Supporting Papers

Paper 3: The wool supply chain and selling system in New South Wales
Published by the NSW Department of Primary Industries

NSW Wool Industry and Future Opportunities

A report to the NSW Department of Primary Industries from Miracle Dog, Poimena Analysis, Scott Williams Consulting and DAFWA

Authors:
Russell Pattinson (Miracle Dog)
Chris Wilcox (Poimena Analysis)
Scott Williams (Scott Williams Consulting)
Kimbal Curtis (Department of Agriculture and Food Western Australia)

First published February 2015

www.dpi.nsw.gov.au

Acknowledgments
Photos courtesy of SheepConnect NSW - a project of Australian Wool Innovation Limited and NSW Department of Primary Industries.

JTN 13403

© State of New South Wales through the Department of Trade and Investment, Regional Infrastructure and Services, 2015.

You may copy, distribute and otherwise freely deal with this publication for any purpose, provided that you attribute the NSW Department of Primary Industries as the owner.

Disclaimer: The information contained in this publication is based on knowledge and understanding at the time of writing (February 2015). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of the Department of Primary Industries or the user’s independent adviser. The report also contains views and recommendations based on estimates and projections, which are subjective and involve uncertainty. As actual events or results may be different to those envisaged in the report, users should take this into account when making decisions.
The wool supply chain and selling system in New South Wales

Contents
Introduction ........................................................................................................................... 2
Situational Analysis ............................................................................................................... 2
  Wool movements and logistics in New South Wales ....................................................... 2
  Wool selling arrangements in New South Wales ............................................................. 6
Likely trends ........................................................................................................................ 7
Potential implications for producers, industry and NSW Government ............................. 9
References ......................................................................................................................... 10
Introduction

New South Wales is not only the largest wool producing state in Australia, it also has the largest volume of wool transported through it. However, the total volume of wool sold at auction in New South Wales is less than that sold in Australia’s main selling centre in Melbourne. The number of wool selling centres in NSW has declined, as they have in other states, and NSW has seen the most recent closure, with the Newcastle selling centre closing in 2013. This paper looks at the wool pipeline and the wool selling system in NSW, the changes in the past few years and the likely direction of changes in the future.

Situational Analysis

The wool supply chain and wool selling system in New South Wales is entirely driven by commercial imperatives of the free market, as it is throughout Australia. As with all industries, there are some Government regulations, such as road transport limits (notably the maximum width of road transport loads of wool bales) and work health and safety requirements, but there is no direct Government involvement at either the Federal or state level that affects the commercial operation of the wool supply chain and selling system in New South Wales.

The Australian wool selling system is illustrated in Figure 1. The vast majority of wool flows via Route 1 (around 85-90%).

Wool movements and logistics in New South Wales

New South Wales is the largest wool producing state in Australia, producing 125 mkg or 715,590 bales of wool in 2013/14, which was 37% of Australia’s production. As well, 50% of Australian wool by volume travels though NSW prior to export. The wool supply chain in NSW is illustrated in Figure 2, which is sourced from a NSW Government reference group.

Figure 1  Wool Supply Chain from Australian Growers to Overseas Processors

Figure 2  Wool Supply Chain in New South Wales

---

1 Wool Selling Systems Review (2014)
2 Australian Wool Production Forecasting Committee (2014)
3 NSW Government (2012a)
report and shows data for 2010/11\textsuperscript{2}. It is unlikely that the picture has changed substantially since then.

This additional volume of wool transported through NSW includes wool transported from Queensland for sale and export from NSW, as well as Queensland wool transported through NSW to Victoria and, to a smaller extent, South Australia for processing and/or export.

Not all wool produced on farm in NSW is transported to broker and private treaty merchant stores in NSW. The NSW Government estimates that 83\% of NSW-produced wool is delivered from NSW farms to warehouses within NSW, while 17\% of this wool is transported interstate, mainly to Victoria (often from the Riverina)\textsuperscript{4}. This figure is confirmed for 2013/14 from AWTA test data\textsuperscript{5}.

