

Wool Selling Systems Review

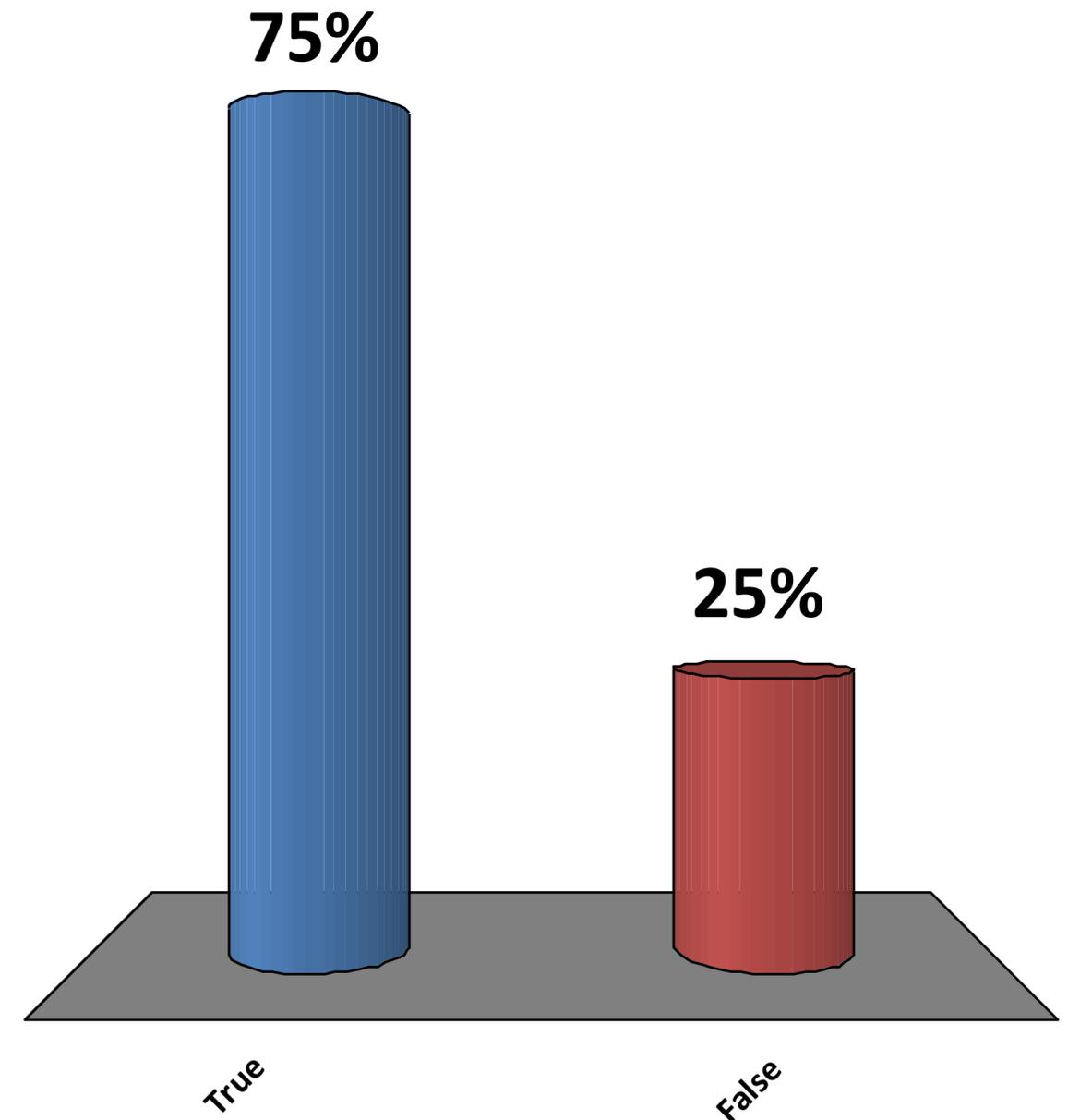
John Roberts

Wudinna

Thursday 10th March 2016

Are you satisfied with the current wool selling options?

1. True
2. False



Rationale – Why did AWI commission this review?

