

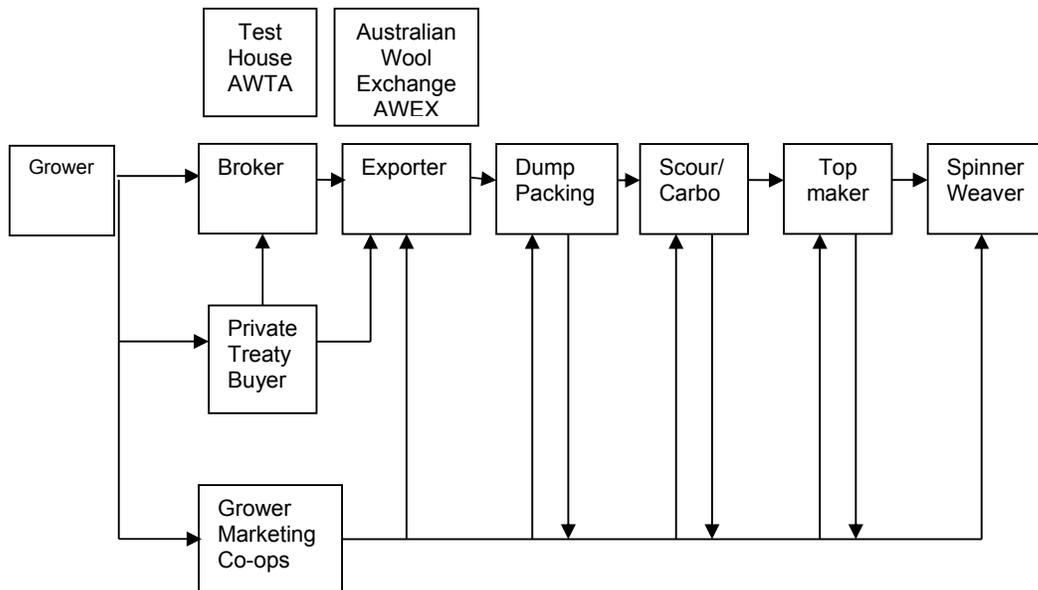
The Australian Wool Market
An introduction (for prospective participants)

The Australian Wool Exchange Ltd (AWEX) receives from time to time general enquiries on, or how to participate in, the Australian Wool Market. To answer these enquiries and to assist potential new entrants, a list of preliminary questions and answers has been prepared. [This document assumes the reader has limited, if any, knowledge of the wool industry and serves only as a basic introduction and general information.](#) Accordingly, AWEX does not invite reliance upon nor accept responsibility for information provided in this document.

1. Industry Structure

Australia's wool industry consists of a number of participants, all of whom contribute to the successful movement of wool along the path from the producer to the end consumer. These participants add value and provide services as wool travels through the 'pipeline'. (Figure 1)

Figure 1: Wool Pipeline



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Brief Description of Australian pipeline entities and their role

Entity	Role/Function
Wool Grower	Owner of the farm and sheep. Also known as a wool producer. The wool grower owns the wool until the first transfer of ownership.
Shearing Contractor	Provides services to the wool grower by supplying a team of people to harvest the wool. A team typically includes shearers, wool handlers, a woolclasser and a wool presser. The number of people in the team depends on the number of sheep to be shorn and the size of the woolshed. Shearing contractors are not always used. Woolgrowers may employ team members directly.
Woolclasser	A person responsible for the preparation of the wool during harvest.
Wool broker	A wool broker provides marketing, warehousing and handling services to wool growers. Wool brokers will often have a network of country based service agents and receival warehouses. The wool grower will consign bales of wool from farm to the wool broker. The wool broker will arrange for the lines of wool to be tested, stored and catalogued for (auction) sale. The wool broker does not generally take ownership of the wool. The broker will offer the wool for sale on behalf of the grower, transferring sale proceeds from the buyer to the grower post sale with handling charges, testing charges and wool levies removed.
Private Treaty Merchant/Buyer	A private buyer is an entity that will buy wool directly from the woolgrower. Private buyers are often located in country locations.
Australian Wool Exchange Ltd (AWEX)	The Australian Wool Exchange Ltd (AWEX) was founded in 1993 and provides the major industry framework for the exchange of ownership of wool in Australia. The membership of AWEX represents 95% of first-hand wool purchased in Australia each year and includes wool brokers, exporters, private treaty merchants, processors, wool producers and associates. AWEX works to maintain industry standards, market information and compliance with regard to clip preparation and presentation for sale, thereby enhancing the quality and integrity of the Australian wool clip.
Australian Wool Testing Authority Ltd (AWTA)	AWTA is the entity that provides wool testing services. Wool offered for sale is nearly always offered for sale with objective measurement results. In preparation for sale, the wool broker will arrange for AWTA to be present at their sampling site, where a representative core and grab sample will be taken from each line of wool. Core and staple samples are consigned to one of two Australian laboratories. After testing is completed the results are returned to the wool broker who in turn will include these results in the sale catalogue as well as passing this information to the wool grower. AWTA recovers the cost of testing services from the wool broker who in turn recovers these costs from the woolgrower.
Exporter/Buyer	The exporter/buyer is the entity that purchases the wool from auction. The buyer may be buying wool for their own use, or for clients. The buyer manages the financing, risk management, sample inspection, purchasing (bidding), and logistics associated with moving wool from wool broker store to end destination.
Wool Dump	The dump is the entity who packs wool bales into containers for export. The bales may be in farm bale form, or compressed "dumped" where 2 or 3 farm bales are compacted and strapped with steel bands.
Scour/Carbonising	The first (early) stage of processing wool. Scouring is the process of washing the raw wool to remove dirt and wool grease. Carbonising is similar and is only used on shorter wools where an acid bath, heat and crushing is included to remove heavy concentrations of vegetable matter.

2. Shed to Gate

There are estimated to be over 30,000 woolgrowers in Australia. Total wool production¹ for the 2013/14 selling season is estimated to be approximately **352 million greasy kilograms** shorn from **78.8 million sheep shorn**. In 2013/14 approximately 79% of the Australian sheep flock are Merino with 21% being other breeds.

Annual wool production is influenced by environmental (e.g. drought) and economic factors. 85 to 95% of shorn wool is offered by woolgrowers through the auction system via a selling broker. Between 5 and 15% of wool is purchased privately from the farm, through wool brokers selling privately or through treaty (private merchant sales).