Furthermore, after sale, some wool is transported from regional warehouses to ports outside NSW for export or to mills for processing before export (as there is no processing capacity in NSW). As an example of these transport flows, Figure 3 shows the movement of wool originating in central NSW, moving via key warehouses in Wagga Wagga and Dubbo to Port Botany and outside of the state for export (or processing)\textsuperscript{6}.

![NSW Wool Supply Chain Diagram](image)

Figure 2 NSW Wool Supply Chain

\textsuperscript{4} NSW Government (2012b)

\textsuperscript{5} AWTA (2014)

\textsuperscript{6} NSW Government (2012b)
The NSW Government reports that there were 136 wool warehouses in Australia, with 54 located in New South Wales, in 2012\(^7\). This may have changed, with some rationalisation and closures. According to data obtained from AWEX\(^8\), there were 20 warehouse locations used by auction brokers in 2014. These are listed in Table 1. This, however, would not include the numerous small warehouses operated by private treaty merchants who do not operate through the auction system. As well, advice from AWH\(^9\) (Australia’s largest wool handlers) indicates that there has been a shift away from storage of wool in Sydney to storage in major regional centres, such as Wagga Wagga and Dubbo. Figure 1 and Table 1 do not show this change that has occurred in the past decade.

<table>
<thead>
<tr>
<th>Warehouse Locations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albury</td>
<td>Bathurst</td>
</tr>
<tr>
<td>Condoblin</td>
<td>Cowra</td>
</tr>
<tr>
<td>Goulburn</td>
<td>Grenfell</td>
</tr>
<tr>
<td>Parkes</td>
<td>Rutherford</td>
</tr>
<tr>
<td>Temora</td>
<td>Wagga Wagga</td>
</tr>
</tbody>
</table>

\(^7\) NSW Government (2012a)  
\(^8\) AWEX (2014c)  
\(^9\) Craig Finlay (2014)
The *Sheep’s Back to Mill* report from Australian Wool Innovation\(^{10}\) provides an indication of the distribution of costs for the industry, starting prior to shearing through to shipping. The most recent edition is for the 2009/10 season. Figure 4 shows the distribution of costs for different stages and services to move wool from the sheep to the ship. Harvesting accounts for the lion’s share of the total cost, followed by broker and purchasing costs, and then shipping costs.

![Industry cost distribution in 2009/10](image)

Figure 4  Industry cost distribution in 2009/10

Figure 5 shows the absolute levels estimated in the *Sheep’s Back to Mill* reports in 2009/10 compared with the levels calculated in the 2006/07 report. These costs are in Ac/kg greasy. Increases were seen in shearing and in shipping, some costs declined (e.g. wool testing) and broker and purchasing costs were static.

---

\(^{10}\) Australian Wool Innovation (2012)
There have been some changes since the latest Sheep’s Back to Mill report. In terms of shipping for export, there has been a significant change in recent years with less wool being dumped prior to containerisation and shipping. This has arisen because of persistently low container costs for shipping to China.

One additional change in recent years has been the closure of the AWTA wool testing laboratory in Yennora. AWTA closed the laboratory in 2009 as a result of declines wool test volumes (in line with lower wool production), and centralised wool testing on the east coast to the Melbourne laboratory.

**Wool selling arrangements in New South Wales**

The majority of NSW wool is sold at auction, either at the wool selling centre in Yennora (Sydney) or at the Melbourne wool selling centre. Until 2012 there were two selling centres in New South Wales: Yennora and Newcastle. Newcastle sales were for superfine wool and operated 4-5 times a year. The centre was closed by AWH (the operator of the centre) for a variety of reasons. This followed the previous closure of other wool selling centres in NSW, with Goulburn in 1997 the most recent centre to close prior to Newcastle.

It is estimated that 85% to 90% of Australia’s wool is sold at auction, either by wool brokers directly from farms or after having been first sold privately. The remainder is sold privately either to a merchant who then sells direct to an exporter or processor, or directly to an exporter or processor. Some wool is sold electronically on the WoolTrade/Auctions Plus platform. This wool may be offered directly on the WoolTrade platform or be offered after having been passed in at auction.