- Exit of corporates from exporting
- Decline in Merino sheep numbers
- Minimal take up of digitalisation
- Dominance of the auction system
- Cost of showfloors and multiple inspections
- Lack of Liquidity in forward markets (8% in wool vs 50 – 70% in cotton, lamb, beef & grain)

WSSR PANEL



Graham Samuel

Chairman ACCC



Bernie Wonder

**Head of Office
Aust. Productivity
Commission**



Will Wilson

**Director Aust.
Stock Exchange
& SFE**



Jamie Lillie

**MD – Fox & Lillie
Wool Trading &
Director F&L Rural**



Colin Bell

**Executive Chairman
Bell Financial Group**

Key Objectives

The key objectives of the WSSR are to improve the returns that woolgrowers receive for their wool through:

- a) evaluating whether greater efficiencies and cost savings within the exchange of ownership between the seller and the first buyer are attainable.
- b) understanding the potential for increased competitive tension throughout the wool selling process and how it can be achieved., and
- c) determining whether there is sufficient transparency within the exchange of ownership to allow wool growers to make the most informed commercial decisions about their wool growing enterprise.

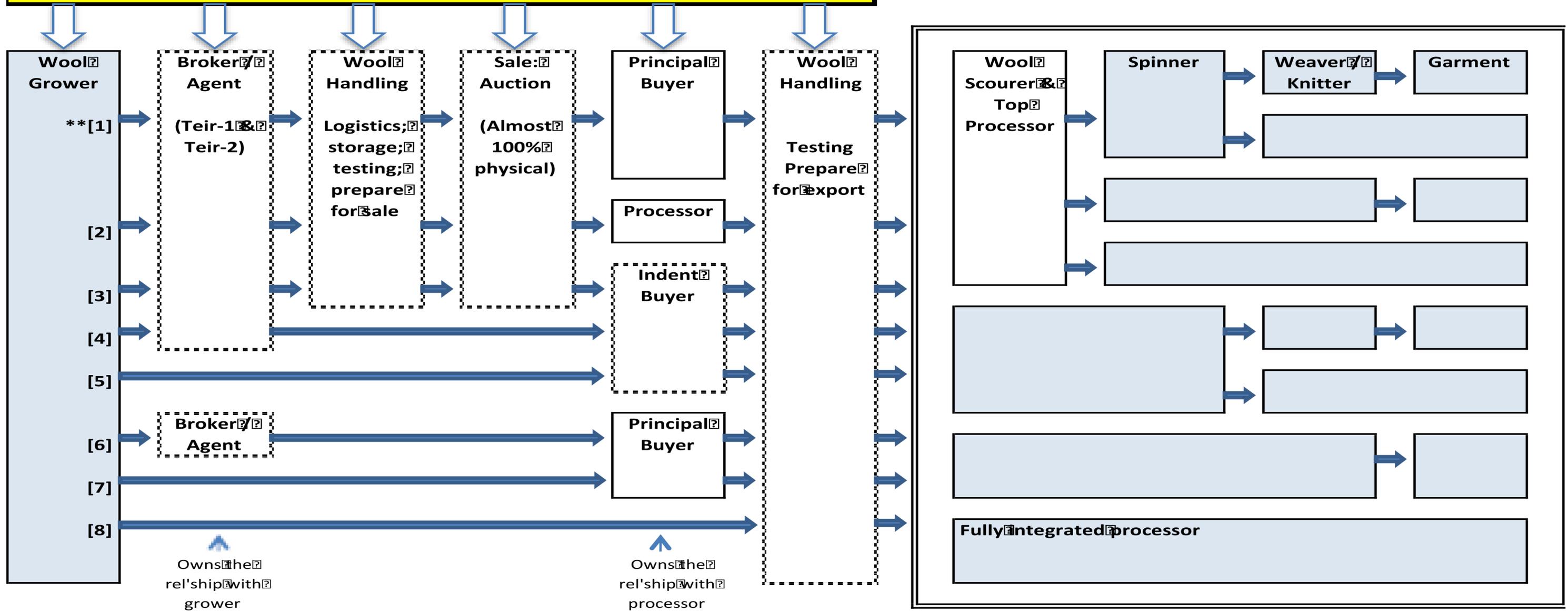
Scope of the WSSR

Wool Supply chain from Australian grower to processor:

Raw-wool Procurement Value-chain Segment

Wool Processing Value-chain Segment

WSSR AREA OF SCOPE



**The vast majority of Australian wool flows to market (from grower) via the broker/auction route-to-market (per [1] above) & accounts for more than 90% of wool sold.