¹ Australian Wool Production Forecasting Committee forecasts wool production periodically during the year.

2.1 The Fibre

Greasy wool is a complex and variable fibre. Most wool in Australia is shorn from Merino sheep which typically ranges in mean fibre diameter from 11 to 27 micron². Crossbred sheep grow wool typically between 24 and 40 micron (see Table 1). A small quantity of Carpet wool (34 micron and broader) is grown in Australia but is not usually sold through auction. Sheep on a farm are usually run in mobs of similar sex and/or age. Age, breeding, sheep husbandry practices and environmental conditions are all factors that influence the type of wool produced by sheep.

Table 1. Indicative Fibre Diameter profile of ADULT FLEECE wool first hand offered via auction (Season 2013/14).

Micron	Bales	% of fleece	Micron	Bales	% of fleece	Micron	Bales	% of fleece
<=12	3	0.00	22	77605	7.55	32	5081	0.49
13	11	0.00	23	28580	2.78	33	3802	0.37
14	219	0.02	24	12343	1.20	34	2108	0.21
15	3404	0.33	25	14581	1.42	35	1383	0.13
16	23958	2.33	26	23266	2.26	36	1141	0.11
17	73454	7.15	27	33329	3.24	37	941	0.09
18	128432	12.50	28	37406	3.64	38	777	0.08
19	174034	16.93	29	26596	2.59	39	258	0.03
20	188337	18.33	30	14117	1.37	40	93	0.01
21	144271	14.04	31	8045	0.78	41	26	0.00
						42+	13	0.00

Convention: 18 = 17.6 to 18.5 micron.



² A Micron is one millionth of a metre (10⁻⁶ m) and results are reported in 0.1 increments.

2.2 Wool Preparation

When wool is shorn from the sheep, it is usually classed (in the shearing shed) by the woolclasser into six main categories for each mob. A mob is usually sheep of the same breed and age.

- Fleece (the bulk of the wool from the body of the sheep – Adult, Weaner and Lambs)
- Pieces (coloured and frib or sweaty edges from around the fleece)
- Bellies (wool from the belly region of the sheep)
- Crutchings (wool from the tail section of the sheep, may contain urine or dung stain)
- Locks (short wool on the floor created whilst shearing sheep)
- Stain (wool containing urine stain)



Table 1. First hand offered bales offered via auction by wool category (Season 2013/14).

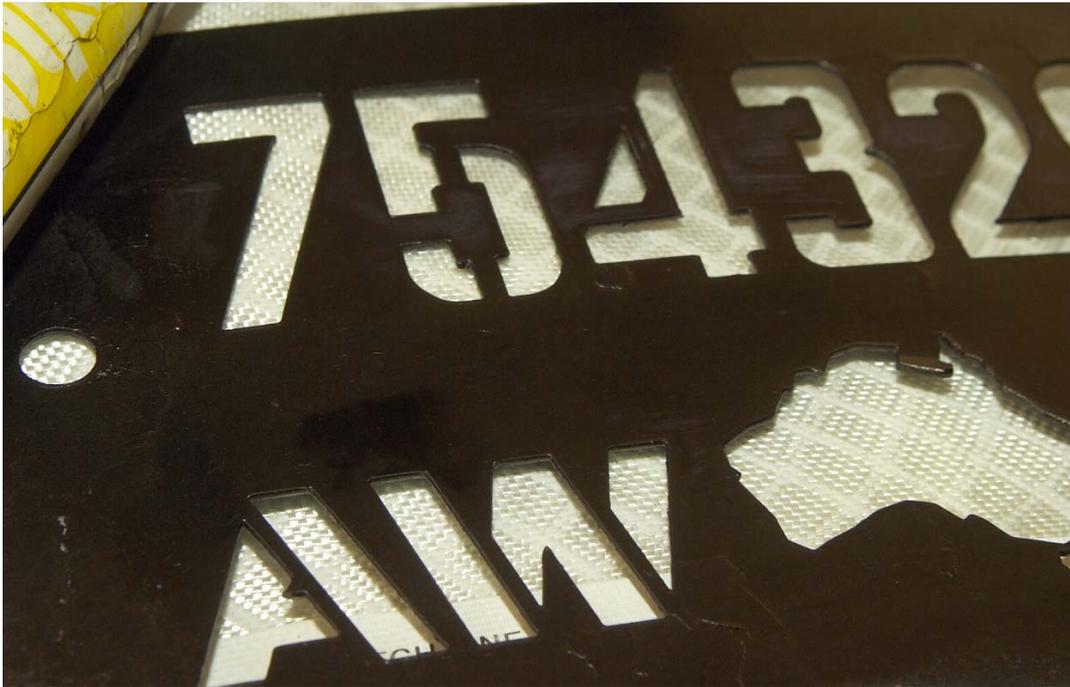
Wool Category	Bales	% of offering
Adult Fleece	1,027,755	60.3
Weaner Fleece	139,040	8.2
Lambs Fleece	90,698	5.3
Pieces	185,031	10.9
Bellies	83,715	4.9
Locks	43,422	2.5
Crutchings	40,850	2.4
Stains	53,308	3.1
Miscellaneous (cotts, etc.)	39,901	2.3

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Woolclassers will also try to keep separate any wool that is of poor colour, shorter, weaker or unusual³ from the main lines.

The Woolclasser will describe lines of wool using Bale Descriptions such as AAASUP, AAAM, AAM, MPCS, MBLS, MLKS, AAAFX, AAAMX, MXPCS, etc. The classing of wool is described in greater detail in the “Code of Practice for the Preparation of Australian Wool Clips – The Woolclasser” available from the Australian Wool Exchange Ltd.

Woolclassers in Australia must complete a Certificate level course at a registered training organisation. Once training has been successfully completed a Woolclasser registers with the Australian Wool Exchange (AWEX). **Once registered the woolclasser is issued with a woolclasser stencil which is applied to all bales prepared by the woolclasser. This stencil number can be quoted by end users to AWEX if the preparation of the wool fails to meet industry standards.**



Recent years has seen the introduction of (meat producing) sheep breeds that shed fibre (Shedding Breeds). These breeds usually contain high levels of pigmented (black) and/or medullated fibre which sheds and transfers to other sheep. When present in white wool (such as that from Merinos) these fibres have significant (negative) processing implications. Woolclassers and wool growers must implement management and description strategies to correctly handle this wool to minimise the risk of cross contamination.

³ Wool classed out for fault are often known as Cast lines.

