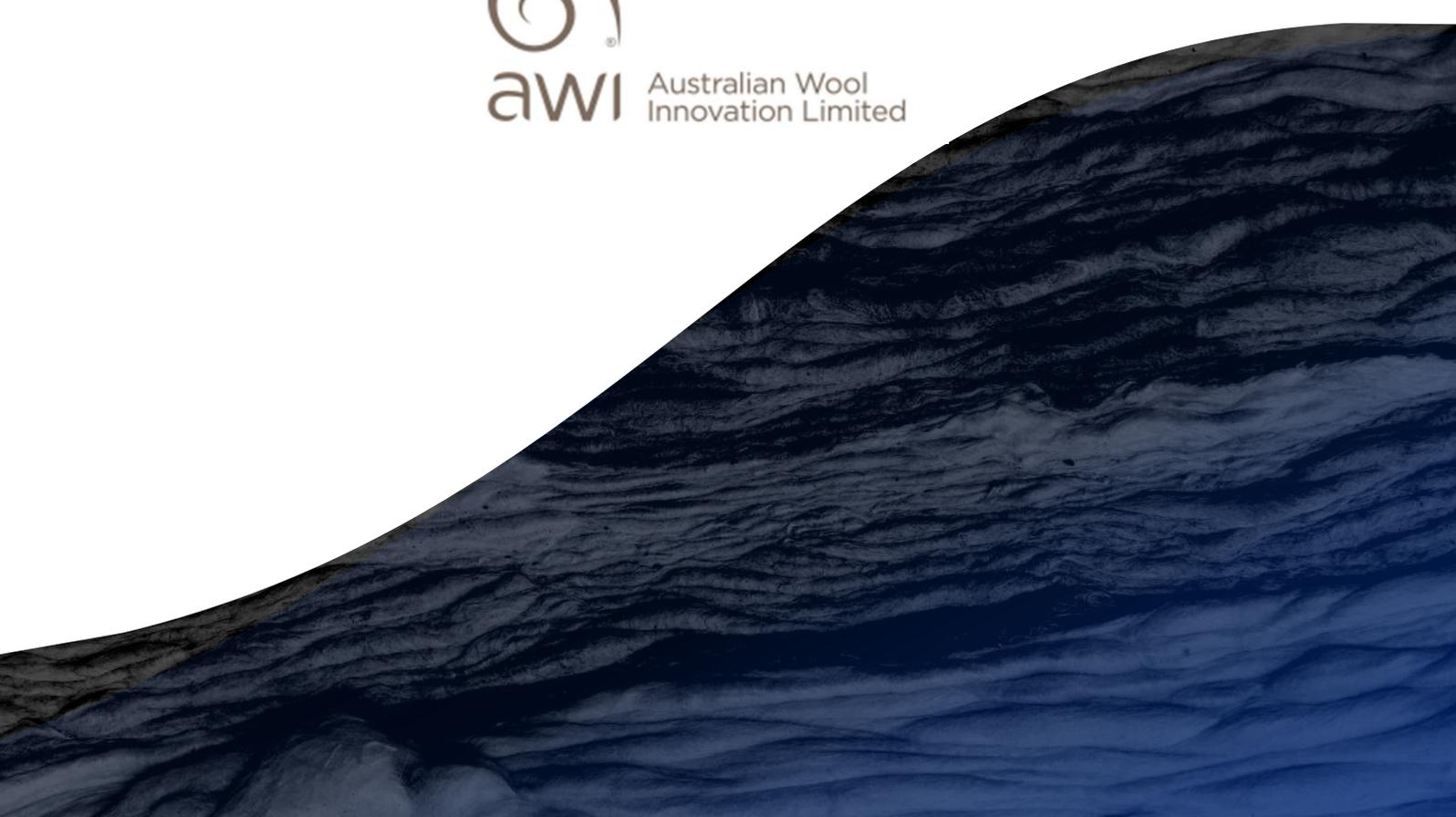




Australian Wool Innovation Performance Review 2018

Submission to Independent Review

May 2018



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Background

In late 2014, a Review Panel was appointed by the Australian Wool Innovation Limited (AWI) to undertake a Wool Selling Systems Review (WSSR). The review panel released an issues paper in December 2014 seeking submissions from industry stakeholders in response to the paper. One of the key recommendations from the WSSR was the development of a Wool Exchange Portal (WEP). Prima facie it is unclear how the WEP recommendation was derived and why AWI sees it as its role and responsibility. Notwithstanding this the WEP has been developed with a circa A\$4.5M budget of grower/government funds and has now launched ahead of schedule as WoolQ with the expanded and previously denied ambition and intention to become a full service online trading platform for wool growers in Australia.

