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REPORT

Australian Deer Horn & Co-Products Pty. Ltd.

By Andy Cowan

The Australian Deer Horn and Co-Products P/L (ADH and Co) have served to provide a point of sale for deer antler for many farmers for many years in what we commonly refer to as the "Pools". According to the website "Investopedia" a Pool is an "...investment structure that combines investor contributions to be used in the futures and commodities trading markets. The commodity pool is used as a single entity to gain leverage in trading, **in the hopes of maximizing profit potential.**" In other words – the bigger you are, the more leverage you are meant to have with buyers.

For many deer farmers, the Pools have been a real life-saver. In particular, smaller producers have found it to be the only way they have been able to sell their velvet with any degree of confidence. Had it not been for the Pools, those farmers producing under, say, 50kg of velvet may not have even bothered trying to sell it at all. They may not have known where to find buyers and had no idea of the velvet prices. More than likely, they would not have known the grades of velvet that their stags had produced. Easy targets for unscrupulous buyers! In general, the larger producers would have made the effort and been quite easily able to find buyers. The smaller producers, who probably had some sort of off-farm income, may have simply thrown the potential income to their dogs.

Regrettably, the "Investopedia" definition of Pools has never been quite relevant to Australia's velvet situation. We have always been a minor player in the world velvet market and our only marketing advantage was the image of Australia being "clean and green." Our aim was always to try to receive the same price as New Zealand and more often than not, our velvet was sold on this condition. The benefit of the Pools in this situation was that they could reduce the per kilo selling cost to the producer. The prices we received for our velvet was more dependant on the South Korean political and economic situation and how many of their buyers were "in the market". The fact that we pooled our velvet had arguably no effect on the price. It did help the smaller farmers and many smaller operators have been extremely grateful that the Pools existed. I believe that the Pools have been a worthwhile exercise, even if just for this one reason.

At the recent AGM, the DIAA Executive suggested to the Directors of ADH and Co that they look at the possibility of closing down the Pools. There are a number of reasons for this but it is primarily the fact that the Pools are now receiving such a small amount of velvet that they are running at a loss. As I was nominated to be a director of ADH and Co, I am extremely interested in the feelings of growers as to whether or not they feel the Pools should continue.

Let's look at some history. The Pools started up in Queensland and in 1993 moved partially to Victoria. I have tried to look back over past editions of "Vicdeer" and the DIAA magazines to find a few quotes that may help show the trials that the Pools have been through. Unfairly perhaps, I am quoting some of the problem areas.

Vicdeer, Sept. 1993

"NATIONAL VELVET POOLS have seen another successful year, selling in excess of 7.5 tonnes - 2.5 tonnes being Victorian velvet- in 2 pools. Although prices were down this year, the pools placed a floor level in sales. Without this, growers would have been seriously disadvantaged in terms of down grading and price reduction by the buyers."

Vicdeer, Oct. 1993 Eric Olsen

"Our attempts last season to fund the ongoing development work from trading profits proved disastrous to AVP when commission returns plummeted by \$19,000 compared to budget. This result was more disappointing in view of the fact that velvet throughput was up 1.5 MT. on the budgeted 6 MT. expected."

Vicdeer. July 1997 - David Walker

"The facts are, if we could collect, grade and market more velvet from Australian growers, ADH would be more efficient and therefore able to reduce commission and handling charges to growers. If we had larger quantities from growers, we could operate three or more pools per year therefore giving better service. With larger volumes we would attract different buyers who only operate on more product than we can present at the moment." (Note- there were 87 grades of velvet in 2000 when David Walker ran the Pools.)

November Pool 2000. Guy Dockrill. ADH & CP

"Unfortunately the prices received by ADH & CP very closely follow trends set in New Zealand. It appears that it is not so much a reduced demand for velvet but a lack of finance available to the Korean buyers. At this stage some of the major lines remain unsold but are under negotiation. It is a extremely difficult situation as many of the New Zealand traders believe the market has bottomed and the price may rise but any increase may be out weighed by the costs incurred while the product is in storage."

Australian Deer Horn & Co-Products. Pool A1/2001 Report from Guy Dockrill ADH & CP

"During Pool A1/2001 we collected, graded and packed a first pool record 9.1 tonnes of velvet. Those of you who have attended the pools in recent times will have noted the considerable improvement in quality of the product that we are producing. With the grading of the mini pools in Queensland and Western Australia, the improvement in quality in these states' product has been even more noticeable.

Unfortunately this pool we again had the misfortune to be selling at a bad time with international prices falling and buyers sitting back waiting to purchase product at a time most advantageous to them. The majority of the initial prices offered in the tender were so low that we agreed only to sell about 1 tonne of product. The product was re-tendered at set minimum prices and the buyers were informed that if these minimum prices were not achieved then the product would be held in storage until after the Christmas period. This at least bought about some realistic interest and all but 90 kg of the lower grade elk product being sold with prices being within 89–103 % of the equivalent New Zealand sale prices."

A letter to Growers from the then manager Guy Dockrill in 2002

"Dear Growers,

I am writing to you to bring you up to date with the sale of pool B2-2002 as we normally aim to have payments out to producers by now. We have had a lot of interest in the sale of our product with 12 tenders putting in prices. Two of the tenders we received were directly from Korean company which is unusual as these companies normally purchase through New Zealand traders who act as buying agents and of course take a significant commission.