2.3 Packaging

Wool is packed on farm into bales using a wool press. The wool packs are made by manufacturers registered with the Australian Wool Exchange and must carry a certificate of compliance to the registered standard. The pack material is undyed multifilament nylon yarn.

A bales of wool must not exceed 204 kg, and shall not be less than 110kg (except for speciality single bale lines of fleece wool less than 18.6um, which may have a minimum gross weight of 90kg). Bales are usually between 140 and 200kg. The national average bale weight is **176.8kg**.



2.3 On Farm Declarations

In recent years there has been increasing interest from the pipeline in obtaining additional information regarding the sheep husbandry and animal welfare practices. Information about some of these practices can be declared by the woolgrower via a National Wool Declaration (NWD).

The NWD is the form for the wool grower to provide information about each mob of sheep. Some of these details are then published at point of sale to enable prospective buyers to select on these values. The declared values are DMFR (detail about the Dark and Medullated Fibre Risk) and MS (detail on the Mulesing Status of the source mob).

The Mulesing Status declarations are subject to random desktop audits (~1000 p.a.) and on farm inspections (~220 properties p.a.) by AWEX personnel.

Full details on the NWD and the Integrity Program can be obtained by contacting AWEX.

3. Getting started

3.1 What sort of wool do I want to buy?

To participate in the market a basic understanding of wool is required. Wool is generally traded and exported from Australia either raw or processed to differing degrees.

- Greasy wool (the raw material shorn from sheep)
- Semi processed
 - Scoured wool (washed to remove grease and dust)
 - Carbonised wool (washed with vegetable matter removed chemically)
 - Tops (washed, carded and combed)

Wool is also traded whilst still on skins as pelts or hides. This is a product of the sheep meat trade. Skins and hides are not handled through the AWEX trading system. Abattoirs and growers sell skins directly to agents. Nearly all skins are exported for specialist processing known as fellmongering.

Two common terms when describing wool are –

- Combing Wool** Wool used in the Worsted (long wool >44mm) trade
Usually includes Fleece, Pieces and Bellies
- Carding Wool** Wool used in the Woollen (short wool <45mm) trade
Usually includes lambs, locks, and crutchings.

The actual cut off between combing & carding varies considerably - 40-45mm is an indicative point.

3.2 Where can I buy greasy wool?

The most common form for wool to be traded is in its greasy or raw state. Greasy wool can be purchased through the following channels;

- Via open cry auctions,
- Directly from woolgrowers (on farm) in a private sale,
- Electronic offer board(s),
- Directly from wool selling brokers or private treaty merchants (who act on behalf of woolgrowers or may own the wool themselves).

Private buying is usually on a spot price or forward sale basis. Buying wool privately directly from farm requires knowledge of woolgrowers, districts and farm locations. Private (treaty) wool buyers usually compete with wool selling brokers who offer to sell wool on behalf of the grower through the auction system.

3.3 Where can I buy semi processed wool?

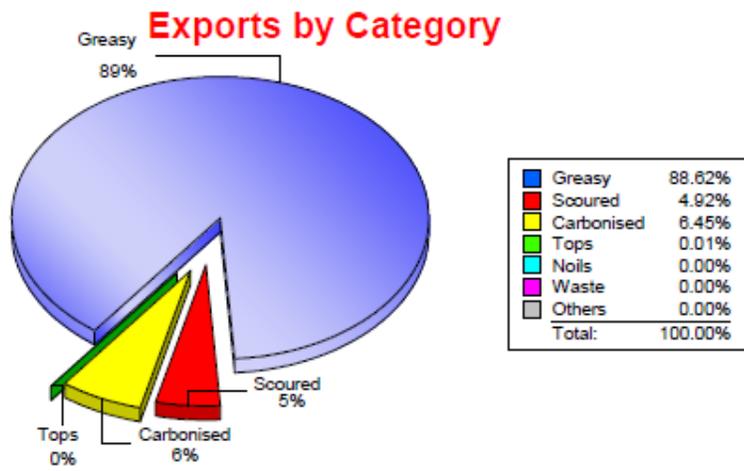
- from a mill which sells their product,
- from a wool buyer who buys greasy wool and subsequently commission processes the wool on your behalf.

3.4 Can I process greasy wool in Australia?

Yes, there are mills in Australia that perform varying degrees of early stage processing. Early stage processing can include scouring, carbonising, carding and combing (topmaking). Carding and combing is not currently available in Australia (2014). You would need to determine commission rates and availability of processing space with the mill of your choice.

Some mills will only process wool for their own company and do not seek work on behalf of external parties.

Figure 1 - Wool Exports from Australia 2013-14



4. The Auction System

It is estimated between 85 and 90 per cent of all wool produced in Australia is traded through open cry auction. Electronic trading (spot and future delivery) via offer board and auction is available however quantities through these systems is relatively small.



4.1 Frequently asked questions (FAQ's) about auction sales.

A simple illustration of workflow/timeline for a Sale.

When	Event
12 months prior	A Sale is gazetted on the Annual Wool Selling Program
4->1 week prior	Brokers will progressively receive wool into their warehouse from woolgrowers. Growers may choose to sell at first available sale or hold until they are ready. Brokers will assemble and arrange for testing lines of wool and allocate lines to sales as advised by grower.
4 weeks prior	Brokers provide first estimate of sale quantity to AWEX. Published on Four Week Forecast.
3 week prior	Brokers provide first estimate of sale quantity to AWEX. . Published on Four Week Forecast.
2 weeks prior	Brokers provide third estimate of sale quantity to AWEX. This information is used to allocate brokers to sale days and publish on the Sale Roster.
1 week prior	Broker provide final actual figures to AWEX. These figures are used to finalise broker selling orders within a day and sale room. These are published to brokers and buyers on the Selling Arrangement. Brokers start to construct showfloor with grab samples.
Friday prior to Sale	Electronic catalogues are sent by broker to buyers and AWEX. Showfloors finalised.
Monday of Sale week	Showfloors open to buyers and AWEX. Printed catalogues available. Buyers and AWEX commence valuing. Buyers liaising with clients on new or existing orders (volumes and price)
Tuesday of Sale	Showfloor valuing Sale day – Wool Sale (if required)
Wednesday of Sale	Sale day – Wool Sale Invoices issued by broker to buyers.
Thursday of Sale	Sale day – Wool Sale Invoices issued by broker to buyers.
Friday of Sale	Showfloors closed. Samples are removed.
Friday +7	Prompt date (i.e. payment finalisation). Buyers pay for purchases to broker. Broker pays proceeds to woolgrower.

