

Australian wool industry overview: the wool pipeline

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Participants in the wool industry

Growers

There are an estimated 37,000 individual wool growers in Australia (a decline from around 65,000 in the late 1980s). Of these, around 12,000 are exclusively wool producers. Eighty-five per cent of growers produce less than 100 bales and contribute to only 44 % of the national clip. On the other hand, there are only 4% of growers producing more than 200 bales, but these account for 26% of the clip. It is evident that Australia's wool growing industry is characterised by a large number of diverse, small producers. At current prices, a wool clip of 60 bales would return little more than \$50,000 in gross revenue.

WoolProducers is the peak body representing grower's interests in the decision-making processes of the industry. It is responsible for liaising with state grower groups to determine recommendations for national policy development and communicating such recommendations to the Australian Wool Corporation (AWC) and the Minister for Agriculture.

Brokers

There are some 45 wool brokers in Australia; however, two of these control approximately 60% of the market: Elders Ltd and AWB Landmark. The relatively large number of small companies and the domination of the market by two players has characterised the wool market for the past 10 years.

There are two main charging structures used by brokers. Six of the biggest brokers use a combined commission system and flat warehouse fee structure, while the smaller brokers all tend to charge a flat rate per bale. Commissions are usually in the order of 1.6%, on top of which must be added a warehousing charge of about \$17 per bale. The flat rate is generally in the order of \$20 to \$22 per bale, which includes warehousing.

The National Council of Wool Selling Brokers (NCWSB) represents the interests of wool brokers. The NCWSB is a company limited by guarantee and has membership of 31 broking firms, including all major brokers. It is represented on the Wool Industry Advisory Committee (WIAC) and is a key member of the rosters and wool selling regulations sub-committee.

Wool exporters

There are about 52 auction wool buyers and exporters operating in the Australian wool market. An increasing number of firms are owned by overseas mills or have connections with them.

Of the 52 exporters, 16 account for 80% of wool purchases at auction (this number has fallen from 20 in the 1987–88 season). The top five exporters account for 37% of exports, while the top three account for 26%.

The representative body of the wool exporters is known as the Australian Council of Wool Exporters (ACWE). Membership is voluntary, with contributions based on a fee per bale traded. It is not mandatory to be a member to export wool. The ACWE is represented in most industry committees including those concerned with the rostering of auction sales.

Private buyers

There are estimated 20 private treaty merchants in Australia.

Many of these also offer a broking service. They have country depots to which growers can deliver wool, sometimes whole clips, but predominantly lines for immediate cash payment.

The Private Treaty Wool Merchants of Australia is a group set up to represent the interests of private treaty merchants. Membership is voluntary, with members being charged a fee per bale traded.

Wool processors

The volume of wool being early-stage processed in Australia increased markedly in the mid-1980s and early 1990s. Production of scoured wool and tops increased from 126,000 tonnes in 1983–84, to 237,000 tonnes in 1991–92. There were around 29 early-stage processing plants in Australia, mainly in the Melbourne–Geelong region, with a scattering in country New South Wales (NSW). This number soon increased in response to assistance packages provided by the Federal Government for value-adding projects.

Ownership of the plants was dominated by international processors, with the Japanese, French and Germans being the predominant players. However, there was very limited later-stage processing capacity in Australia.

With increased growth in processing capacity in other countries, such as India, and particularly in China, many early-stage processors were forced to close or relocate from Australia to remain competitive. Today, there are only a handful of wool scourers and two top making operations remaining in Australia.

Test houses

Almost all wool in Australia is tested by the Australian Wool Testing Authority (AWTA). Procedures for test methods and regulation governing the format and issue of certificates are controlled by the International Wool Textile Organisation.

The AWTA is responsible for all stages of testing from sampling through to issue of certificates. Sampling takes place in the broker's store at what must be a registered sampling site. Two samples are taken – a core and a grab sample. The core sample is used to measure average fibre diameter, yield (percentage of clean wool) and vegetable matter percentage and type. The grab sample (about five kilograms of wool) is used for appraisal by the buyers and is sub-sampled to provide staples for length and strength measurements where these are requested by the broker.

