

14 October 2005

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Ms Ursula Everett and Mr Jason Byrne  
Acting Assistant Director  
Australian Competition and Consumer Commission  
Adjudication Branch  
470 Northbourne Ave  
DICKSON ACT 2602

Dear Ursula and Jason

## **Applications for Authorisation lodged by Australian Wool Organisations**

We refer to your letter dated 27 September 2005. We are instructed to respond as follows to each of the questions raised in your letter.

1. *Provide forecast of when our client is forecasted to reach target amount of US\$2.8m*

FAWO anticipates that it will take approximately 12 months to collect US\$2.8 million.

This estimate is based on the following assumptions:

- The best estimate of the number of bales sampled in 2004/05 is that taken from Australian Wool Testing Authority's throughput for the year. They sampled 2,750,000 bales during the year.
- Accordingly, allowing for a forecast 1% fall in production in 2005/06 and a 10% leakage in the number of bales covered by the Implementation Deed, the transaction based contribution of A\$1.50 would be expected to raise A\$3.68 million over 12 months. This equates to US\$2.76 million at an Australia/US exchange rate of 0.75¢.

2. *The objective of the levy is to raise US\$2.8m to contribute to an international marketing campaign for the promotion of the wool industry. The application also refers to the cost of the campaign as being US\$7m. Provide detail on the total cost of the campaign and a breakdown of the pledges received from AWI, AWS and AWEX*

The Business Case and Marketing Plan for the Test Marketing Campaign were developed by Australian Wool Services. Their estimate of the cost is US\$6.6 million.

Pledges currently received from AWI, AWS and AWEX are:

AWI US\$3.4 million  
AWS US\$1 million  
AWEX US\$0.2 million

The AWI contribution was originally US\$5 million, based on a US\$10 million campaign. It has been reduced to US\$3.4 because of the anticipated reduced campaign cost.

3. *Clarify what proportion of funds raised is expected to go towards the administration of the levy*

This is difficult to answer precisely. However the proportion of funds going towards administration of the levy is expected to be small. The only costs to be charged will be direct costs incurred for services provided by third party suppliers. If they reached A\$75,000 (which is considered a reasonable estimate), this would equate to less than 2.0% of A\$3.68 million expected to be raised.

There will be considerable uncharged input in kind from industry companies, FAWO and other industry associations.

4. *Provide information on how the transaction based contribution will operate and who will pay the contribution*

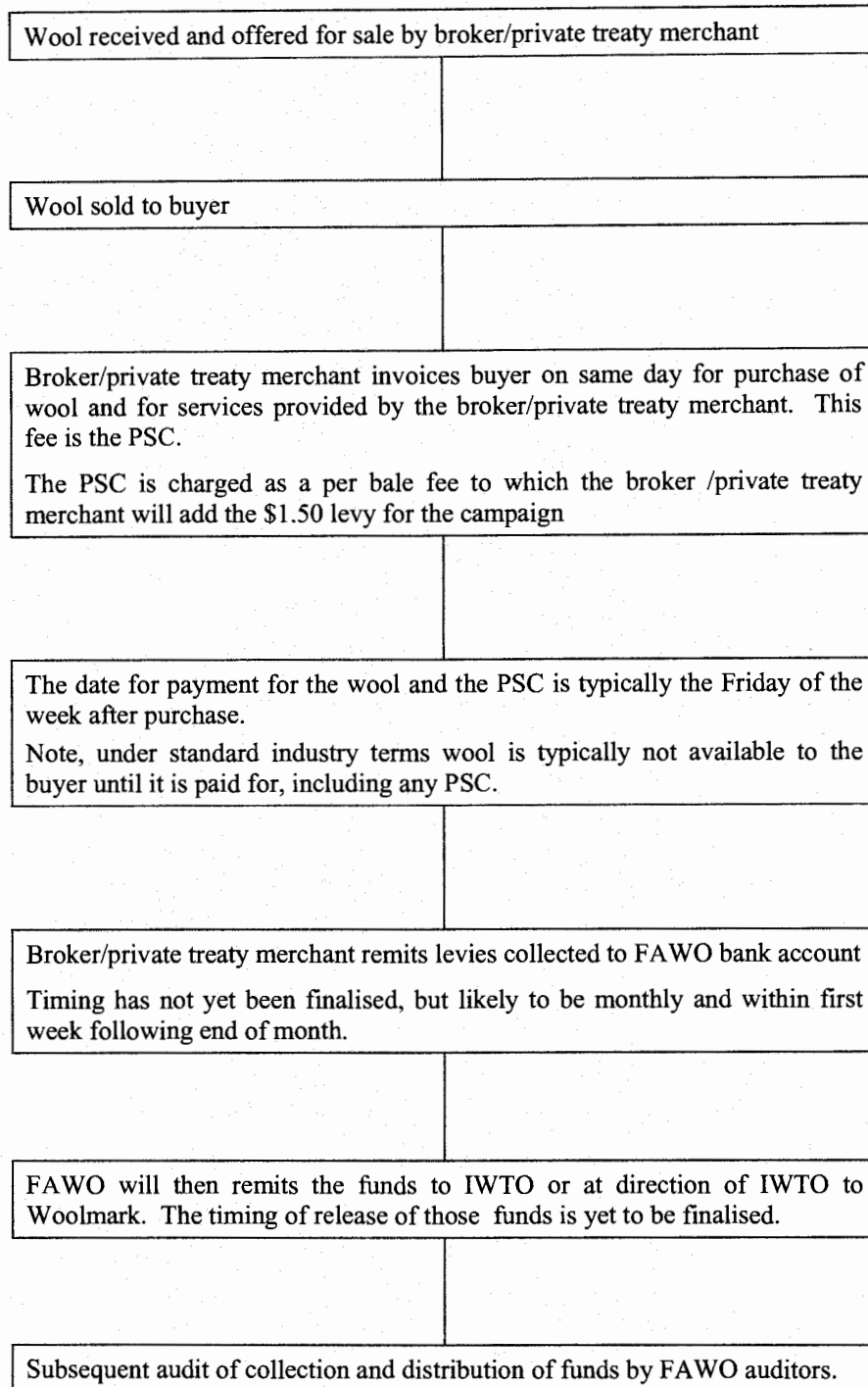
The proposed transaction based contribution has been described in the submission accompanying the application for authorisation. The arrangements are formally described in the Implementation Deed, also described in the application and a copy of which is attached. Individual brokers and private treaty merchants will become parties to the Implementation Deed by executing a deed of accession agreeing to be bound by those provisions of the Implementation Deed that are relevant to them.