One of these Korean tenders was introduced to us 3 days prior to the close of tenders. They tendered equivalent New Zealand prices. However this tender was conditional on the payment of a significant deposit and the balance in a further 20 days. While this is not in line with our normal payment terms, the difference between the Korean bids and our usual customers was in the order of \$10/kg or \$ 80,000 in total over this pool. Due to the significant price difference and the possibility of a long term arrangement with this customer, the directors of ADH & CP agreed to accept this tender with the balance of payment being due on the 21st of March.

We have received a non-refundable deposit from this buyer and would expect the sale to proceed without complications. However, the product can not be considered sold until it is fully paid for, nor will it be released from our storage until it is. It would be fair to say that dealing direct with the Korean company has been "interesting" and a large trust building exercise for both companies. So please be patient for another 10-12 days as this is a largely new ground for the company. These direct sales to Korean buyers are the only way we can hope to consistently get 100% of New Zealand values."

As we are all well aware, farmers are generally speaking price-takers. There have been those in the velvet industry who have pointed out that we should be paid \$100/kg for velvet. Considering that in the last 20 years the average price of pooled velvet has never been \$100/kg these people would have an enormous amount of velvet in storage. We can interpret from the Guy Dockrill letters that no matter how much velvet we produce and pool, we have no real input as to its value. Buyers will use what ever excuse they can to lower the price of velvet.

Historically the Pools have never collected more than about a half of the velvet grown in Australia. According to the Levies Management Unit, last year the Pools collected about 30% of the velvet grown Australia-wide. There may well be a lot of velvet that is yet to be sold still sitting on farms.

Although the prime reason for considering the abolishment of the Pools is financial, there are other reasons. The Pools have been such a success in the past because of the extraordinary generosity of DIAA members. When the Pools were grading 10 plus tonnes of velvet, it took about 30 volunteers four days to weigh, layout, grade, sort, stack, reweigh, box and move the product to the freezer. There were people collating, noting, checking totals and entering the data on spreadsheets for every grower who contributed to the Pools. The Pools trained velvet graders and employed New Zealanders to oversee our graders. The past managers of the Pools had extraordinary responsibilities and extreme frustrations with respect to facilities, transport and of course buyers, payments, exchange rates and the like. They were all fortunate that they had the support of the DIAA and its members.

In the February Pool this year, about 3.5 tonnes of velvet were bought in by growers – mainly small operators. The larger growers were supplying the road buyers. To help streamline the velvet's sorting were three members of the DIAA – Ross and Diane Lawrence and me. Ross was recovering from a heart attack, Diane was worried about Ross and the proceedings generally and I was also worried about what was happening generally. Growers had said they would turn up on the day and Ross and Diane were left waiting - not even a phone call! The point is: If you want to have a Pool there has to be more help for the organizers. None of us are getting any younger. In the past many of the helpers came in for a chat and a "catch-up" and may have only helped for two or three hours but it all added to the camaraderie of the day and as the old story goes: many hands make light work".

Let's face it, in order to find anybody to organise the Pools, there has to be some financial compensation involved. Considering the time and effort involved, there is no doubt that the Pool's managers must be paid for their efforts. In the past, I believe, all the managers and graders were paid for their time. Whether they were paid out of the Pool's profit, the DIAA or RIRDC anyone in a position of responsibility was recompensed for their time. Since 2009 Ross Lawrence's "salary" has been subsidized by RIRDC (i.e. \$16,000 over 4 years for completion of a research project on the Pools.)

This funding is finishing this year, as the project will be completed, so there will be no money available for the Manager of the Pools. Consider this – the last Pool was run at a loss and the manager's salary has been partially paid from an outside source.

Two options immediately come to mind if the Pools are to be continued. The most obvious is to find a person with the necessary personal skills, time, patience, tact, humour and marketing skills to do the job for nothing. Would you have a go? Secondly, the service charge, which is currently \$2.00 per kg, would have to be increased back to the previous level of \$5.00 per kg so that the manager could be paid for his efforts.

Future Example.

Tonnes of velvet sold in 2013	3MT
Average price of velvet \$80/kg - assuming all velvet supplied is A or B grade	
Gross Income from sales	<u>\$240,000</u>

Less

Levy 1%	\$2,400
Wages, running costs and charges	\$30,000
Net return to growers	\$207,600

Average return to growers \$69.20/kg.

If you have an opinion, or other options, please write a "Letter to the Editor" so that we can get some discussion started before the next velvet season. The directors of ADH have to decide the immediate future of the Pools. If the Pools are to continue – we must decide how to fund it. Considering we do not know how many growers will support us, this is a dilemma. If the Pools are to be temporarily disbanded, it is critical that we organise options for those smaller producers who want to sell their velvet.

As far as I can tell from conversations I've recently had with velvet producers, the prices paid for the Pools and "on-farm" sales were just about identical. How does a small grower know what the bigger growers are being paid? Would a larger grower tell others what price they were being paid? Is it worth 13% (you may lose \$10.80 per kilo) of your velvet cheque to run the Pools?
Let's talk!!

Investopedia - <http://www.investopedia.com>
Ross Lawrence. Personal communications.
Andrew Hansen. Personal communications.