**Nos. 4 to 8 (per above) represent alternatives to the traditional auction route to market including private buying, mill direct etc.

The Process

Highly Consultative & Independent

- More than 50 Meetings with Stakeholders
 - Issues Paper published December 2014
 - 86 Industry Submissions (first round)
 - Met with major offshore processors
 - Discussion Paper Published July 2015
 - Stakeholder Workshop - July 2015
 - 30 Industry Submissions (second round)
 - Additional Meetings with Stakeholders
- Final Report to AWI Board - December 2015

Key Findings

The Panel found that:

Selling System in Need of Modernisation

No Structural Impediments to Change – self regulated market.

Institutional & cultural Issues that make change Difficult and Slow

* Dominance of one intensive selling avenue.

- Transparency & competition around buying and selling charges
 - Competition and innovation in testing.
 - Centralisation and Lot Sizes
 - Commission Buying
 - Existing Institutions (AWEX & AWTA)
 - Lack of Forward and Futures Liquidity
- Heavy dependence on the Talman inventory management system

Recommendations

Dealing with Issues Individually could be Slow and Difficult

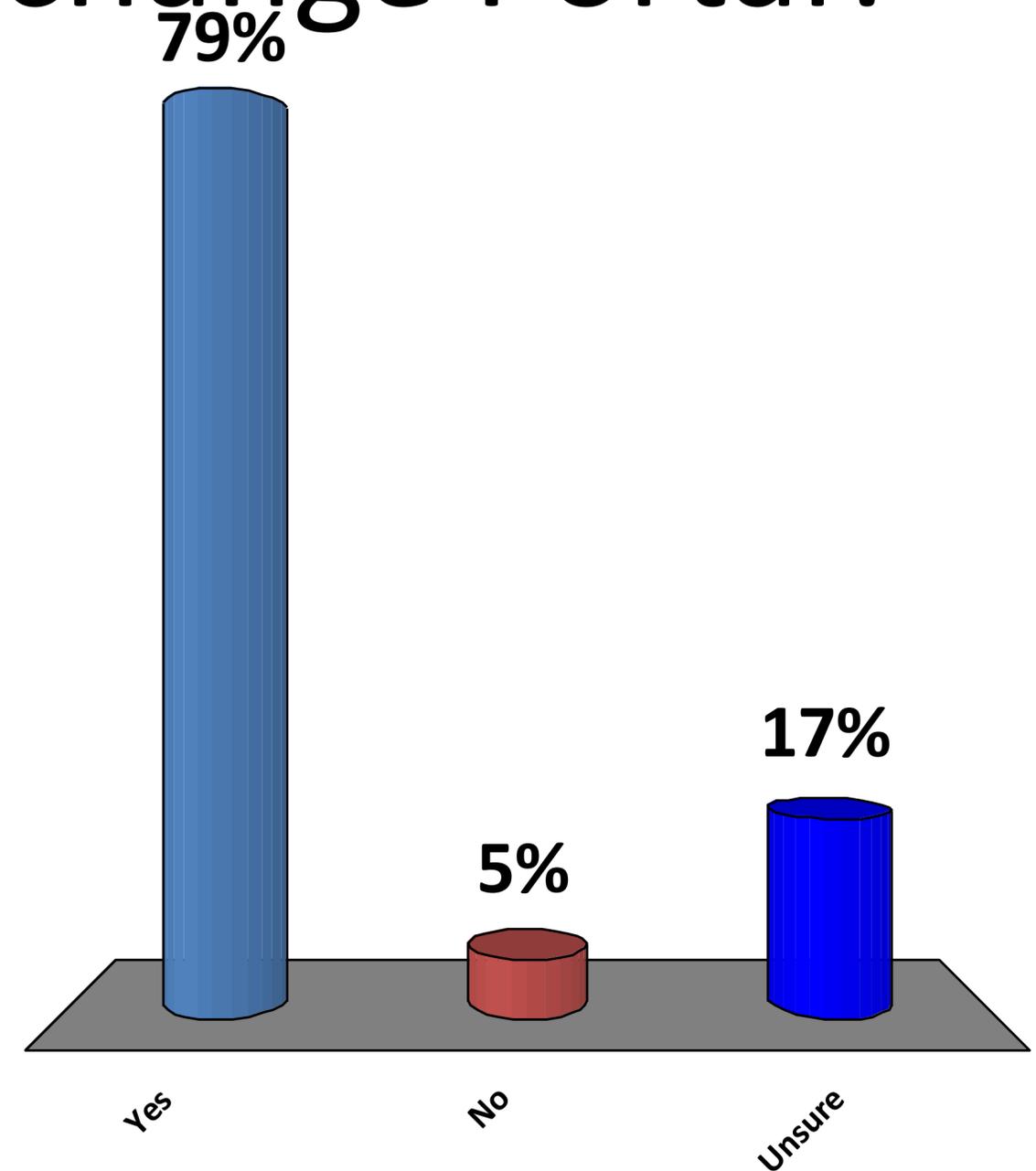
The Panel proposed the establishment of a