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a) How often are Auctions held? - Wool Supply

Wool is a natural product, with supply and quality subject to seasonal and geographic variations.

Wool auctions are held in three auction selling centres in three regions around Australia:

Region	Auction Centre Location	Typical wool drawing areas
Northern Region	Yennora, Sydney NSW	QLD, NSW
Southern Region	Brooklyn, Melbourne , VIC	VIC, SA, TAS, NSW
Western Region	Bibra Lake, Fremantle , WA	WA

Sydney, Melbourne and Fremantle centres typically conduct 45, 45 and 42 Sales respectively per season. Sales are usually conducted over 45 weeks of the year with an average of two selling days a week in each region.

Sales are held according to the published *Annual Wool Selling Program* available 12 months in advance: this can be found on the AWEX web site. Each auction sale is identified by the centre code and the week number e.g. F14 is the Sale reference for the Sale held in Fremantle during week 14.

The number of Sales and sale days in each Sale are determined according to estimated quantities of wool available in each centre. There are 2 major Sale Recess periods (Christmas and July) of 3 weeks each.

The Australian Wool Selling Season is 12 months commencing in July and ends in June the following year.

Certain types of wool are available only at certain times of the year due to shearing patterns and environmental conditions. Additionally, the volume of wool offered varies from month to month and State to State. This should be a consideration in your buying strategy and commitments.

NATIONAL AUCTION SELLING COMMITTEE (NASC)					
AUSTRALIAN WOOL SELLING PROGRAM					
2014/15 SEASON					
<small>This version of the 2014/15 Australian Wool Selling Program (WSP) was first published in MARCH 2013, reviewed in FEBRUARY 2014 and revised MAY 2014. Whilst every effort is made to ensure the WSP is correct at the time of publication, the WSP may be subject to change without notice. Accordingly, NASC does not invite reliance upon nor accept responsibility for information provided in this WSP.</small>					
WEEK NO	COMMENCING	NORTH	SOUTH	WEST	NOTES
1	30-Jun-14	S01	M01	F01	
2	07-Jul-14	S02	M02	F02	Closing day=Thu (min. 2 centres)
3	14-Jul-14	RECESS	RECESS	RECESS	
4	21-Jul-14	RECESS	RECESS	RECESS	
5	28-Jul-14	RECESS	RECESS	RECESS	
6	04-Aug-14	S06	M06	F06	Min. 2 centres on Opening day pref.
7	11-Aug-14	S07	M07	F07	
8	18-Aug-14	S08	M08 ^{NZ}		Wool Week
9	25-Aug-14	S09 ^{AS}	M09	F09	NASC-43
10	01-Sep-14	S10	M10 ^{NZ}	F10	
11	08-Sep-14	S11	M11	F11	
12	15-Sept-14	S12	M12 ^{NZ}	F12	
13	22-Sept-14	S13 ^{AS}	M13	F13	
14	29-Sept-14	S14	M14 ^{NZ}	F14*	
15	06-Oct-14	S15*	M15	F15	
16	13-Oct-14	S16 ^{AS}	M16	F16	
17	20-Oct-14	S17	M17 ^{NZ}	F17	
18	27-Oct-14	S18	M18 ^{NZ}	F18	
19	03-Nov-14	S19 ^{AS}	M19*	F19	
20	10-Nov-14	S20	M20	F20	
21	17-Nov-14	S21	M21 ^{NZ}	F21	NASC-44
22	24-Nov-14	S22 ^{AS}	M22	F22	
23	01-Dec-14	S23	M23 ^L	F23	
24	08-Dec-14	S24	M24 ^{NZ}	F24	Closing day=Thu (min. 2 centres)
25	15-Dec-14	RECESS	RECESS	RECESS	
26	22-Dec-14	RECESS**	RECESS**	RECESS**	
27	29-Dec-14	RECESS*	RECESS*	RECESS*	
28	05-Jan-15	S28	M28	F28	Min. 2 centres on Opening day pref.
29	12-Jan-15	S29	M29	F29	
30	19-Jan-15	S30	M30	F30	
31	26-Jan-15	S31*	M31*	F31*	Wed/Thu only
32	02-Feb-15	S32 ^{AS}	M32	F32	
33	09-Feb-15	S33	L33/M33	F33	L33 by separation in Melb. (1 day), M33
34	16-Feb-15	S34	M34 ^{NZ}	F34	NASC-45
35	23-Feb-15	S35 ^{AS}	M35	F35	

b) How many sale days are held each week?

The number of sale days in each week is subject to the amount of wool available to offer. Auctions can be conducted on Tuesdays, Wednesdays and Thursdays. Many Sales are conducted over 2 or 3 days.

The number of sale days required for each Sale is estimated approximated 4 weeks prior with finalisation occurring in the week prior. This information is published by AWEX in documents such as the Four Week Forecast, Sale Roster and Selling Arrangement.

Monday and Tuesday is usually used by buyers to inspect wool samples to determine suitability for purchase. Auctions in Melbourne and Sydney commence at 11am with Fremantle Sales commencing at Noon.

c) Can I see the wool before buying at auction?

Yes, you can see a representative sample of the wool. The actual bales remain stored in the selling broker's store. A small representative "grab" sample is extracted from each line of wool, between 3 and 7 kilograms, which is then displayed on a showfloor. The showfloor is an area with rows of showfloor boxes, which allows both buyers and sellers the ability to view the wool prior to sale. A catalogue is provided by the broker with details on each sale lot represented by the showfloor

The showfloors are usually open several days prior to the actual sale day. The buyer on request can purchase the sample if required but usually it is retained by the broker.



AWEX personnel also inspect samples on the showfloor. There are two reasons for this.

1. Firstly the sample is inspected to ensure the preparation of the wool by the woolclasser meets the Code of Practice Standard. Where a sample does not meet this standard, the stencil is removed and the certificate type downgraded. The registered woolclasser is contacted and informed of the preparation matter. Repeated serious breaches of the preparation standard by the woolclasser may result in deregistration by AWEX.
2. Secondly the AWEX auditor reviews the AWEX-ID wool type applied by the broker wool appraiser. The AWEX-ID is used by AWEX as a type for reporting the market.

d) What objective test results are available on greasy wool?