The flow of wool from grower to processor

The passage of wool from sheep's back to overseas mill along with the number of individuals comprising each group is shown in Figure 1.

The first step for the grower in the sale of the clip is preparation in the shed. This is called classing, and involves separating the wool into 'lines', which can be sold according to subjective appraisal of the different characteristics of the wool (predominantly vegetable matter content, style, length, strength and colour). Once this is done, the wool is pressed into bales ready for sale.

Australian Wool in the Global Textile Industry

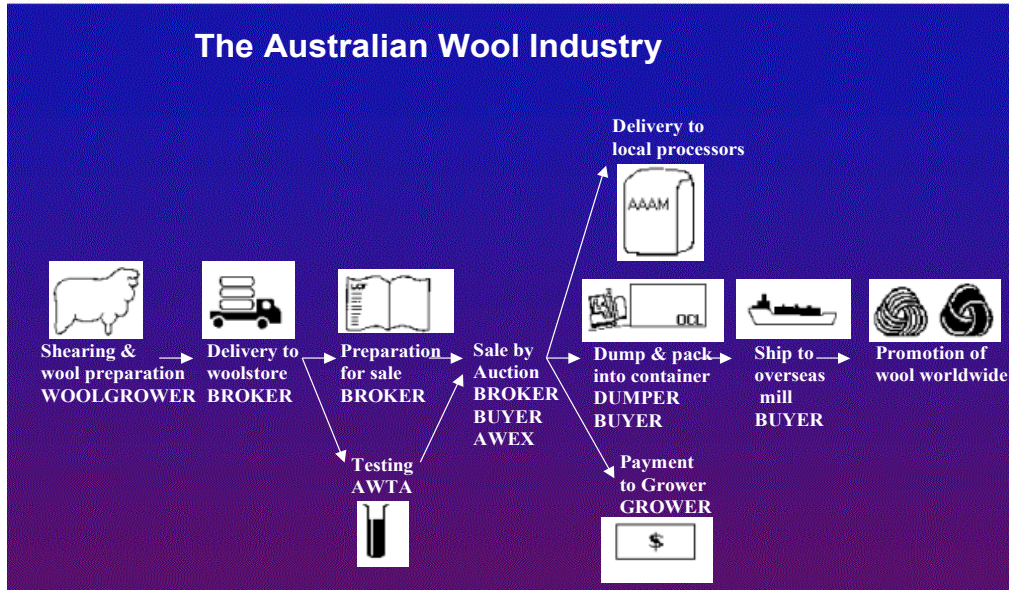


Figure 1: Flow from wool from grower to processor.

Auction sale

Table 1 shows details of the passage of wool through the auction system with associated costs. The figures are based on 2002/03 costs and prices, with costs comprising nearly one-third of value.

About 80% of growers send their wool to brokers for auction sale. The wool is delivered to brokers' stores where it is catalogued for sale, with each of the lines made by the classer becoming a sale lot. Sampling then takes place and the samples are sent to the AWTA for testing.

| Operator | Operation | Cost |
|---|-------------------------------|--------|
| Woolgrower | Shearing and wool preparation | 126.54 |
| Broker | Delivery to wool store | 5.16 |
| Broker | Preparation for sale | 18.48 |
| Test house | Testing | 6.33 |
| Buyer/exporter | Sale by auction | 23.74 |
| Broker/dumper | Dump and pack into container | 7.31 |
| Buyer/exporter | Ship to overseas mill | 13.67 |
| <i>Total cost per kg</i> | | 216.15 |
| <i>Auction price per bale (2002/03)</i> | | 650.28 |

Table 1: Greasy wool marketing costs by physical flow (cents per kilogram-greasy).

Sales are now held in five centres (Melbourne, Sydney, Newcastle, Fremantle and Launceston) on one, two, three or four days of every week (excluding Christmas, Easter and a mid-year break). The program of sale is determined at the start of each season by the wool selling brokers and exporters with the aim of having a relatively constant supply of wool available each week.