Wool Exchange Portal (WEP)

- WEP is an online connectivity platform that delivers transparency, choice, and competition
 - Information on selling options available
 - Evaluation of those options via a ready reckoner
 - Transparency of selling costs
 - Links to Selling Systems (such as the existing auction rooms)
 - Allow growers and buyers to interact directly
- Real-time market reporting information (pricing) & real time buy / sell options
 - An on-line training tool
 - General Market information
- Market development both in Australia and Overseas

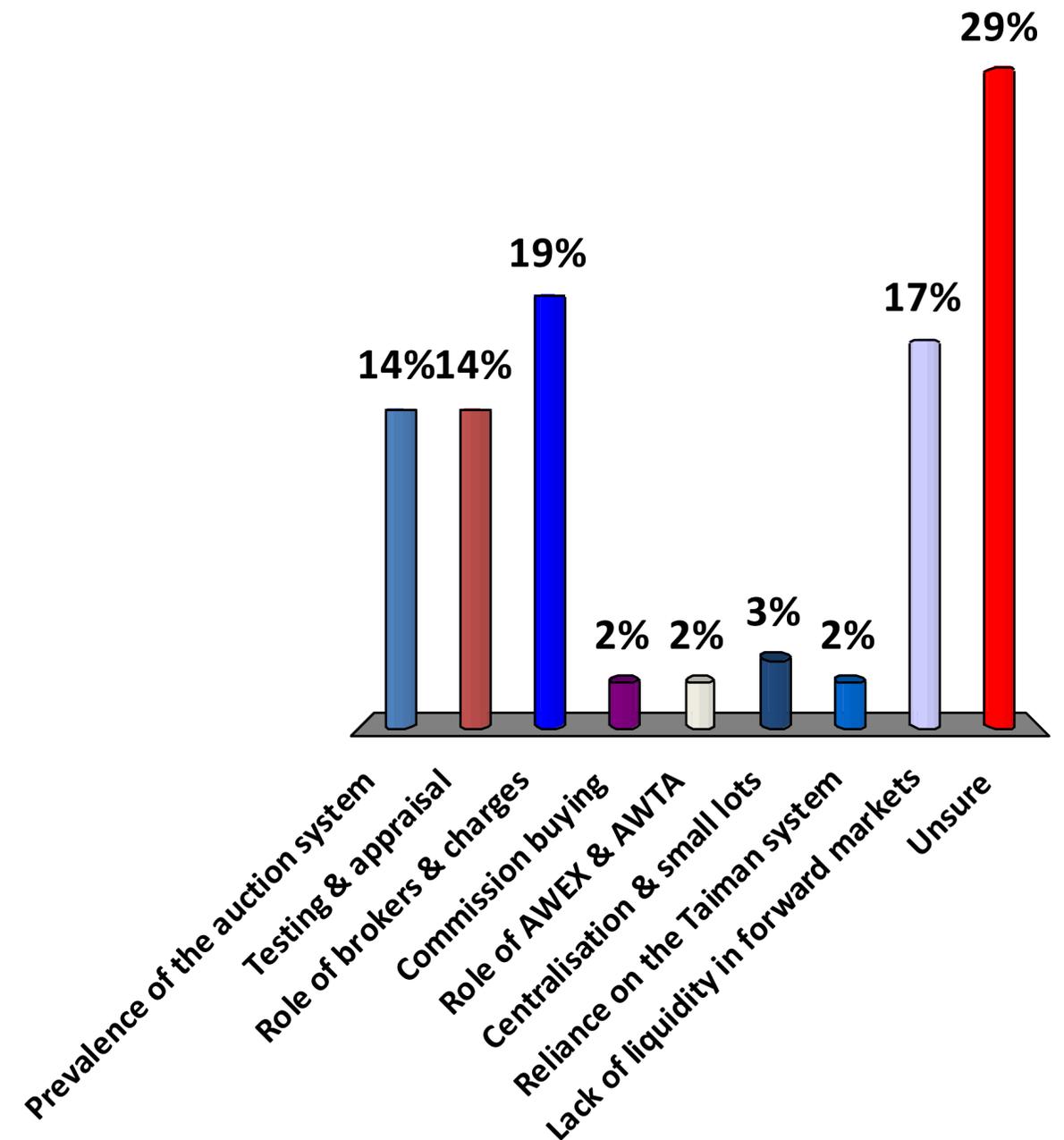
Do you see the benefits in the development of a Wool Exchange Portal?