There are 23 auction brokers currently operating in New South Wales, according to AWEX\(^{11}\). These range in size and scope from large national brokers, such as Elders, Landmark and

---

\(^{11}\) AWEX (2014c)
Australian Wool Network, through mid-sized brokers who operate only in the Northern Region (NSW and Queensland) such as Schute-Bell, mid-sized brokers who operate in NSW and Victoria (Western Wool, Fox & Lillie Rural), to mid-sized brokers who operate almost entirely in NSW (e.g. Moses & Sons, Don McDonald Wool, Jemalong), and finally to smaller brokers (e.g. Bryton Wool, Coggan Wool). Some of these brokers only sell wool in Sydney, while others sell NSW wool in Melbourne as well as Sydney.

There were 37 buyers who purchased wool in the Northern Region in 2013/14, although the top 15 buying companies accounted for 85% of the wool sold during the season. There have been significant changes to the ranks of buyers in Australia in recent years, with the departure of all of the major corporate buying companies, including Chargeurs, BWK/Elders Wool International, Viterra and, most recently, Queensland Cotton (owned by Olam), which was the last of these corporate buying companies. The demise of corporate buying companies has caused some concern among the industry about availability of working capital and liquidity for purchasing, and, in part, for taking stock positions.

In terms of wool offered and sold in Sydney, data from AWEX shows that there were a total of 513,812 bales offered in Sydney in 2013/14 in 111,296 lots. This was a little more than half the number of bales offered in Melbourne in the same year. The offering volumes in Sydney in 2013/14 were about 44% lower than in 2003/04 (for the combined Sydney/Newcastle). This compares with a 17% drop for wool offered in Melbourne over the same period. It also compares with the 27% decline in wool production in NSW & Queensland over that period. At the same time, wool production in Victoria, South Australia and Tasmania fell by 23%. In other words, auction offering volumes fell much more in NSW over the ten year period than did wool production, while auction volumes in Melbourne fell by less than the decline in available production. This points to a shift in auction volumes from NSW to Victoria. Table 2 provides the auction offering data for 2003/04 and 2013/14 for the three selling regions.

| Table 2 | Wool auction offerings |
|---|---|---|---|
| | 2003/04 | 2013/14 | % change |
| **Northern Region** | | | |
| Lots | 205,200 | 111,296 | -45.8% |
| Bales | 932,326 | 513,812 | -44.9% |
| Bales/lot | 4.54 | 4.62 | +1.6% |
| **Southern Region** | | | |
| Lots | 176,155 | 159,173 | -9.6% |
| Bales | 1,116,036 | 930,273 | -16.6% |
| Bales/lot | 6.34 | 5.84 | -7.8% |
| **Western Region** | | | |
| Lots | 96,801 | 57,725 | -40.4% |
| Bales | 691,445 | 370,733 | -46.4% |
| Bales/lot | 7.14 | 6.42 | -10.1% |
| **Australia** | | | |
| Lots | 478,156 | 328,194 | -31.4% |
| Bales | 2,739,807 | 1,814,818 | -33.8% |
| Bales/lot | 5.73 | 5.53 | -3.5% |

Source: AWEX

**Likely trends**

The wool selling arrangements in NSW and Australia are likely to come under pressure if wool production volumes remain low. One particular pressure will be on the continuation of three selling centres across the country and, in particular, the presence of two selling centres on the East Coast.

---

12 AWEX (2014b)
13 AWEX (2014)
In 2009, the industry commissioned and funded a major study\textsuperscript{14} of the costs and benefits of changing the wool selling arrangements. At the time there were four selling centres, as Newcastle was still operating. The study, conducted by the Australian Farm Institute, investigated three wool selling models for the auction systems:

- 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 report concluded that almost half of the organisations involved in a survey conducted for the study considered that changes to the wool selling arrangements were either essential or highly important for the future profitability to the industry. Based on savings identified by a survey of industry respondents, the study estimated that there was an industry net benefit (5 year NPV at 6% discount rate) of moving from the existing 4 centre arrangement to each of the proposed models of:

- $8.369 million (3-centre model);
- $19.24 million (2-centre model); and
- $21.59 million (1-centre model).

These net benefits include the transition costs of making the change. Assuming that the selling centre in Sydney closed to move to the 2 centre or 1 centre model, those businesses in the NSW wool selling industry (both brokers and buyers) that operate entirely or mostly out of Yennora would presumably bear a significant portion of these transition costs.

