



5 September 2006

## Self-promotion self-evident

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The AWI chairman's attack on my recent comments on the Australian Wool Innovation (AWI) lack of performance over the last three years as being "divisive and ill-informed" illustrates a peak body that is totally in contempt of its grassroots shareholders, and one that will not face the consequences of its own actions.

For the record, I am, and have always been, a strong supporter of AWI, however I cannot see how a company that has failed so many of its shareholders in so many areas away from its core business (R&D) deserves any financial support without a radical restructure plan.

In recent weeks I have been accused of not seeing the "big picture" and to those people I can only say that they have they have a very jaundiced political view of the wool industry.

In 2003 we could see the need for a targeted marketing program and with our industry slipping and our marketing arm starved of funding; we advocated a 0.5% levy for AWI for R&D, with a desire to shift a major portion of the available funds into The Woolmark Company for marketing joint ventures.

Now we have an industry in freefall, and a lot of stakeholders in the wool industry (not only growers) are calling for a radical overhaul.

In this month's Farm Journal, Editor Pat Francis is seeing the big picture and calling for change. He is quite rightly calling to "put some financial clout in the hands of marketing experts and change the proportion of levy distribution so 75% or more is used to promote Merino fibre in conjunction with manufactures and retailers". Of a 2% levy, that leaves 0.5% for R&D, comparable to other industries and enough money to pursue wool harvesting and mulesing in a logical, fully focused manor, without the political angst.

This year's woolpoll is already clouded with politics. As Andrew Russell explained at the Hamilton Sheepvention breakfast in early August, "with the honey pot (levy) comes politics. The bigger the honey pot the more political it gets." He also suggested he was not in favour of "cold turkey (0%)" as a means of controlling political allegiances.

The "big picture" as I see it is one of a GLOBAL wool industry; where Australia's considerable IP, genetics, and expertise, are exploited internationally to lift consumer demand for woollen apparel products. I believe we should have a dedicated R&D company, AWI, receiving 0.5% levy, TWC receiving 1.5% and an overriding council of international natural fibre coalition, to give leadership, and set a global strategy.

At this years World Merino Conference, keynote speaker Michael Lempriere suggested that leadership, direction, and customer focus was lacking in the wool industry at the moment, with a clear correlation between reduced consumer interest and the cessation of consumer marketing.



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At the same conference, Laurence Modiano stated in a clear message against the current industry leadership and direction “We have precious little time to take our crippled, fossilised industry and prepare it for change”.

I concur completely, as these themes ran strongly through my address to growers and delegates at last September’s AGM.

Both gentlemen are visionary industry leaders. It is very short sighted of us not to utilise people of this calibre for their global commercial expertise.

In 2000 the then chair of the Interim AWS Advisory Board, David Webster, said “Control of the industry has been placed fairly and squarely in the hands of woolgrowers. Woolgrowers will have much more power than normal shareholders because in this arrangement they have the power of supply.” He goes on to say “Quite clearly, if the new company does not perform, growers and shareholders have the power to pull the rug out”.

By law, 0 (zero) is one of the options. What makes it a very real option is AWI’s continuing denial that there is any problem at all with the Merino wool industry.

The most recent comment by the AWI chairman that “it is not brilliant, but is not too bad” illustrates how out of touch he is with the real wool industry.

What he should be saying is “it is not brilliant, and we should be doing a lot better”.

Putting AWI’s future even further at risk is CEO Len Stephens endorsement of ACIL Tasman’s performance review. In his enthusiasm to embrace the figures he proves he has no understanding of the content. The board should have strongly advised against tabling such rubbish.

We know that AWI has spent more than the reported \$162 mil because a substantial amount of fiscal reserves have been spent also. We must at least get the starting point right so we can all make an informed vote at woolpoll.

The campaign against animal rights group, PETA, has entered a new phase and is not going well. CEO Len Stephens should bring us up to date with the cost and current status of the court case before woolpoll. In the ACIL Tasman review, it has been reported that the cost of the legal action is around \$5 mil, about the same costing that AWI put on the action at the AGM one year ago. A lot has happened since then and you can bet AWI’s lawyers and PR team have not been working for the gracious experience and love for our industry. To see why this strategy was dangerous and flawed from a marketing perspective, I urge every interested person to read in full Andrew Russell’s very comprehensive industry study and pay particular attention to pages 24 and 25.

This strategy was always going to fail, and the cost horrendous. To walk away would have cost nothing and the mulesing deadline, fallout and panic would never have happened.

My criticisms of AWI over the Benetton deal proved to be correct and the spin that AWI has put on it has proved to be nonsense. That ACIL Tasman has found that “other” 49 projects that AWI are



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investing in their “off farm” portfolio are going to amount to “\$55 mil in the next four years”. The Benetton deal, on today’s price, would have been worth \$16 mil over just two years of the project if were able to double Benetton’s use of Australian Merino wool, as claimed by AWI.

For AWI to brush off the Benetton failure as inconsequential was an outrage. For ACIL Tasman to question the value of marketing programs is even more outrageous.

The integration of TWC and AWI looks certain. In 2000, at the second reading of the Wool Services Privatisation act, minister Truss stated, “that AWRAPs successor will have two principal subsidiary companies. The creation of the two subsidiaries allows for transparency and contestability in the expenditure of levy funds”.

The technical and legal issues that will arise because of the proposed merger are very complex. To say the signing of an MOU has “solved” the problem and to vote at woolpoll as if the “issue does not exist” is naive in the extreme.

That there was no debate about the future structure of the merged entities, and no real solution to the UK pension fund issue was again to hold shareholders of both companies’ in contempt.

The wake up call that has been sounded over the last three years unfortunately has fallen on deaf ears at AWI. The latest production forecast maybe as low as 350 million kgs, about half of just four years ago, and the EMI is down more than \$2.00 clean/kg since last Woolpoll.

There are a lot of growers who will vote 0% (zero), and that is their call. We know at least one AWI board member voted for 0% at the 2003 woolpoll, I am just reminding growers to look at their level of investment and vote accordingly. Growers need some sound leadership and a fully committed change of direction or growers will have little choice other than to exercise the “rug out” option.

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