Nearly all wool sold at Australian Wool Exchange auctions is objectively measured for fibre diameter (micron), vegetable matter content and clean fibre content (yield). The majority of combing wool is now tested for staple length, strength and position of break. Wool can also be tested for scourable colour. All measurements are conducted and certified by the Australian Wool Testing Authority (AWTA). **Objective measurements are published on 99% of lots in the auction sale catalogue.**

Woolbuyers can often request a post sale combination test certificate of all the individual lots purchased in a consignment. Test Certificate(s) may be a document required by your client before payment is expedited (via a Letter of Credit).

If buying wool privately, either directly from a woolgrower or merchant, a guidance test may be used. This test offers a lower level of precision than the standard test used in auction catalogues.

e) What details are in the Auction sale catalogues?

Each selling broker publishes an auction sale catalogue for a nominated sale. The catalogue contains pages of sale lots of wool prepared by a woolclasser for sale. Each lot is sold as one unit and will vary in size, quantity and type. The details for each lot include:

- the storage centre and lot number (e.g. C4001 where C =Cooma)
- the wool grower's farm or property brand (e.g. DIMBOOLA)
- the number of bales in the lot (e.g. 2 bales)
- the total greasy and clean weights (in kilograms) of the lot (e.g. 359 gkg)
- the wool description by the wool classer (e.g. AAAM)
- objective test results:

Mean Fibre Diameter (MFD)	18.7 micron	(example)
Coefficient of Variation MFD	19.8%	
Vegetable matter content (VMB)	0.7 %	
Yields (SCH, JCSY, SCD, ACY)	73.6 %	
Staple Length (S/L)	87 mm	
Staple Strength (S/S)	44 N/Kt	
Position of Break (POB) TIP/MID/BASE	17%/22%/61%	
Certificate Type	P	
Wool Selling Area (WSA)	N24	
- Grower supplied information:

Mulesing status (MULES)
DMFR Rating (DMFR)
Quality Scheme
- Other: AWEX-ID (Non measured characteristics wool type)

BSH MULES	ACY	JCSY	SCD 17%	SCD 16%	SCH DRY	VMB NETT	MIC	S/L		S/S NKT	POB			SS25 DMFR	LOT NO	BLS
								MM	CV%		T	M	B			
0.0 0.7 0.0	70.8 254	74.6 268	76.7 275	76.0 273	73.6 264	0.7 359	18.7 19.8%	87	16	44	17	22	61	31	C4001	2
DIMBOOLA N24 AAAM																
0.1 0.3 0.0	62.9 118	66.8 125	68.4 128	67.8 127	65.8 123	0.4 187	17.2 22.7%	53	18	0	0	0	0	1	C4002	1
AAAM																
0.3 0.4 0.0	63.2 231	67.1 246	69.1 253	68.5 251	65.9 241	0.7 366	18.5 20.0%	94	12	50	7	36	57	40	C4003	2
<JL>/HAZELDEAN N24 AAAM																
0.0 0.3 0.1	55.6 203	59.7 219	61.2 224	60.6 222	58.5 214	0.4 366	19.3 19.7%	60	15	50	13	49	38	38	C4004	2
AAAM																
0.0	60.7	72.4	76.2	75.5	72.0	1.2	19.0	82	12	20	0	12	60	10	C4005	7

The catalogue details are also available in an electronic format from the Wool Exchange EDI network several days prior to the auction. If you choose to subscribe please contact the Australian Wool Exchange.

f) Can I buy or bid on the wool?

You can buy wool by bidding (if in an open cry auction) or offering a price in a private sale situation. Auctioneers will sell wool from brokers' selling catalogues with up to 250 lots offered per hour. Before bidding at auction it is necessary for you to (subjectively) appraise the wool on offer to determine its suitability for your orders.

There are a number of pre-requisites and registration processes that must be completed before entering the sale room. Contact AWEX on 02 9428 6100 for these details.



g) My client/contact has given me a wool type, what does this mean?

A *wool type* is used by sellers and buyers to describe wool (characteristics) in a shorthand code. These codes may describe either raw wool characteristics or predicted processing characteristics depending on the user. Typing systems and codes often vary in format from company to company, particularly in buying firms. Broking firms and the Australian Wool Exchange use the *AWEX-ID* (eg. MF4B.80) appraisal system. AWEX-ID appraisal codes are available from AWEX. A wool type may include or imply subjectively appraised characteristics, objective test results or both.

You or your contact may quote interest in a wool type eg *T56*. Typing systems can vary from company to company, *even for codes that appear similar*. Do not assume that a T56 (for example) is the same for all companies. If you buy wool, or have it bought on your behalf, it is recommended you try to determine the *parameters of the type* or order you have been quoted. These parameters should include subjective and objective parameters. This may include the wool categories that can be included (fleece only, fleece and pieces blend, etc), fibre diameter range, staple strength, and length ranges, maximum and minimum vegetable matter content, and expected processing performance such as clean weight and top lengths. All of these parameters, either at a consignment or individual sale lot level, will give you and your supplier or client a better understanding of the product you require.

Identifying the correct wool to buy is a highly technical process requiring a good understanding of wool, its processing capabilities and suitability for your order. These are not skills easily or quickly obtained. If you are unsure of these processes there are a number of options –

- Hire staff with these skills,
- Seek a company that buys wool on commission, or
- Seek training yourself.

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The volume and value of wool you are proposing to buy and future commitment to wool buying will determine which of the above options best suits your requirements.

The buying of wool is a process that tries to meet at least two objectives:

- To meet the technical processing requirements of the consignment, and
- To buy wool at the best (lowest) possible price.

To meet both of these objectives it is often necessary to combine different types of wool to meet the processing and price requirements. **Wool Buying is also notable as the delivery contract is often based on the expected *processing outcome of the consignment* rather than the actual greasy wool parameters.**

h) What determines the price of wool?

The price of wool is determined by;

- a) Demand
- b) Supply
- c) External factors such as shipping deadlines, and
- d) Technical (subjective and objective) characteristics of the product.

In simple terms fleece wool can vary between 12 and 40 micron. The finer the micron the higher the price. The following averages (27 March 2013) give you an indication of typical per bale product costs.

17.0 micron fleece wool	= A\$ 1584 per bale
19.0 micron	= A\$ 1452 per bale
21.0 micron	= A\$ 1391 per bale
23.0 micron	= A\$ 1359 per bale
28.0 micron	= A\$ 727 per bale

****IMPORTANT: Wool is not traded on a dollar per bale basis. This is provided only as an indication to demonstrate the approximate value of wool.****

i) The prices in the Auction room are different to the Market Reporting Quotes. Why? What is the difference between CLEAN and GREASY prices and weights?