1. Yes
2. No
3. Unsure



Of the issues raised by the Review Panel, which is of the most significance to you?

1. Prevalence of the auction system
2. Testing & appraisal
3. Role of brokers & charges
4. Commission buying
5. Role of AWEX & AWTA
6. Centralisation & small lots
7. Reliance on the Taiman system
8. Lack of liquidity in forward markets
9. Unsure



WEP
Ready Reckoner | View Market | Sell | Logout

Ready Reckoner
John Smith

Identify the best avenue to market for your lot

Enter the details of your clip to view the available avenues to market.

Delivery Location

Specifications

LOT 1	<input style="width: 40px;" type="text" value="0345"/>	<input type="button" value="Add another lot"/>
Type	<input style="width: 40px;" type="text" value="AA tdr"/>	
AWEX Type	<input style="width: 40px;" type="text" value="MF4"/>	
Cert Type	<input style="width: 40px;" type="text" value="P"/>	
Micron	<input style="width: 40px;" type="text" value="19.1"/>	
VM	<input style="width: 40px;" type="text" value="0.3"/>	
B SH content	<input style="width: 30px;" type="text" value="33"/> <input style="width: 30px;" type="text" value="33"/> <input style="width: 30px;" type="text" value="33"/>	
Length	<input style="width: 40px;" type="text" value="80"/>	
Strength	<input style="width: 40px;" type="text" value="34"/>	
T/M/B	<input style="width: 30px;" type="text" value="70"/> <input style="width: 30px;" type="text" value="20"/> <input style="width: 30px;" type="text" value="10"/>	
Yield	<input style="width: 40px;" type="text" value="60.8"/>	

Search

This screen is only accessible by a growers. User logged in - In this example producer 'John Smith'.

The producer will enter the location of the wool in which they are looking to view the avenues to market for.

The producer will enter the specifications of their wool.

The producer can add further specifications if they are required to, e.g: mulesing status, classing standard etc.

Click search to view all appropriate avenues to market.

Ready Reckoner | View Market | Sell | Logout

Ready Reckoner John Smith ⬇

New Search

Current Search:
Location: Goulburn

Specifications

LOT1: 0345
Type: AA tdr
AWEX Type: MF4

Micron: 19
VM: 0.3
BSH content: 33 33 33
Length: 80
Strength: 34
T/M/B: 70 20 10
Yield: 60.3

Market Intel

Market Summary: (updated 1 hour ago)

A healthy gain for all fine micron wools with a 350kg rise in the 18 micron indicator. Strong competition at Northern market auction due to the limited offering helped improve the price. Values remain considerably above last season, with particular interest for lots of high quality. Appetite is less consistent for lower quality lots and as such we have seen this discount widen.

