



# The National Council of Wool Selling Brokers of Australia Inc

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## **Submission to the Review of Australian Wool Innovation**

The National Council of Wool Selling Brokers of Australia makes the following submission to the 2018 AWI Performance Review.

NCWSBA was established in 1919 and is the peak national organisation representing wool brokers in Australia. Our members account for around 85% of all wool sold at auction in Australia. A listing of the current membership of the National Council of Wool Selling Brokers of Australia is provided in the Appendix.

Australian wool brokers have an abiding interest in the health and well-being of the wool industry in Australia. In particular, as agents for Australian woolgrowers, wool broking companies and their staff have a deep-seated, intrinsic connection with the financial and social welfare of Australian woolgrowers. The actions, activities and strategies of Australian Wool Innovation are an important part of this welfare.

### **NCWSBA supports collective funding of research, development and marketing for the Australian wool industry**

NCWSBA supports the principle of a modest wool levy to fund an organisation that conducts research, development and marketing for the benefit of Australian woolgrowers and, ultimately, the Australian wool industry. There is good evidence that such expenditure properly directed to key projects and issues in on-farm, post-farm and product research and development, and marketing/promotion programs brings positive returns on the investment. Because these are collective funds for collective benefit, these projects should only be where there is clear market failure and not compete with commercially available services and products and crowd-out these existing commercial services. For clarity, NCWSBA views market failure is where:

- a. There are insufficient participants (sellers and buyers) of a product or service and these participants do not compete effectively.
- b. There are barriers to entry (such as high entry costs or government restriction/regulation).
- c. There is information asymmetry (one side or the other in a transaction has more information than the other, which can distort a fair market).
- d. The services or products are not “excludable”. That is, the benefits of products/services cannot be captured fully by the seller and/or buyer and others receive benefits (or bear costs) without being involved in the transaction or contributing to the transaction (also known as externalities), and/or
- e. Property rights for the products/services are not clear.

Market failure habitually occurs in rural industry research and development, including in the wool industry. It is also the *raison d’etre* for the promotion of the benefits of wool. As a result, without a modest, collective wool levy funding the R&D and promotion activities for the benefit of all wool growers, investment in these activities will be less than desirable and optimal.

## **Comments on AWI's approach to the provision of research and development and of marketing**

As noted above NCWSBA supports collective funding of R&D and promotion, and there are some projects and activities by AWI which are excellent and bring significant benefit to the industry. Even so, NCWSBA has concerns about some aspects of AWI's performance. We wish to address four specific topics:

1. AWI's obligations under the Statutory Funding Arrangement and conflict with existing commercial services
2. Governance arrangements
3. Planned outcomes and benefits from AWI activities
4. AWI's approach to engagement and consultation

### **1. Obligations under the Statutory Funding Arrangement**

NCWSBA does not have a comment on whether or not AWI is meeting its obligations under the Statutory Funding Agreement (2016-2020). However, we are concerned that there is no clear statement, either in the Statutory Funding Agreement or in the Wool Services Privatisation Act 2000, which sets out whether or not AWI can engage in or conduct activities which are already commercially available to woolgrowers.

Previous Statutory Funding Agreements set out restrictions on AWI's range of activities. For example, Section 5.1(g) of the Funding Agreement operational in 2005 stated that AWI can apply Wool Levy Funds only to "...providing Industry services not otherwise widely commercially available to woolgrowers".

As a result, AWI has undertaken and continues to undertake activities that are in direct competition to and duplication of services provided commercially to woolgrowers. Examples are provided below.

#### WoolQ platform – duplication of several existing commercial services and failure to work collaboratively

NCWSBA questions why AWI is funding and promoting the development of WoolQ. Despite claims by AWI that there is "market failure" which justifies this investment, it is hard to see where in Australia's competitive wool selling system that those market failures exist:

- there are many brokers and buyers who compete intensely;
- there are few barriers to entry to becoming a broker or a buyer;
- information is freely available; and
- there are clear property rights to facilitate the transfer of ownership of wool.

In fact, we question why AWI decided to conduct a review into the wool selling system in Australia in the first place as the auction system is remarkably competitive and transparent.

Furthermore, contrary to claims made by AWI's CEO, the Australian wool industry uses digital technologies extensively. It was an early adopter of electronic data transfer in 1978 and has a long established industry committee (the Wool Industry EDP Users Group - WIEDPUG) which sets standards for the development and implementation of data standards within the industry. As well, wool brokers make extensive use of digital platforms and data in their back-office operations and warehousing. Many wool broking companies record and provide sale results tailored to individual growers through their company websites. It appears that WoolQ will duplicate such services.