Role of the wool broker

A few days before sale each broker sets up a show floor containing the grab samples for all lots to be offered in that sale. Along with this a catalogue of sale is prepared which contains all test results. The grab sample is used by the buyers to assess the non-measured characteristics of the sale lots. Some buyers will inspect all lots, while others will inspect only those which have test results and other characteristics that suit their requirements.

Each wool selling broker is responsible for the selling of its own catalogue. This involves conducting the auction sale and recording sale results. Once the sale is completed the broker handles the invoicing of buyers, payment to growers and collection of wool tax.

It is common for wool growers to sell their whole clip on a single day at auction regardless of the market situation. They have the option of setting reserve prices, but this is only taken up by around 30% of growers. Brokers value each lot and it is on the basis of this valuation that grower reserve prices are usually determined. If a reserve has not been set and bidding is well below valuation, the broker will often pass in the lot, depending on the market situation. Pass-in rates presently range between 2% and 10%, but have been as high as 30% in times of low and falling markets.

Role of the wool-buyer/exporter

The role of the wool exporter is principally to buy the wool and arrange for transportation to the processor customer. Most buying is now done on a firm offer basis; that is, the wool is sold forward to the overseas mill by the Australian exporter. Sales are generally three to six months in advance and the exporter will then look to purchase the wool at a level equal to or below the negotiated sale price. The alternative to a firm offer is called 'indent' buying. This was the predominant method used until the 1970s. This method involves the exporter buying wool according to price limits set by the mill and receiving a commission for doing so. The benefits or otherwise are borne by the mill.

The responsibility of the exporter include transport from store, dumping, shipping, insurance, currency and credit risk as well as guaranteeing the quality of the delivery. Where some of the processing is to be carried out in Australia, the exporter is generally responsible for undertaking this.

Private treaty

In the early 1970s, private treaty emerged as a viable alternative to auction sales. At times up to 20% of the national clip has been sold in this way. In the latter days of the reserve price scheme, however, there was a trend away from private treaty trading as growers sought the security and high prices of the scheme, which only applied to wool sold at auction. There has since been a swing back and the percentage of wool sold privately has increased.

In private treaty trading the wool is often sold in the wool shed by the grower and, normally, a price would be sought from several private buyers. Increasingly, growers are having wool guidance tested and then seeking a price based on the guidance results. Payment for the wool is generally received much sooner than if sold at auction and savings

on transport and commissions are made. A percentage of private treaty wool is re-sold at auction.

Forward selling

A number of private buyers will also offer growers the option to sell forward. The method of operation is similar to that for spot private buying as the price is determined by private negotiation. The difference is that the price is agreed while the wool is still on the sheep's back using previous years' clip history and test result data. Once the wool is shorn and tested, the price will be adjusted either up or down according to variations from the specification on which the original price was based.

Tender sale

Tender sale was seen as an alternative to auction sale. Wool is tested and displayed in sample boxes similar to the auction system. Buyers are then given a certain amount of time (usually a morning) to inspect the wool and submit bids by a given deadline. The highest tenderer on each lot becomes the purchaser if the bid exceeds any reserve price which may have been set by the grower.

Direct sale

In the past few years growers have sought to counter the effects of low prices by selling their wool direct to the processor. In doing so they are seeking to reduce the costs associated with the brokers and exporters. Most prefer to go straight to the international processor, although some have paid to have their wool partly processed and then sought to sell the product (top). Normally, the assistance of a broker or exporter has to be sought to handle operations such as shipping and payment. Some growers have formed groups to facilitate some of these operations and enable them to put together more marketable parcels of wool.

Electronic sale

In recent years the sale of wool by description via an online computer system has become popular. Although still in its infancy, this system is likely to become far more widely used as wool can be made available to buyers and sellers 24 hours a day.

Early-stage processing in Australia

A small amount of wool is bought by local processors, usually for early-stage processing. The vast majority, however, is purchased by exporters, ultimately for sale to international processors. Around 33% of Australia production was semi-processed (to either the scoured or top stage) in the mid-1990s, but this percentage has fallen dramatically as China has increased its early-stage processing capacity.