View more market intel

Selling Avenue	Clean Converted Price	
	Clean c/kg	Greasy c/kg
Exporter Unskirted	1277	877
Auction	1274	876
WoolTrade	1285	874
Exporter Spot Order	1305	871
Mill Direct	1298	868
Processor Open Mill Order	1273	866
Exporter GTC	1247	854
Exporter Physical FWD	1315	848

This screen details the search results entered on the previous page.

The specification the producer detailed on the previous page are outlined.

The chart displays historical pricing context for the nearest indicator to the specifications entered.

Market commentary provided tailored to the search specifications entered.

The producer can view more market information (AWEX reports etc) by clicking through.

The table details all available avenues to market based on the specifications entered by the producer.

The table below details both the clean price as well as the final net greasy price after the appropriate deductions. This allows the producer to identify the greatest possible returns in the current market.

To view more detail on a particular selling avenue the producer can drop down an option (see next screen).

WEP
Ready Reckoner
View Market
Sell
Logout

Ready Reckoner
John Smith

Current Search:
Location: Goulburn

Specifications

Type	AA4 tdr
AWEX Type	MF4
Micron	19
VM	0.3
BSH content	<input type="text" value="22"/> <input type="text" value="22"/> <input type="text" value="22"/>
Length	80
Strength	34
T/MB	<input type="text" value="10"/> <input type="text" value="20"/> <input type="text" value="10"/>
Yield	60

Market Intel

Market Summary: (updated 1 hour ago)
A healthy gain for all the micron wools with a 22c/kg rise in the 19 micron indicator. Strong competition at Northern market auction due to the limited offering helped increase the price. Values remain considerably above last season, with particular interest for lots of high quality. Appellate is less consistent for lower quality lots and as such we have seen this discount widen.

[View more market intel](#)

Selling Avenue	Clean Converted Price		Final Net Price	
		c/kg		c/kg
WEP Firm Bid	▶	1277		877
Auction	▶	1274		876
WoolTrade	▼	1285		874

Price detail

Opening Price
1400 c/kg

Terms
Clean ex brokers store
7 days from date booked
Payment date: 21/08/15

Term conversion costs, includes levies bsc, pac levies etc.
128c/kg

Conversion cost make up
Full Auction cost structure
Grower delivers wool to broker's store

Clean Converted Price
1274 c/kg

Wool Yield
67%

Net price to grower (greasy)
874 c/kg

[Advance to bid confirmation](#)

Exporter Spot Order	▶	1306		871
Mill Direct	▶	1296		868
Processor Open Mill Order	▶	1273		866
Exporter GTC	▶	1347		854
Exporter Physical FWD	▶	1315		848

This screen is the same as the previous however shows the display if a producer had clicked on a specific selling avenue for further detail.

By clicking on the arrow the "WoolTrade" selling avenue has been detailed in further detail.

This section outlines the specific detail of the bid selected: delivery terms etc.

If the details of the bid matched the requirements they could advance through to accepting the bid. Whether this be by the WEP, broker or other defined selling method.

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WEP
Ready Reckoner
View Market
Sell
Logout

Sell Order Form
Broker 'X'

Broker	Elders		
Location	Goulburn ▼		
Client	XX / Hay ▼		
Quantity	8	Bales	(760kg)
Lot Number	R329		
Specifications			
Type	Fleece ▼		
AWEX Type	MF4		
Micron	19.1		
VM	0.4		
BSH content	33	33	33
Length	85		mm nkts
Strength	37		
T/M/B	70	20	10
Yield	68		%
Other	▼		
Offer price (greasy)	842	c/kg	
Testing	23		
BSC	6.8		
PSC	18.4		
Levies	15		
Net price	782.6c/kg (greasy)		
	\$743.5 / bale		
Net return	\$5,947.80		

Place Sell Order
Place a sell order to offer your clip on the WEP

User logged in - In this example Broker 'X'.

Location of wool being offered

The Broker will nominate the client that they're placing an offer on behalf of.

The broker will then enter the specifications of their clients wool that they are offering.