WoolQ will also duplicate existing commercial services for the trading of wool electronically. WoolTrade through AuctionsPlus already provide an electronic trading platform and has done since 2002. WoolTrade is used only to a small degree by the industry. The fact is that NCWSBA does not know of any electronic

selling system which demonstrates the ability to extract the same level of competition, speed and efficiency as open cry auctions. In excess of 250 lots are sold each hour with the open cry auction system, providing instantaneous price discovery.

NCWSBA investigated various systems operating around the world, including in the fish industry and the British Wool Marketing Board's electronic auction system, and concluded that none operate as well and as efficiently as the open cry auction system. Note that the auction selling system incorporates both objective measurement (through test results from the Australian Wool Testing Authority) and subjective assessment by buyers to ensure the farm lots on offer meet the processing specifications of the processing mills.

A further duplication is that AWI, through WoolQ, recently launched an electronic woolclasser speci. AWEX will soon launch an updated version of its WoolClips, which includes an electronic woolclasser speci. This is a clear duplication between two industry-funded organisations. AWI did not work collaboratively with AWEX on the electronic classer specs (or indeed on any feature of WoolQ), which is hard to fathom.

#### Bale RFID – lack of collaboration and duplication of effort

AWI's lack of collaboration and duplication of services is demonstrated again by the development of Radio Frequency ID for wool bales. AWI funded, developed and tested its own RFID technology (based on Bluetooth technology) at the same time that AWEX was also developing its RFID technology. AWH (the major wool logistics and handling company) is involved in working with AWEX on developing the technology. NCWSBA understands that AWI resisted approaches to collaborate with AWEX. Once again this meant duplication of effort and expenditure by industry-funded organisations, for no additional benefit.

NCWSBA views this lack of collaboration by AWI (and other similar examples of lack of collaboration) unproductive, a waste of resources and not in the wool industry's best interests.

#### AWI Weekly Wool Market Summary – duplication of existing services

AWI produces a Weekly Wool Market Summary which reports on the results from the weekly auctions in Australia. This is totally unnecessary. It duplicates market reports that are provided commercially by AWEX. As well, wool broking companies each produce their own weekly wool market report and provide these to their woolgrower clients and others.

**NCWSBA recommends that the Australian Government changes the Statutory Funding Agreement to reinstate a clause that specifies that AWI can only conduct activities which are not commercially available to woolgrowers. The Funding Agreement should also require AWI to work collaboratively with other industry bodies.**

## **2. Governance arrangements and issues**

NCWSBA acknowledges that AWI's governance arrangements are matters specifically for Wool Levy payers and their representative organisations. NCWSBA notes that some members of NCWSBA companies are also Wool Levy payers in their own right. For this reason and because of the relationship wool brokers have with wool growers, NCWSBA would like to express its concerns about governance arrangements with AWI.

### Voting at the 2017 Annual General Meeting

NCWSBA is aware that prior to AWI's last Annual General Meeting, a significant number of woolgrowers did not receive the documents and voting papers for the AGM in time to meet the voting deadline and so were deemed ineligible to vote. This was reported in the rural media and was also reported directly to staff of wool broking companies. NCWSBA understands that AWI and its share registry company claims that this failure was due to delays in delivery by Australia Post. We do not know how much time AWI and its registry company allowed for delivery of the AGM information and voting papers, nor if this issue has been investigated fully. However, some NCWSBA members believe that there could have been a very different result in the election of Board members at the AGM. The voting process clearly needs more time prior to voting closure.

**NCWSBA recommends that AWI and its share registry company allows far more time for delivery of AGM information and voting papers for future Annual General Meeting so that growers who are in far-flung locations receive their papers in time to meet voting deadlines.**

Members of NCWSBA were concerned by allegations in the media at the time of the 2017 AGM that the AWI Chairman had in previous AGMs been monitoring the voting progress for Board members and directed the proxies that he held to favour certain candidates. If true, this in our view is inappropriate from a governance perspective and should be addressed.

### Conflicts of interest

NCWSBA has concerns where Board members have had conflicts of interest when deciding on issues and funding of projects. These conflicts of interest give the appearance of bias, even if there is no bias.

One example which has been reported to us is an AWI-funded project investigating an alternative to mulesing to prevent flystrike, which was recently terminated. This project, conducted by Dr John Steinfort of Steinfort AgVet Pty Ltd, investigated using liquid nitrogen applied to the breech area of lambs to result in a closed wound which had a similar beneficial effect to mulesing in the prevention of flystrike, but with much improved animal welfare results. Positive results were reported at the AWI National Wool Research and Development (R&D) Technical Update on Breech Flystrike Prevention in July 2016.