The findings were presented at an industry meeting in Sydney in April 2009, but the industry could not reach agreement to make the change to any of these models. The decision to close Newcastle came much later and was driven by reasons outside the control of the industry.

Unlike in the past, there is no single industry body that will make and impose any decision regarding the closure of a selling centre. Such a closure may arise for business reasons unrelated to the wool industry business, such as a landlord making a decision not to renew a lease (as was the case in Newcastle). Nevertheless, it is possible in the foreseeable future (i.e. by 2025) that a selling centre on the East Coast may close and auctions will, at least in eastern Australia, consolidate to one location.

In addition to the location of wool auctions, there may be other changes to the open-cry auction system in Australia. At the time of writing, a review of the wool selling system is being conducted which has been initiated and funded by Australian Wool Innovation. This review is being managed by an independent Steering Committee. It released an Issues Paper in early December, calling for submissions from industry by the end of February 2015. The aim of the review is to investigate the systems involved in the transfer of ownership between the wool grower and the processor and to identify efficiency gains and cost savings. It will hand down its final report in the second half of 2015.

There may also be changes to the handling of wool bales in the next few years. AWEX and Australian Wool Innovation are well advanced with projects investigating into the use of Radio Frequency Identification (RFID) of wool bales. Both are conducting trials into alternative technologies. 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. A confidential study conducted for AWEX found a significant industry 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.

---

\textsuperscript{14} Australian Farm Institute (2009)
The industry has, over the past 30 years and more, investigated the use of sale by description only (that is, no display sample) for at least some of the wool offered at auction. Typically the wools considered best suited to sale by description are the standard ‘bread and butter’ wool in the 20 to 23 micron range. However, attempts to introduce sale by description have failed for a variety of reasons, largely due to buyer resistance and issues in relation to ‘guarantees’. The current review of the wool selling system outlined above is likely to consider this as a potential key development for the future. It is foreseeable that this will be one of the changes to the current wool selling system in Australia. Such a development would significantly reduce the costs of auctioning these wools, through the removal of a need for the grab sample to be displayed (with the attendant savings of reduced floor space on the showfloor). It is unlikely to eliminate the need for a grab sample as it will be required for staple measurement and potentially as a reference sample for post-sale inspection by the buyer.

If sale by description were adopted, at least for some wools, it would provide a boost to electronic selling, which is currently only limited.

**Potential implications for producers, industry and NSW Government**

If the wool selling centre in Sydney was closed and wool auctions on the East Coast conducted in Melbourne, there would be implications for NSW woolgrowers. In the first instance, the industry cost savings would flow to growers at least to some extent in the form of lower broker and purchasing costs. The downside would be less accessibility to attending auctions in person, as a small number of growers still do now. It may also bring significant change to those wool broking companies whose business is focused on selling through Sydney. This may affect growers who are long-standing clients of these broking businesses. As well, there are some who are concerned that it would reduce competition if there was only one selling centre. As well, they are concerned that there would be increased risk if that one selling centre was, for whatever reason, closed temporarily.

A change in the selling location away from Sydney to Melbourne would probably not have significant effects on the transport, handling, storage and shipping of the wool bales produced in NSW. The major impact would be that instead of transport of grab samples to Yennora, grab samples would need to be transported to Melbourne for display (assuming that grab samples are required for display). Otherwise, the handling, transport, storage and shipping of bales would continue as it does now in NSW.

The successful introduction of sale by description may eliminate the need for transporting and displaying grab samples, thereby introducing further handling efficiencies.

The introduction of a system of electronic identification of wool bales would bring significant benefits to the whole industry. While wool brokers and handlers would be the initial major beneficiaries, these would flow back to wool producers through competition between brokers.
References


AWEX (2014b). *National Buyers List by Region. 2013/14*

AWEX (2014c). *List of Warehouse Locations used by Auction Brokers (season 2014)*

AWEX. *Auction Statistics 2003/04 and 2013/14*.


Downloaded November 2014

Finlay, C (2014) – AWH Lt, pers. comm

