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An update on the Australian Wool Industry by AWGA Director C Olsson.

Over the past 5 years.

Over the past 5 years, the wool industry has undergone very difficult times. The reason for wool's survival is because of the demand and price for sheep meats. Over the past three years, Lamb prices have saved our wool industry, at a time when wool prices virtually collapsed .

In my opinion, the industry R@D approach to levy expenditure over the past 5 years has provided very little return for the \$300 million spent in “ on farm” areas. Indeed, on farm costs in areas such as farm labour costs, shearing, workers comp, insurance, fertiliser and other farm inputs have all risen considerably, despite the millions poured into research trying to find ways to reduce our input costs.

Many wonder how we have benefited from this huge expenditure of growers money. With over 10,000 growers leaving the industry, and a virtual collapse of wool prices over the past 4 - 5 years, it is no wonder there has been a confidence crisis in our industry.

Many growers have simply lost confidence in the rudderless direction of our industry. Recent wool prices have finally risen owing to a perceived chronic shortage of quality wool, owing to the exodus of growers from the industry by virtue of drought and continuing poor returns from wool enterprises. Finally, it has taken a true shortage of supply to invigorate demand and increase the farm gate wool price.

The challenges ahead.

Recently, the AWI board decided to become more marketing focused. This is good news, and something the AWGA has been advocating for the past four years. We believe that there still must be sensible R&D programs, but balanced with over arching marketing programs. We believe there should be an 80 % spend on marketing and 20 % for R&D. We feel that this policy will give us the greatest chance of increasing demand for wool.

The real issue for our industry is that we have virtually ceased communicating and engaging with our customers. The question is who are our customers? Some say mills and processors. I can't agree. Our real customers are divided into two groups.

1. Potential and existing retailers of woollen attire, and
2. Unlimited Retail consumers.

These two markets, once we invest in them, will increase demand for our excellent fibre. Wool has a wonderful story to tell. Retail consumers have forgotten about wool, and need to be reminded. Our industry has simply been out - competed by other fibres in the world textile market. It is sad that we have not even had a go, but rather, let these markets be taken from us without even a fight.



AWGA - News Update

Recently, a new CEO was appointed to AWI. He comes from a strong marketing background, and this is excellent news. The AWGA fully support his appointment, and believe that AWI are now, at long last, beginning to listen to shareholders.

Concerns for the future

1. No industry strategic plan. Where are we going? What markets will we hope to capture. What wools should we grow? Are we growing too much of one type. What are the expected volumes required for different markets. What are forecasted wool prices for these markets? Where do we want to be in 10 years? How much wool will be needed then if our strategies are successful etc.

It is vital that we have a strategic plan for all of us to follow.

2. Three extra ordinary items of expenditure, causing concern.
 1. Wool mark/AWI merger
 2. Extra wool marketing budget
 3. Federal court case against animal rights groups.

These will all be extremely costly. The question is where is the money going to come from to fund these activities. The Federal court case will run into 10's of millions alone... with this in mind, from my understanding of existing budgeted expenditure at AWI, we may not be able to meet our future commitments if such a court case is undertaken. AWI has done an excellent job in the hunt to find alternatives to mulesing, and is continuing to do so. This is enough for our retailers and customers.

Therefore, to meet these extra ordinary items of expenditure:

- a. The levy may have to increased.
- b. or, AWI will have to embark on profound cost cutting programs.
- c. or, all of the above

3. The Wool Mark/AWI Merger.

The Woolmark is still highly recognised throughout the world. In a recent trip to US retail stores, it was evident to me that the Woolmark team have been doing their job brilliantly. There were many high quality Woolmark branded suits in large retail outlets, very well displayed. The USA is definitely where we should focus our marketing efforts as a number one priority to boost wool sales.

The merger presents an exciting proposition to re invigorate the Woolmark brand once more. I have no doubt that AWI and Woolmark integrated together will boost wool's image to the world . In essence, this merger is one of Ian MacLachlan's most innovative strategies to date, and represents a surprising and welcome departure from his previous R&D mantle.

Therefore, the merger is essential, but we suggest that careful diligence should be employed in the following areas.

1. We must protect the assets of Woolmark. Shareholders need some protection of the remaining values of brands and assets left at Woolmark. A merger simply can not happen unless some caveats exist in this regard. Both AWI and Woolmark have completely different



AWGA - News Update

company structures bound by Australian company law. We must protect Woolmark shareholders as a priority. For example, as a minimum, at least three Woolmark directors must be brought across to the new merged board to protect Woolmark shareholders' asset values, and they must be given tenure for a period of at least two years.

2. Where is the structural and procedural plan on how the merged entities will operate? There appears to be very little detail or due diligence on this critical aspect of planning, that we know of. I do not know of any other company or institution in Australia that would address these details once the merger took place.

3. Growers will not tolerate a return to the days of AWRAP.

There must be a guarantee of a reduced administration structure of the new merged entity, before the physical completion of the merger. We suggest a song line titled, " More money into marketing, less into administration."

The Good news.

AWGA believes that the world is awakening once more to the possibilities of wool. We know that wool is an international commodity that crosses all boundaries, countries, religion and prejudice. It is a miracle fibre that needs its story told to the world..

If our industry truly embraces a desire to market and promote wool again, and I believe there is a strong chance of this, there will be exciting and profitable times ahead for Australian wool. In this regard, we have faith that the new CEO will know what needs to be done at AWI.

My advice to the Australian farming community is this. Think about restocking merino sheep on your property as soon as possible while they are a good buy. Wool is on the move again.

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