Dr Steinfort reported to the NCWSBA President that the project was cancelled by the Science & Welfare Committee of which Board member Dr Meredith Shiel was the Chair. If this is the case, Dr Shiel has a clear conflict of interest in the decision process as she is "...a founding director of Medical and Animal Ethics R&D, responsible for inventing / developing a wound anaesthetic for lambs undergoing mulesing and is currently pursuing research into the development of similar practical and affordable pain relief medications for livestock, companion animals and humans." [AWI 2016/17 Annual Report].

### Intellectual property

Dr Steinfort advised that an additional reason that funding of the project was terminated was that AWI insisted on owning all of the Intellectual Property from the project, which Dr Steinfort refused. This is not the first time that NCWSBA has heard that AWI insisted on owning all of the Intellectual Property from a joint project. It is laudable that AWI should ensure that they secure their share of IP on behalf of Australian woolgrowers. However, an insistence on owning 100% of the IP may lead to projects being abandoned even though they would have brought significant benefits to the Australian wool industry.

Dr Steinfort has informed us that he is willing to provide full details of his experience with AWI. We can provide his contact information.

### **3. Outcomes and benefits from AWI activities**

NCWSBA believes that there are some excellent activities and projects which AWI has funded and continues to fund, run by staff who are committed, dedicated and skilled. This is evidenced by the results from the benefit-cost analysis undertaken by AWI for selected projects.

There are some specific projects and activities which NCWSBA members have noticed for the benefits they bring the Australian woolgrowers and the industry at large. This includes the Lifetime Ewe Management training, the recent publication of the excellent booklet on planning for a non-mulesed enterprise, the product development work being undertaken by AWI (notably in China), projects conducted to establish and defend wool's environmental and sustainability credentials, and consumer education programs.

There are, however, some glaring omissions by AWI in key challenges for the industry, as well as projects which will bring only marginal and questionable benefits.

#### Small benefits from WoolQ

One of the projects which will bring only marginal benefit is WoolQ. According to AWI's own assessment, released in June 2017, WoolQ will bring a net benefit of \$38 million over 15 years. This equates to just \$1.60 per bale per year for all wool sold in Australia, or only 0.1% of the average value of a bale of wool. This will barely make a dent in the costs facing woolgrowers in getting wool from their sheep and to the market. In the most recent analysis available, it costs around 14.5% of the farm gate price to move wool from the farmgate to the ship for export (including the 2% Wool Levy). This compares with around 29% to move grain from farm gate to ship. Therefore, the benefits from WoolQ were always going to be small, yet it is costing AWI \$3.6 million to develop WoolQ.

#### Cutting the cost of shearing should be a priority

The cost of shearing is the single largest cost for a grower to get wool from the sheep to market. NCWSBA estimates that the cost of shearing is around \$9-\$11 per head, or about 70% of the cost of getting wool to the ship. As well, there is a severe labour shortage for shearing (shearers, shed hands, rouseabouts and so on), so growers cannot get shearing crews when they need them, particularly for crutching.

AWI has invested funds into shearer and shed-hand training, but seems to have invested very little in alternative shearing and sheep handling. For 2016/17, AWI planned to spend \$2.45 million on "Wool Harvesting and Quality Preparation" according to the Annual Operating Plan. The 2016/17 Annual Report reports that \$1.61 million was spent on In Shed Shearer & Wool Handler Training and a further \$178,129 on "Shearer and Wool Handler Industry Competitions".

A pitifully small \$220,000 was spent on "Future Harvesting Support", which presumably includes some expenditure on alternative shearing technology. This is a tiny 0.3% share of AWI's total expenditure of \$70.8 million in 2016/17, and just 1.2% of AWI's expenditure on on-farm R&D. It also pales into comparison with the \$3.6 million AWI expects to spend on developing WoolQ.

With Merino wool prices at record levels (which will be boosting AWI's revenue substantially), now is the time to be investing in R&D which will directly address shearing, one of the major costs and worries for Australian woolgrowers.

**NCWSBA recommends that AWI significantly increase its funding of alternatives to shearing that will save labour and significantly reduce the cost of shearing to Australian woolgrowers.**

### Addressing mulesing

Mulesing is one of the most contentious issues facing the Australian wool industry and has been since the early 2000s. There is rising demand for non-mulesed wool from retailers in Europe and the United States, and this is flowing through the wool textile processing chain back to the global wool market. Around 11% of all wool offered at auction in Australia and around 8% of Merino wool offered is declared as non-mulesed. This is not enough to supply the global demand, so processors have turned to other countries which claim to be free of mulesing. This includes South Africa, New Zealand, Argentina and Uruguay. However, as Australia supplies 70% of the world's Merino wool, Australia must respond to this increased demand. AWEX reports that average premiums for non-mulesed wool is increasing, and there are larger premiums for certain wool types being offered by Italian processors.