Since its release, the WSSR and the WEP/WoolQ continue to be surrounded in controversy and industry disquiet. Many in the industry question the motivation of AWI in commissioning the WSSR and the role of AWI acting as an 'industry body' against its charter in developing a competing commercial operation with potentially far-reaching effects. This concern is exacerbated by the fact that this AWI owned entity funded by government and grower levy resources will now compete with many of the extant commercial industry entities who currently provide the wool selling and supply chain infrastructure.

About AWH

AWH can trace its history in wool handling and storage back to 1843 with the opening of the Dalgety wool store on the Geelong waterfront. For the last 175 years AWH's core business has been handling storage of wool from the Australian wool industry.

Generally unknown outside the wool trading industry, AWH is Australia's and the World's largest wool handling entity. AWH operates 15 wool storage facilities nationally with a total of 723,000 m² of warehouse and a further 225,000 m² of hard stand storage area operated by 400 employees. AWH is currently jointly owned by Agri-business and broker Landmark and Stevedoring company DP World Australia.

AWH currently handles in the order of 1 million bales of wool per annum, which constitutes approximately 54% of the national market. The next largest wool handling entity handles less than 6% of the national clip. Additionally, almost every bale of wool sold at 'open cry auction' is sold on one of AWH's three National wool selling centres (Brooklyn Vic, Yennora NSW, and Spearwood WA). AWH's subsidiaries KPL and AWH global also facilitate the export management of wool for over 60% of the national export market.

All wool auctions and the majority of the nations wool brokers operate their entire wool business on AWH in-house developed wool AS400 IT system 'Balemaster'. This system which was developed over 25 years and is currently provided free- of charge to our clients and the general wool industry.

AWH is also Australia's largest cotton handling company and a major general logistics business, servicing clients such as Bunnings, Coke, Anaconda, DHL, Schindler and many others. In terms of warehouse capacity AWH is possible the largest, the but definitely in the top 3 warehousing businesses in Australia.

For FY17/18 AWH expects to receive AU\$4.2 billion in wool buyer payments and will act as the settling agent for all of these transactions.

AWH and Industry

AWH participates in a number of industry groups and sits on the executive of the peak Australian wool body the Federation of Australian Wool Organisations (FAWO). AWH participated in and cooperated with the AWI committee compiling the Wool System Selling Review (WSSR), but surprisingly was never directly mentioned in the 67 page report and the activities of AWH and our prominent position and commercial interests in the national wool logistics and selling market were only mentioned by function and passing reference.

Whilst we did not support many of the conclusions of the WSSR and specifically not in relation to the requirement for, or the development of the WEP. Nevertheless, in relation to the WEP, AWH executives were members of the initial working group and then the steering committee for the AWI Wool Exchange Portal (WEP), now renamed as WoolQ.

From May 2017 until the completion of the Steering committee meetings in Aug 2017 AWH was a vocal and critical member of the committee specifically question, privacy and data IP rights as well as the existence and operation of a proposed electronic trading platform.

Reason for making this Submission

Typically, AWH maintains an extremely low profile, preferring to allow our unmatched capability and level of service be our most potent marketing tool. To date the word-of-mouth promotion and industry knowledge of our significant capability has allowed us to grow to a dominant position on both the Wool and Cotton industries.

However, over the past 18 months, the actions, motivations and processes employed by AWI in the development of the WEP/WoolQ have motivated us to take the unusual step of making a submission to the independent review.

AWH views WoolQ in its true and evolving format, as an online trading platform owned by and for the benefit of AWI as a potential threat to our commercial business, we also are surprised a non-profit government and levy funded entity like AWI can expend both government and levy raised funds in creating an expanded capability which will be commercially damaging and potentially less efficient process than the one currently managed by and being developed by commercial industry.

AWI as a marketing entity

At this stage of this submission it is relevant to point out that for other than the WEP and issues surrounding it, AWH not only has no problem with AWI, but we firmly believe AWI is and has done a truly remarkable is a world class marketing organisation.

In the normal course of business for AWH we have occasion to travel the world to various wool processing destinations and are participants and observers of the wider Wool Market.

It is without doubt that AWI does a truly outstanding and excellent job in marketing and promoting wool as both a modern, premium product and a fibre of immense flexibility and value. The current record prices being received for Australian wool sales is in no small part due to the excellent long-term work and efforts of AWI.

In every aspect of this element of AWI's role in charter AWH has nothing but praise and respect the operations of AWI.