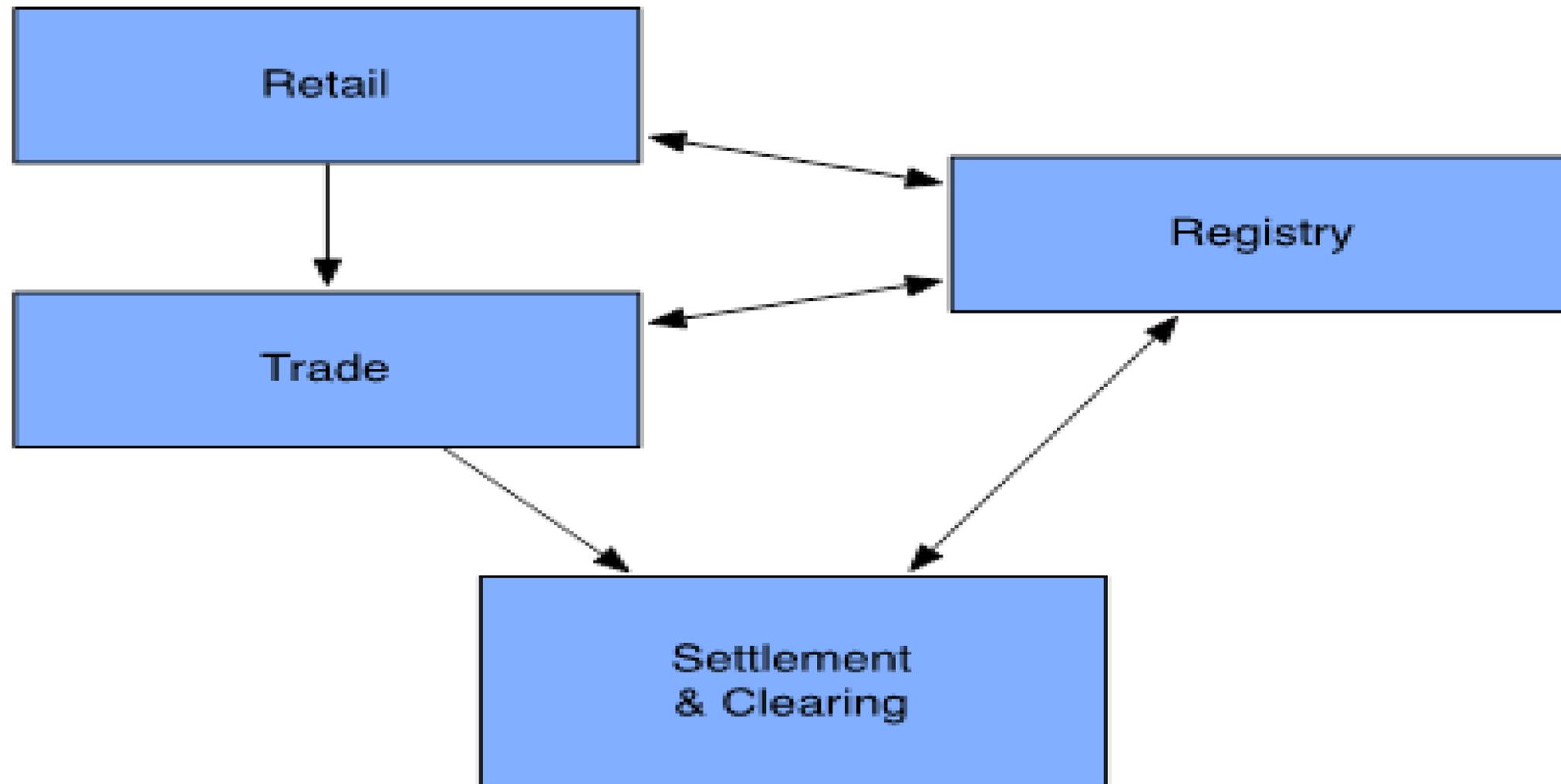
The price being placed on the wool being offered and the brokerage fees and deductions to be taken out.

Net return based on quantity offered and price entered. This a transparent return for the grower.

Next Steps

- Develop the WEP business case
- Continue to encourage and promote industry buy in.
 - Regular Government briefings
 - Steering Committee
- Full business case to be put forward by end 2016

Figure 1. Market Structure and Requirements



Each module represents an element of an effective market. A number of these components may already exist in the Australian wool industry and should be utilised.