Greasy wool is usually quoted and traded in cents per CLEAN kilogram. Wool auctioned in the saleroom is bid on and sold in cents per GREASY kilogram. The conversion factor between greasy and clean weights is known as the yield.

For example: 1000 c/kg clean x 73% yield = 730 c/kg greasy

In very simple terms the yield is used to estimate how much CLEAN wool fibre weight is left after removing all the dust, grease and other impurities by certain types of early stage processing.

1000 kg of “greasy” wool with a yield of 67% = 670 kg of “clean” wool.

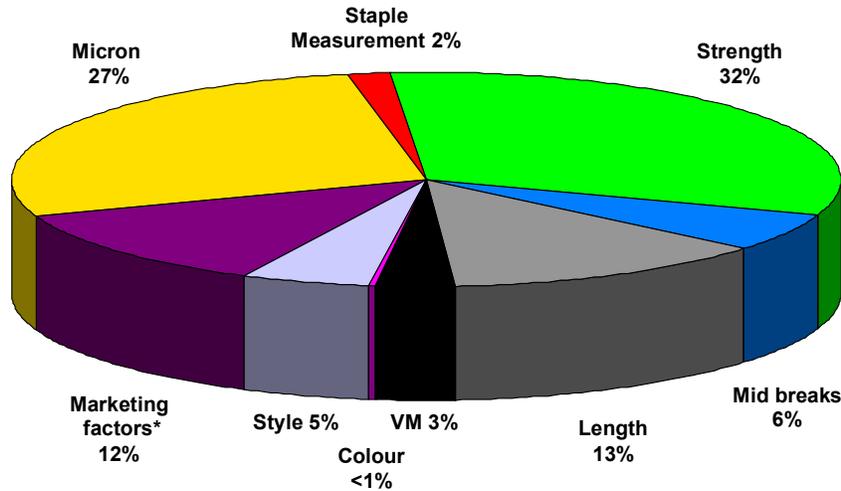
Five theoretical yields for each lot are published in the sale catalogue:

- Schlumberger Dry Yield
- Japanese Clean Scoured Yield
- Scoured Wool Yield @ 17% regain
- Scoured Wool Yield @ 16% regain
- Australian Carbonising Yield

The type of yield used for processing and pricing depends on the type of wool and the trading terms you have established with your client. The clean and greasy prices will vary according to the yield basis that is applied.

**Figure 3a⁴ - Price Determining Wool Characteristics
(17.0-19.5 Micron)**

**Value determining characteristics 2002/03
17.0-19.5 micron merino fleece wool**

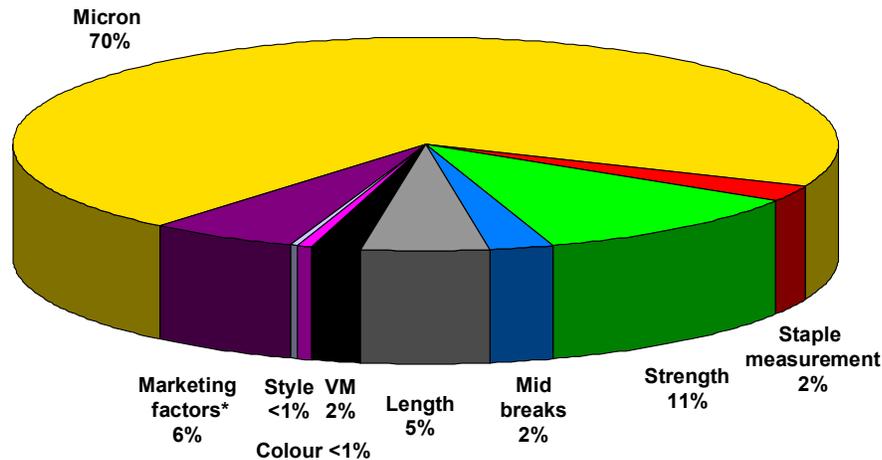


* Marketing factors are region, sale by separation, rehandled wool and lot size.
Total may not add to 100% due to rounding
Source: The Woolmark Company



**Figure 3b - Price Determining Wool Characteristics
(19.5-25 Micron)**

**Value determining characteristics 2002/03
19.5-25.0 micron merino fleece wool**



* 'Marketing factors' are region, sale by separation, rehandled wool and lot size.
Total may not add to 100% due to rounding
Source: The Woolmark Company



⁴ Pricemaker Quarterly – 2002/03. The Woolmark Company

j) What does a Wool Selling Broker do?

A wool selling broker acts as the agent representing the vendor (woolgrower). The broker will seek business from woolgrowers by providing a variety of services to woolgrowers. The broker will take delivery of the wool bales from the grower after shearing (receivals), extract core and grab samples for objective testing. The wool is then stored in the broker's warehouse until the wool is sold and the buyer calls for delivery. The grab sample is used for display purposes on the showfloor (an area dedicated to displaying wool samples for appraisal and sale.) After receipt of the test results an auction broker will, in accordance with the grower's instructions, offer the wool for sale as part of their auction sale catalogue. (Alternatively, some brokers may negotiate directly with the buying or export trade, rather than sell through the auction.)

At the conclusion of a sale the wool selling broker will transmit or send hardcopies of the invoice to the buyer and notify the Test House of certificate ownership. Payment for the wool is then made to the broker by the buyer. This must be paid by the Prompt Date or earlier if delivery required prior to Prompt Date.

k) What are Interlots and Bulk Class?

A woolclasser will, from time to time, have quantities of non-matching wool, which are insufficient to make a full bale or a complete line of wool. In these cases it is necessary for the wool selling broker (or private buyer) to build bigger lines by mixing this wool with other growers' wool. A wool bale with multiple components will be consigned to bulk class. Small lines of 1, 2 or 3 bales are often interlotted to build bigger lines for sale. Test certificates on these lines will often have a "B" (Bulk class) or "I" (Interlot) suffix.

l) Where can I get more information of market prices and volumes of wool for sale?

There are a number of places for further information.

- The Australian Wool Exchange produces significant market information. Products are delivered via screen or email and include:
 - Early and End of Day Regional reports
 - End of Day National Market Report
 - Weekly Market Report
 - Type quotes
 - Market Indicators
 - Statistical auction offering details
 - Near real time sale results

AWEX Market Information Services are available via subscription or fee for service basis. Enquires should be directed to AWEX on + 61 02 9428 6100.