Early-stage processing involves scouring and top making. Scouring is a washing process that uses detergent, heat and agitation to remove grease and dirt. The wool then goes on to top making which opens the wool up, separating the individual fibres. Residual vegetable matter is also removed during this process, which produces a 'top' – individual fibres lying together in a continuous sliver, but not twisted.

The top produced is a tradeable commodity and will be sold to a later-stage processor unless it is to be used within a vertically integrated operation. Later-stage processing involves spinning, weaving, dyeing and finishing, after which the cloth is ready to go on to the garment manufacture stage.

There are two processing paths down which wool may travel according to its type and destination. The longer, finer wools are processed by the ‘worsted’ system, where they are used to make woven fabrics for such end uses as suiting, fabrics for lightweight men’s and women’s wear and fine knitwear. Shorter, coarser wools go into the ‘woollen’ system, where they are used mainly for hand-knitting yarns, carpets, overcoats and some knitted garments such as ‘lambswool’ pullovers.

Profile of the Australian wool clip

There has been a significant increase in the proportion of fine wool produced in Australia over the past decade. The wool clip is now made up of more than 33% of production 19 microns and finer. This compares with only around 8% in season 1993–94 (see Figure 2).

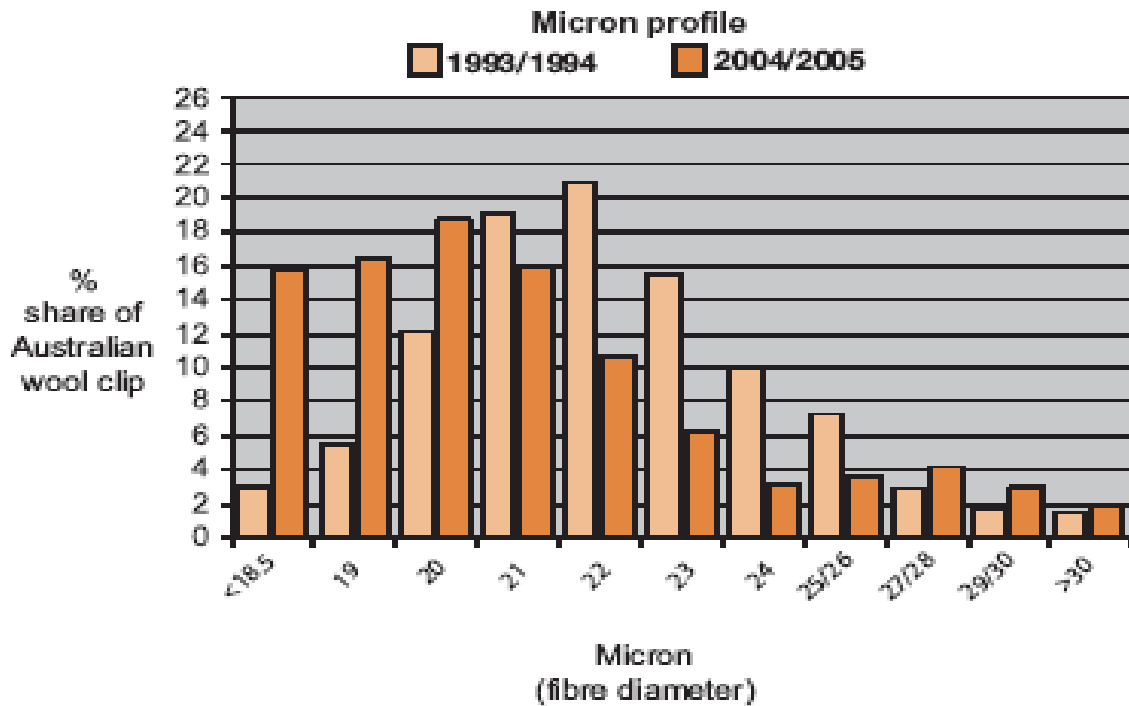


Figure 2: Profile of the Australian wool clip.