |
| 43 | What are the benefits and costs of any move to centralise the sale of wool? | <p>NCWSBA has considered the potential benefit of centralisation of auction sales in the past. It concluded that it is feasible, albeit with several hurdles with regard to the number of lots being offered in the peak of the season and other logistical issues. It also concluded that there may not be sufficient benefits to justify the change in all cases.</p> <p>The location a wool broking company sold wool was a commercial decision for each company. Further detail is provided on page 11 of the NCWBA submission.</p> |
| 44 | Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool? | <p>It is difficult to understand under what circumstances centralisation would increase the opportunities to conduct alternative processes for the selling of wool.</p> |
| 45 | 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? | <p>A study conducted on behalf of the industry in 2009 demonstrated cost savings. See further detail in the NCWSBA submission (page 11).</p> |
| 46 | What financial impact would centralisation of wool storage centres have on the exchange of ownership process? | <p>See the study conducted in 2009 for this information.</p> |
| 47 | 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? | <p>See the study conducted in 2009 for the information on the benefits. The industry meeting in June 2009 agreed not to pursue the concept any further and agreed to leave it to commercial decisions by individual broking and buying companies.</p> |

| Number | Question | Comments |
|-----------------------|---|--|
| Digitalisation | | |
| 48 | 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 processor to deliver wool in accordance with a specific mill or customer's requirement? | The is a question best answered by exporters/processors. It would require to have accredited appraisers putting a standard type at the core line or the MTS (tufter) and an organisation to provide a guarantee of that type. |
| 49 | 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? | In theory it can and should be given more support. It would still require the auction system to provide the price lead for the foreseeable future. |
| 50 | What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it? | Unclear how 'online appraisal' can be achieved. Online selling could bring cost savings if the requirement to display samples (i.e. showfloors) was removed. Competition between brokers would mean that cost savings are passed back to growers. |
| 51 | Why have previous attempts at the online selling of wool failed? | Online selling currently exists (Wooltrade/AuctionsPlus). However, it is not well supported by buyers or by growers. |
| Transparency | | |
| 52 | 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? | There is scope for improve how many growers obtain and assess the readily-available information on the costs of selling their wool. As noted previously, the direct cost to growers of the service provided by each broking company is readily available. However, this is only part of the decision-making by growers – other elements include the service level, value for money and trust and relationship. |

| Number | Question | Comments |
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| 53 | 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? | The major issue is that many growers do not seek out and understand their cost of production, of which the cost of selling their wool is just a small part. More needs to be done by the relevant industry organisations (such as AWI) to lift the level of knowledge and understanding by growers. |
| Selling Alternatives | | |
| 54 | <p>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 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.</p> <p>Why has there been minimal woolgrower adoption of these alternatives?</p> | <p>The auction system is the most efficient and transparent mechanism for the transfer of ownership from the grower to the processor. See the answer to question 18 above for further details</p> <p>Other selling methods have been used in the past and many have failed. Perhaps growers or groups of growers involved in these failed attempts under-estimated the challenges and risk involved in the change of ownership and/or over-estimated the margins at each stage of the process</p> |
| 55 | Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these selling alternatives? | No real cost savings. The broker still has the overhead cost of running the open cry auction and showfloor. The selling alternatives are an adjunct. |
| 56 | Does the industry have the necessary skills, knowledge and expertise to utilise these options? | Yes. Wool brokers can and have provided alternate selling methods with a low uptake by woolgrowers. |
| 57 | Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options? | Wool broking companies undertake training of their staff and would welcome additional training initiatives and opportunities within all sectors of the industry. Wool brokers generally are the first point of call for new, young entrants to the wool industry. |

| Number | Question | Comments |
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| 58 | Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction? | Not as they stand, although online bidding could increase competition by allowing overseas mills to bid directly. |
| Forward Selling and Risk Management | | |
| 59 | Only 8% of Australian wool is sold forward. This compares to other Australian agricultural commodities such as cotton at 70%, lamb and wheat at 60% and beef at 50%. The Panel is seeking input as to why wool has such a low percentage sold forward. | With regard to price risk management tools, the financial risk facing growers from price volatility is much less than for cotton or grain growers, which is a disincentive. As well, limited liquidity reduces the opportunities in wool. As well, growers hold wool and use this as form of price risk management. A detailed response is provided on page 7-8 of the NCWSBA submission. |
| 60 | What forward selling mechanisms currently exist in the market place for wool producers? What systems might be introduced and are worthy of further investigation? | Riemann wool platform, cash settled. Extension of above with live/remote access futures platform with options, whilst retaining the ability to be fully brokered, similar to ICAP as it was planned to be. |
| 61 | The Panel understand that there have been a number of forward selling platforms within the wool industry that are no longer available. Why were they discontinued? And are there aspects of these platforms that could be retained if developing future forward selling mechanisms? | Lack of liquidity & therefore commercial return/cost recovery for companies managing platforms ASX futures - lack of investment in and implementation of industry advice to make the contract simpler to settle ICAP platform or a version of, is worthy of consideration for retention as extensive consultation was conducted with industry parties to make it user friendly and increase participation. |
| 62 | In other markets, automation and connectivity has made it easier for the development of derivatives products such as futures and options. Would such products create new hedging opportunities for woolgrowers and other market stakeholders? | Potentially, this would make trading derivatives simpler and instantaneous, however any platform needs the liquidity provided by non-industry participants e.g. banks, managed funds. |
| Disaggregation | | |
| 63 | Would there be benefits to the woolgrower by unbundling and making transparent the existing costs within the supply chain to allow them to be more selective in the services they adopt? | There may be some benefits, but the key is for growers to use the information. While costs are of interest, a more important issue is growers understanding what end-products their wool goes to and the raw wool specifications for that product, so that they can structure their business to deliver to those market requirements. |