AWI in the Wool Industry

It is clearly stated in clause 15 of AWI's federal government Statutory Funding Agreement 2016 to 2020 that "AWI must do all things necessary to ensure that it effectively represents and reflects the research and development and marketing interests of its shareholders and levy payers". Furthermore, in clause 15.3 (b) it also clearly states that AWI must not use funds to act as an 'industry representative body or provide information or an opinion which states or implies to stakeholders that AWI is an Industry Representative Body.

We do not believe that either in action or attitude does AWI comply with this tenant of its agreement.

AWH would contend that AWI in conducting the WSSR of the commercial selling system for wool, it was outside its remit. Furthermore, the unsupported conclusion for the development of the WEP and the subsequent establishment of a an AWI led industry working group for the development of this WEP that is potentially in breach of its statutory funding requirements.

Informally canvassed members of the WEP Working Group and Steering Committee almost universally agreed that they did not support the WEP, however, as AWI were both well funded and determined to progress the WEP regardless of opposition they would participate to listen and gather information as to the intention of AWI.

Furthermore, AWH struggles to see how the ownership and development of an online trading platform which is integral to WoolQ concept and is therefore clearly in direct competition to purely commercial entities such as AWH is permitted under its charter. This is an opinion that has been expressed in writing by a number of entities and National Wool representative bodies and has been constantly expressed in the rural media.

Development of the WEP/WoolIQ

Throughout the approximate 18 months of industry involvement in working and steering groups for the development of the WEP there was very little major objection or dissension from the wool industry with the then "stated concept" of the development of a portal of information to assist growers with coordinating and disseminating their own and other industry relative information. However, in the last few months of the committee process (May to August 2017) , it became abundantly clear that the privately stated and "unofficial" intentions of AWI to have an online trading platform and create complete commercial disruption to the wool supply and selling system, were in fact the real aim of AWI and at that point industry participants started to object.

Contrary to the public statements which were often made by AWI without consultation with committee member and timed to be intentionally prior to, and in pre-emption of, any committee meetings about the specific WEP issues, that industry "unanimously" supported the WEP. At a number of WEP steering committee meetings vigorous objection and dissension to this previously hidden agenda and the implications for data security, privacy and commercial interests were aired. Most often these dissensions were omitted from minutes of the meeting. The AWI engaged consultants were vigorous in their defence of the WEP and its objectives.

WSSR – WEP – Wool Q consultants

Whilst AWH and probably all industry bodies would acknowledge that the continuity of corporate knowledge afforded by the continuing participation of a number of consultants/pael members involved in the WSSR through the WEP and now into WoolQ would provide some significant advantage, the fact that at least one of those consultants (Will Wilson) also nominated and ran for an AWI board position in the last cycle of board elections brings into question potential conflicts of interest and motivation.

Even scant knowledge of the overall cost of the WEP/WoolQ development and the quantum of consultant's fees provides an explanation as to the drive and fervour for the development of the WEP/WoolQ despite the significant but low-profile objections of industry to the concept.

Efficiency Concerns with Wool Q

One of the key elements of the WEP/WoolQ concept is the use of an electronic Wool Classer's Specification document or e-speci. The importance of, and future need for this document was raised by AWH at a WoolQ steering committee meeting in June 2017.¹

Notwithstanding AWH's unqualified support for the concept whereby all wool in Australia be supported by and recorded into an e-speci, due to the massive efficiencies that could be affected by the electronic transmission of wool data prior to the physical shipping arrival of wool in any processing area, the current WoolQ handling of e-speci's actually creates additional cost and work for AWH and the brokers representing wool growers.

This situation typifies much of the interaction of the AWI as a whole and specifically in relation to the WEP/WoolQ development team, which would be most accurately categorised as **"asking the question but not really wanting the answer"**.

To provide specific clarification on this issue, it is necessary to explain how the current system works. AWH fully acknowledges that this system is far from the optimal and is currently significant time and money in conjunction with our clients to providing a more modern and efficient process. The following is a specific example of the inefficiency of the AWI WEP disruption:

Current system. Under the current system, the very vast majority of Wool Classers Specifications (speci) are created on carbonised paper forms provided to the grower/wool classer by the grower's broker. The completed speci is then (ideally) passed in parallel, both physically with the wool and also to the broker. Depending on which occurs first, either the broker will then "lot" the wool on behalf of the grower and pass the lotted specification along with sale and handling instructions to AWH (or another handling entity). AWH would then carry out the instructions of the broker to handle, store, sample, prepare for sale, document and offer for Auction the growers wool. In the case where the specification arrives with the wool prior to a broker completing "lotting", AWH will either hold the wool in quarantine or dispatch the speci to the broker requesting lotting and then on receipt instructions carry out activities as per above. A detailed audit trail has been developed and in place for many year to support this process.