However, AWI's response has been mostly (although not entirely) lacklustre. It has been funding projects to address the issue and claims to have spent over \$30 million on R&D on the issue over the past 15 or so years. However, Appendix 2 of AWI's 2016/17 Annual Report only lists two projects which relate to flystrike and mulesing, with the total expenditure of a little under \$200,000. This seems insufficient, given the magnitude of the challenge.

NCWSBA gives full support to industry efforts to develop suitable commercially-viable alternatives and also supports the use by Australian woolgrowers of available alternative technologies and management practices to control flystrike and the advancement of humane animal welfare practices.

**NCWSBA recommends that AWI significantly increase its funding of alternatives to mulesing.**

### Rebuilding the Australian sheep flock and wool production

In the 1990s and 2000s, the Australian sheep flock declined to around 70 million and Australian shorn wool production to around 350 mkg by 2009/10. Since then, the flock and shorn wool production fluctuated at these almost century low levels, with no sign of any significant recovery in the foreseeable future. In our minds, this is a significant failing from AWI. Surely, in addition to trying to build demand, AWI should also be aiming to rebuild the Australian flock and shorn wool production through its R&D programs.

## **4. Engagement and consultation**

AWI engages with the wool broking industry, and the annual Broker Briefing Days have been positive as they provide information on AWI activities and projects from on-farm R&D, to post-farm R&D and product development, to marketing programs around the world. NCWSBA believes that these Broker Briefing Days should be held in locations other than Sydney – one or more regional centres would be preferable. As well, these Briefing Days are solely about AWI providing information to attendees. While useful, AWI does not seek nor does it welcome counsel and advice at these events.

Our experience with AWI's other forms of engagement and consultation is far less positive.

### Consultation before, during and after the Wool Selling Systems Review

The consultation with wool brokers and buyers on the Wool Selling Systems Review (WSSR) was particularly disappointing given the time and effort put in by industry to respond to the review. AWI claims to have consulted with industry, pointing to the large number of submissions to the WSSR in response to the Issues Paper (released in October 2014) and the Discussion Paper (released in July 2015). Many of the submissions supported the existing system of open-cry auctions as a transparent and efficient method of establishing market prices and aggregating the vast heterogeneous wool types available from

the 30,000+ woolgrowers into manageable processing lots for wool processors around the world. NCWSBA's extensive submissions to the WSSR are provided as separate documents.

We were unsurprised when the Wool Selling Systems Review recommended the establishment of the Wool Exchange Portal (now called WoolQ). At an industry meeting in Sydney in mid-2014 and before the WSSR had released its issues paper, Stuart McCullough commented that the auction system was outdated and had not changed with the times. He called for "digital disruption"; proposing a "Trivago for wool" where woolgrowers could pick and choose how they sell their wool, at the cheapest cost of sale. Despite all the evidence to the contrary presented during the review, a key recommendation from the Review was the Wool Exchange Portal. In other words, a "Trivago for Wool". Clearly the "consultation" process was ignored and the AWI CEO had the support for his idea from the Review Panel. This seems to be typical of the Board and senior management of AWI's approach to consultation: tell those you are "consulting" what you want; ask for then ignore their views (unless they agree with you); and then implement what you wanted.

The AWI Chairman and senior management also responded defensively and aggressively when NCWSBA released a Media Release in March 2018 expressing its reservations about WoolQ.

### Sheep CRC

Another example of lack of engagement is AWI's decision to cease the funding of the Sheep CRC. AWI has never explained adequately to industry why it terminated funding of the Sheep CRC. We and the industry are left to wonder whether the decision was driven by a conflict between the traditional stud breeders and the development of technological-based genetic assessment and advancement.

### **Conclusion**

NCWSBA supports the need for a collectively funded R&D and marketing organisation. AWI has some excellent programs and activities conducted by skilled and motivated staff. However, NCWSBA has reservations about some activities and decisions by AWI, which we believe should be addressed. The President and Board of NCWSBA welcome the opportunity for further discussion on these issues.

**APPENDIX**

**Member companies of the National Council of Wool Selling Brokers of Australia**

**As at 1<sup>st</sup> May 2018**

A R Rhodes

Australian Wool Network including Dyson Jones

Australian Wool & Pastoral Agency Ltd including Schute Bell Badgery Lumby, Shute Bell Queensland, Wool Auctions of Australia, Goddard Wool Marketing, Monaro Wool Services, HC Wool, Schute Bell Whitbread & Co and Hartin Schute Bell

Elders

Landmark including TWG, Dalgety, Landmark Dalgety, Arcadian

RuralCo including Primaries of WA, Rodwells, Roberts Ltd, B J Underwood

Jemalong Wool

Landini Wool

Macdonald & Co Woolbrokers

Michell Direct

Quality Wool

Woolgrowers Independent Selling Services (WISS)

Wool Solutions