- If you arrange to purchase wool from a commission buyer, market quotations may be provided as part of the service.
- Wool Selling Brokers can also be a source of market information.

Macro or econometric information can be sourced from research bureaus such as Australian Wool Innovation and ABARE.

m) What is the AWEX Eastern Market Indicator?

The AWEX Eastern Market Indicator (EMI) is the benchmark wool market indicator in Australia. It is quoted in c/kg clean. The EMI is compiled using a fixed basket of wool types most commonly offered in sale in Northern and Southern Regions.

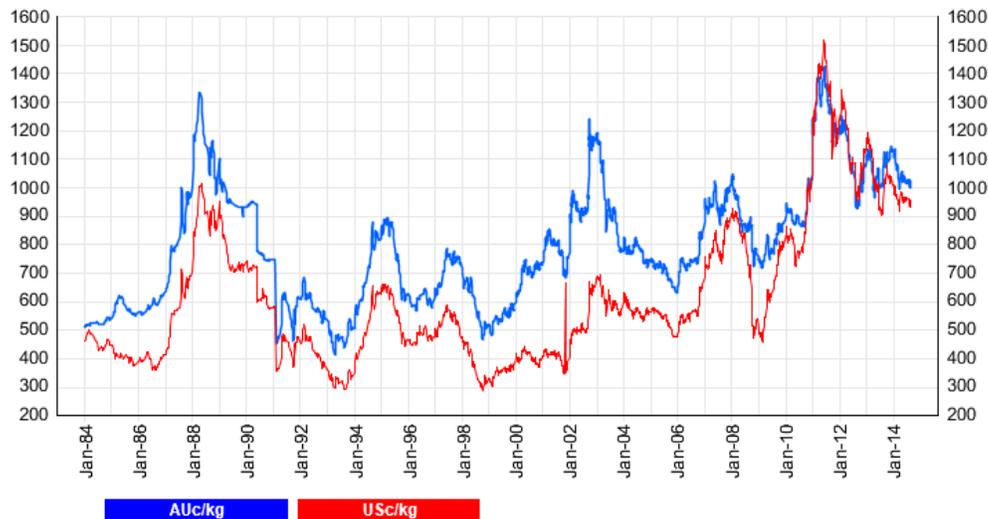
AWEX-Eastern Market Indicator

(c) Australian Wool Exchange Ltd

Australia

Last date:
Thursday 4/09/14

AWEX-Eastern Market Indicator



Eastern Market Indicator prior to 1995 is converted to AWEX-EMI equivalent and is the week end figure.

m) Can I get pre and post sale information electronically?

Yes, the wool industry was an early user of EDI technology to deliver savings and efficiencies of information transfer. A wide variety of electronic information is exchanged or transmitted between parties using industry wide formats and standards. EDI has a high acceptance in the wool industry and is the preferred means of document exchange.

EDI is chiefly centered on three delivery vehicles.

1. Wool Industry EDI network(s). EDI networks are used to exchange public sale catalogues, auction sales results, post sale invoices, wool delivery orders and test results. Invoices and Delivery orders are private transmissions, whilst auction catalogues are available to all users. Nearly all wool industry participants are subscribers to this network infrastructure.
2. The Australian Wool Testing Authority receives and transmits information relating to pre and post sale testing requirements of wool selling brokers and buyers.
3. Proprietary point to point transmissions using internal or Internet mediums. This is dependent on the type of information transferred.

All three systems require users to apply or subscribe before use and are largely mailbox type systems. The EDI network is charged on a user pays system in terms of volume of data moved. It is not mandatory to belong to the EDI network, as manual documents are supported for non-EDI users.

A number of software providers specialising in wool industry transmissions can provide software and or database solutions should you wish to become a regular participant in the wool market.

n) Electronic trading

Currently one electronic offer board for spot market purchase exists in the market place. Offer Board trading is often viewed as complementary to the auction.

5. FAQ's about Market Logistics and Processes

a) What do I need to do before I buy wool?

Establish terms and conditions

Wool is typically sold overseas on an indent or forward delivery basis. These orders are filled progressively from the spot physical market or buyers' stocks. Ensure you have made adequate provisions for the payment of your wool purchases. This would also include appropriate steps to minimise trading risks and liabilities for wool and/or currency market fluctuations, and possible claims on late or inaccurate technical delivery.

Register with the Australian Wool Exchange and the ATO⁵

If you choose to buy directly from the auction system and from AWEX Seller Members you will need to become a member of the Australian Wool Exchange Ltd. An AWEX membership application form is available from the Company Secretary. Membership of AWEX implies agreement with the Memorandum and Articles of Association, Code of Conduct and Business Rules of the Australian Wool Exchange.

For wool tax purposes you will need to be registered with the Australian Taxation Office (ATO).

If you buy wool privately, or *through a commission buyer at auction* you do not need to register with the Australian Wool Exchange.

Also, you will need to register as an Australian Registered Company. If you are a business the ATO encourages you to register for an Australian Business Number (ABN). You may also need to register for GST.

Obtain technical specifications

If you are buying on behalf of a company (or individual) it is strongly recommended that you have adequate and specific information about their technical requirements for their wool. For your own protection, you should ensure your client fully and explicitly details the technical specification of the processing outcomes and source raw material that you are required to deliver. A comprehensive technical specification detailing objective test information (e.g. micron, vegetable matter content, yield, etc), subjective parameters, expected processing outcomes, allowable tolerances, clean or greasy weight requirements and delivery requirements should be a minimum requirement. (See section f, p6.)

Industry Description (AWEX-ID)

The first generic typing scheme developed by the AWC was based on systems used when wool acquisition occurred during World War I and II. This was the common language of the industry used for the reserve price scheme, market reporting and statistics.

AWEX was formed in 1993 taking over responsibility for the management and the reporting of the auction system. In 1994 AWEX developed an Industry Description system called AWEX-ID. It was based on work begun in 1987 by the Joint Wool Selling Organisation. AWEX-ID for greasy wool is the description of appraised, non-measured characteristics of the wool. When combined with the objective measurements on the lot provides complete product description.

Broking firms and the Australian Wool Exchange use the *AWEX-ID* appraisal system. Some more details can be found on the AWEX web site.

b) What are the General Terms of Trade?

If you are a new entrant in wool trading the following may assist you in finance related matters.