In practical terms, the collection and remittance of the transaction based contribution will operate in the following manner.

It will be collected as an A\$1.50 levy per bale on all wool sold by participating brokers and private treaty merchants. This will be achieved by brokers and private treaty merchants adding the A\$1.50 to the post sale charge (PSC) which they typically charge to buyers on each bale of wool purchased. The amount, if any, of the PSC itself charged in respect of any individual transaction will remain a matter for individual negotiation and agreement between a broker or a private treaty merchant and the relevant buyer. Funds will then be remitted on a monthly basis to FAWO. FAWO will then release funds to IWTO or as directed by IWTO to Woolmark, the body responsible for undertaking the International Wool Test Marketing Campaign itself.

The following flow diagram illustrates the process.

### FLOW DIAGRAM OF WOOL FOR SALE AND LEVY RECEIPTS



#### Question 5

5. *Provide detail on the expected allocation of funds between the actual undertaking of the campaign and the assessment of its overall effectiveness.*

Generally speaking, it is anticipated that the majority of the funding would be spent on the actual undertaking of the campaign as distinct from analysis. However, it should be noted that the two are in any event inextricably linked since the analysis can only be done

effectively if the test marketing campaign is of a sufficient size and scope to generate reliable and meaningful results in the market sectors identified.

6. *Clarify whether the funds raised will be used on a progressive basis to fund the marketing campaign.*

The funds will be raised on a progressive basis. As noted above, this will most likely be monthly and in arrears. Wool is sold on weekly basis throughout the year, apart from short breaks at Easter, mid year (between wool selling seasons) and Christmas.

It is anticipated that funds, will, in turn, be remitted to IWTO on a progressive basis, in line with their cash flow requirements.

7. *In the event that the ACCC does grant interim authorisation, but does not grant final authorisation, could you please advise of how the funds already collected through the implementation of the levy will be dealt with.*

This issue is still under consideration. A response will be provided shortly.

8. *Provide copy of Implementation Deed*

A copy of the deed in the form executed is attached.

9. *Outline what arrangements, if any, will be in place to have the collection and distribution of funds independently audited.*

The precise details for auditing have not yet been finalised. However, it is intended that the entire process will be subject to appropriate audit procedures both in respect of the collection and distribution of funds in the manner described below.

#### **Collection of funds**

The Implementation Deed reserves the right for FAWO to inspect records and audit the collection of funds including through the appointment of an independent auditor. The details of the number of bales sold at auction by each broker are available on a sale-by-sale-basis. The Australian Wool Industries Secretariat (AWIS), which provides secretariat services to FAWO, already has procedures in place for collating and analysing this information. Accordingly, a slight modification to these procedures will facilitate reconciliation of funds remitted by brokers against bales sold. Similarly, private treaty merchants already supply details of bales transacted to AWIS, as their membership fees to PTWMA includes a per bale component. This information can be used to audit receipts from private treaty merchants.

FAWO intends to ask its auditors to use the forgoing information to audit payments from brokers and private treaty merchants to ensure that funds have been properly remitted in accordance with the Implementation Deed.

#### **Distribution of funds**

FAWO's auditors will also be asked to audit payments released by FAWO for the purposes of the international test marketing campaign. FAWO also notes that the entity responsible for undertaking the International Test Marketing Campaign is Woolmark, which is a wholly owned subsidiary of Australian Wool Services. Australian Wool Services is the official marketing arm of the Australian wool industry. FAWO is therefore confident that funds will be properly applied once released by FAWO / IWTO for the purposes of the campaign.

Yours faithfully  
**MINTER ELLISON**

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