Wool Q specification. Whilst it is envisaged and advertised by WoolQ that a grower would complete their specification online through the portal and via an EDI/API electronic data interface, provide the specification to the handling entity. Whilst this is certainly possible and achievable in one of a number of data exchange configurations, the key elements of lotting, sale instructions, commercial billing information, grower ID, broker handling, entity

¹ AWH had been developing an E-Speci native mobile application and announced it to the Market on 17 August 2017.

relationship and a host of other essential information pathways and facts are not developed in the WoolQ third party e-speci provision. This lack of the 'commercial relationship' has resulted in the almost comical situation where the only e-speci received from WoolQ to date was provided via a process whereby the grower filled out the e-speci online, then printed the e-speci from a 'screen shot' and then faxing the specification to AWH without any prior warning. No commercial instructions, handling instructions, lotting information or broker information was supplied. The resultant activity required by AWH to chase down the errant information and fully rectify this situation is significant and in such a case there is no methodology or process for us to recoup our costs for dealing with the speci for such a client.

As in many things in the modern digital economy disruption is a potentially wonderful tool for achieving efficiency, however, as in all things the devil is in the detail.

Savings or Costs to Growers

Throughout the whole process of the development of the WEP an unexplained saving of circa \$38 million in "selling costs" has been touted by AWI. Throughout this whole process, the of magnitude and complexity of moving, administering, sampling, testing, data compiling, cataloguing, displaying, auctioning, settling, reconfiguring, consolidating, documenting packing exporting and supporting approximately 470 million kg of wool annually has been trivialised and virtually unacknowledged by AWI.

To directly quote Stuart McCulloch, CEO of AWI when speaking to the CEO of AWH "we think AWEX are a waste of time and the brokers rip the growers off...the whole supply chain is stuffed and we want control of the process" and "what Wal (Wal Merriman) wants is to save money for growers by being able to sell his wool online, store it in his shearing shed and have DHL delivery to China".

AWH who has been carrying out this process on behalf of the National wool economy for 175 years finds the arrogance and naivety these comments from the CEO and those attributed to the Chairman of AWI as somewhat alarming.

Privacy and Data Exchange

In a modern digital economy, the production and ownership of data are valuable and attributed assets of the originating and value-adding participants. At several of the WEP steering committee meetings our serious concerns about privacy, data ownership, and potentially anti-competitive behaviour were raised. Almost exclusively the response from the AWI consultants was "yes we know it's an issue and we will have to have commercial agreements with all the key players to address those. We will have to look at how we can to pay for the data". In the current login/registration process and End User Licensing Agreement (EULA) of the WoolQ site is a waiver and clause granting unrestricted data rights for the grower's wool.

Whilst at that particular point in time the grower does have the rights to the wool, our legal opinion indicates that the value-added processes throughout the wool supply and logistics chain develop and grant rights to various participants who are carrying out activities with commercial interest, e.g. a broker instructs AWH to sample the wool, collect test results and create and compile a file description with inspection sample et cetera in anticipation of the compilation of a sale catalogue on their behalf under the protection of a commercial contract for these services. Inherent and directly implied in this contract is the ownership of data and intellectual property for the activities carried out on the proprietary IT platform owned by AWH. Accordingly, the extension of the data rights and privacy connected with the WEP could potentially breach the IP rights of Brokers and AWH when processing the wool for sale.

Because of these concern AWH refused to supply data access to the WEP and formally supported AWEX in its denial of data to the AWI WEP.

It could be argued and there might be significant legal implications of the WEP/WoolQ intentionally bypassing and circumventing this process. At the very least AWH does not believe that the levy paying growers are aware of the implications of some of these seemingly benign activities.

Conclusion

The subjects raised in this submission deal with both the specific commercial concerns directly affecting AWH but also the wider wool industry and growers in relation to the activities of AWI in the conduct of the development of the WEP and WoolQ.

As mentioned in the opening preamble AWH has significant respect for the achievements of AWI in relation to the promotion of wool and the wool industry in the realms of marketing and R&D (related to new wool applications) however, we firmly believe that AWI has stepped well outside the bounds of its charter and is not acting in the best interests of the wool industry in the current conduct in relation to WoolQ.

AWH appreciates the opportunity to meet with the Review team and to make this submission.

This submission was developed by and submitted on behalf of AWH Pty Limited by Michael Jones, Chief Executive Officer AWH