1. The Wool Selling Broker does not offer credit on wool sold at auction. Wool will only be delivered after the clearance of payment.
2. Wool sales between buying companies and mills are typically made on two basis:
 - Forward sale and delivery
 - Indent basis
3. Wool is often exported on a FOB or CIF basis to overseas clients.

⁵ Australian Taxation Office – Wool Tax Department

Australian Wool Exchange Ltd

4. Many contracts of sale made between local buyers and their clients are performed on the basis of a *Letter of Credit* with documentation.
5. Buyers acting on your behalf may require evidence of credentials prior to an agreement being settled.

c) Export and destination import requirements

Depending on the country of destination you should check for:

- a) Statutory requirements such as Health Certificates and Country of Origin certificates;
and
- b) Import or Export tariffs and duties.

To export wool from Australia you will be required to meet standard Australian statutory export requirements such as obtaining an ECN (Export Clearance Number) from Australian Customs. This may be obtained from the EXIT (Export) application system or upon application from your local Australian Customs Department.

Health and Country of Origin Certificates may be obtained from the AQIS and the Chamber of Commerce.

In addition, you will be required to provide documentation establishing and declaring wool tax has been paid on all wool for export.

d) What are some of the costs I should be aware of?

If buying from auction, you should read carefully the **Terms and Conditions of Sale** issued by the selling broker.

1. The broker will levy a **Buyer Service Charge (BSC)** on your purchases. This is a per bale charge and varies from broker to broker. It is usually between \$17.00 and \$34.00 per bale and is itemised as an additional charge on your purchase invoice. The amount per bale will vary depending on storage location as the BSC includes a freight component to the main centre.
2. The selling broker will require payment by or on a **Prompt Day**. This is usually within 9 days from the Wednesday of sale week but can vary by broker. Late payment may attract a penalty or forfeiture of sale. Some benefit may be obtained with early payment, however, this should be checked with the broker(s) concerned. You can remove wool from store at any time after purchase provided payment has been cleared by the broker's bank.
3. Selling Brokers will, after a nominated time, commence charging for the storage of wool in store. This is usually a per bale per day rate and varies between each broker. It is usually between **15** and **30c** per bale per day.
4. The broker will not release wool without payment being cleared. Credit is not offered by wool selling brokers.
5. If you require a single test certificate for your consignment you will need to apply to the Australian Wool Testing Authority for a combination certificate. This certificate combines all individual sale lot test results for a consignment into one certificate. (Certificates on individual lots of wool that you have purchased will be consigned shortly after the purchase by the broker or test house.)
6. The auction catalogue will itemise where wool is physically stored. Wool is stored in many different locations around Australia, including country areas. *New entrants should ensure they are familiar with the location of wool* prior to purchase as this clearly will impact on delivery cost(s) and response times.
7. Depending on the storage centre of purchase and the destination, you may elect to have the broker organise your transport or you may elect to arrange this yourself. If you arrange your own transport the broker may rebate a portion of your buyer service charge.
8. The AWEX Wool Clearing House charges a fee to coordinate wool deliveries into dumps for export. This is typically between **5** and **10 cents** per bale and is levied directly or included on your dumping account.
9. A dumping and/or packing fee will be payable if your wool is dumped or packed in either greasy or processed form.
10. A Wool Tax is levied on woolgrowers' first hand greasy wool sales. This tax is collected by the Australian Taxation Office and is used for research and promotion funding. You may register as a registered wool tax collection agent if you are purchasing wool privately. Wool Tax collection and payment on growers' behalf is performed by the selling broker on wool sold by auction.
11. Auction participants are charged an annual fee to cover the running costs of the National Auction Selling Committee (NASC). This committee administers the auction systems. More details can be found on the AWEX web site.

e) What is Dumping?

Wool is usually exported in a compacted form. This process is known as dumping. A common dumping practice is to compact 1, 2, or 3 farm bales into one unit held together with steel bands. These dumped units are then containerised. In a dumped form a container typically holds between 100 and 115 farm bales of greasy wool. The dumping and containerisation of wool has delivered significant benefits in terms of freight savings and operational efficiencies.

You will need to contact a shipping company to book container space for your purchases. Additionally, if wool is not processed, a dump will need to be contacted to arrange dumping and containerisation.

Your client will be required to break the steel bands and open the wool prior to processing.



f) What Risk Management tools are available?

Risk management is a part of any business. The risks associated with the buying and selling of wool largely fall into the following categories –

1. Technical risk as a result of incomplete, inadequate, or not meeting, required technical wool specification.
2. Price risk associated with market movements.
3. Political and currency risks (when trading internationally).
4. Other risks (e.g. late or short delivery) in not meeting contract requirements.

Mechanisms available to market participants to alleviate or cover some of the above mentioned risks are:

1. Wool Futures traded by commercial parties can offer opportunities to hedge physical purchases against market movements, and
2. Political and economic risk insurance offered by the Export Finance & Insurance Corporation (EFIC),
3. Currency hedging, and
4. Commercial insurance cover.

g) Where can I seek further training?

Technical and Further Education colleges (TAFEs) perform basic wool technical training functions within the Industry. A number of technical courses ranging from Wool Classing to Wool Commerce are available through these institutions. Alternatively, additional qualifications may be achieved through university degree courses.

Many wool specific skills, particularly in appraisal related issues are the result of in-house training within each company. As a result, new companies within the Industry are often established or staffed by former employees of existing businesses.

h) Where can I get further assistance?

There are many organisations that can provide assistance depending on your level of need. A list of contacts is provided at the end of this document. The AWEX web site is also useful: www.awex.com.au.

Wool Industry Organisations and Contacts

Company	Contact Number
Australian Wool Exchange Ltd	+61 (0)2 9428 6100 (Sydney) +61 (0)3 9318 0277 (Melbourne) +61 (0)2 9632 6166 (Yennora) +61 (0)8 9434 6999 (Fremantle) www.awex.com.au
Australian Council of Wool Exporters	
Private Treaty Wool Merchants of Australia	
Australian Wool Processors Council	
National Council of Wool Selling Brokers	
WoolProducers Australia	
Australian Wool Innovation Limited	
Australian Wool Testing Authority Ltd	
International Wool Textile Organisation (Australian National Committee)	
Australia Bureau of Statistics	
Australian Customs Service	
Australian Quarantine Service Department of Primary Industry	
Australian Taxation Office – Wool	
Export Finance Insurance Corporation	
Technical and Further Education Colleges	
Individual Companies	

IMPORTANT NOTE:

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