



Productivity Commission submission June 2010

Australian Wool Growers Association - AWGA

The Australian Wool Growers Association was formed in 1996 to represent woolgrowers and be a strong and independent voice. AWGA is unique among farmer representative organisations as it has a "wool and sheep only" focus.

AWGA is widely regarded as being involved in the sweeping reforms in the wool industry between 1998 and 2001, which led to the creation of Australian Wool Innovation (AWI) as a grower-owned Marketing and Research company. AWGA's role is on-going as there is continued Federal Government involvement and influence within the Australian wool industry. Maintaining woolgrowers' democratic rights to vote for Board members of AWI is of critical importance.

AWGA has been set up on a national platform to give woolgrowers and industry members direct and easy representation to AWI, governments, media and through the wool industry pipeline.

Contact: Martin Oppenheimer, Chairman 0413 580 040 02 6777 2124

SUMMARY – KEY POINTS

- 1. National flock begins to stabilise**
- 2. Woolpoll 2009 – a vote of confidence by growers**
- 3. What Australian wool needs now is stability**
More structural change will put the wool levy in doubt
Industry Restructures - the cause or solution to Industry failure?
- 4. Collective Research and Marketing is important**
Combined Research and Marketing is essential
Aussie Lamb is an example of effective Research AND Marketing
- 5. Australian wool needs a 'wool only' organisation**
Forming a "super RDC" in the attempt to solve overhead costs will not work
- 6. AWI must continue to pursue a demand-led strategy**



The current position – Australian national flock begins to stabilise

In 2010 the Australian sheep and wool industry is anticipated to see the national sheep flock begin to stabilise in sheep numbers. This follows a period of decline since the early 1990's. The shift to sheep meat and lamb production is predicted to continue, so wool volumes will continue to decline if wool values do not increase by a minimum 15-20%. Grower confidence in the long-term future of wool is still in the balance. Recent favourable seasonal conditions in south-east Australia and record prices for merino, merino cross and meat breed ewes has encouraged a higher ewe retention and breeding flock in 2009/10.

Woolpoll 2009 – a vote of confidence by growers

The conduct of Research, Development and Marketing with Australian Wool Innovation (AWI) appears secure following the Woolpoll vote by growers in 2009.

The result was:

1. 73% of votes supported a compulsory levy of 2% or more
2. 33% voting papers were returned
3. 54% of eligible votes were cast
4. This was a larger participation vote than Woolpoll 2006 despite a reduced spend on the conduct of the Poll.

Woolpoll 2009 supported the strategy of spending 70% of AWI funds on Marketing activity and 30% on Research.

What Australian wool needs now is stability

The wool industry desperately needs a period of organisational stability now. Since 1936 the Australian Wool Industry has had 23 Government legislated and woolgrower funded research, marketing and testing organisations averaging 3.2 years per organisation.

During the last eighteen years, since 1991, we have had 13 wool organisations averaging 1.5 yrs per organisation. See Australian Wool Industry Bodies, Committees & Acts below.

These constant changes to Australia's wool Research and Marketing have damaged the sheep and wool industry and confidence of those involved. Governments are usually involved in the changes, with legislation involved. The majority of growers do not want structural change at AWI at this time. The Woolpoll 2009 result backs this case.

More structural change will put the wool levy in doubt

If there continues to be major structural changes to Australia's wool Research and Marketing bodies, and Australian Wool Innovation, or major changes that restrict grower shareholder democratic rights to hire and fire their AWI Board representatives, **the 2% compulsory levy will be in doubt.**



Collective Research and Marketing is important

If growers did decide to vote against a compulsory levy at a future Woolpoll then there will no longer be collective levy based Research and Marketing of Australian wool. Collaborative work that AWI conducts, on behalf of growers, with MLA, CRC's, CSIRO and State Departments of Agriculture and other companies and organisations, would end. This is not what growers want.

Combined Research and Marketing is essential

It must be emphasised that having AWI with the ability to conduct Research **and** Marketing is essential for industry growth and success. The splitting of Research and Product Innovation, conducted by AWI with the 2% compulsory levy from growers, and Marketing by The Woolmark Company without any levy, was a serious mistake by all involved in the period 1998-2001.

For a specialist and niche product like wool, Research without Marketing is unlikely to succeed, and history since 1998 backs this case with industry decline.

Aussie Lamb is an example of effective Research AND Marketing

Our own lamb industry is a good example to show the potential advantages of effective Research and con-current Marketing programs. The Australian lamb industry would not be the success it is today, with steady growth in demand, increases in volume sales and value, if Meat and Livestock Australia (MLA) was only able to conduct Research. MLA has always had the ability to conduct both marketing and research programs for the Australian lamb industry. This is considered logical with lamb, but unfortunately for wool, the potential of effective marketing has been misunderstood and undervalued.

From 2000 to 2007, Australian wool industry policy setting was dominated by people who were convinced that only Research, Extension and Product Innovation would advance the industry. This has clearly failed and growers have voted with their feet, leaving the industry.

An inclusive "Whole of industry" policy setting vehicle is missing in the Australian wool industry.

The Australian lamb and sheep meat industry have successfully used the "Whole of industry" strategic planning process to effectively guide Industry policy. The sheep-meat strategic plan has then guided Research and Marketing for the next 5-10 years and longer.

The Australian wool industry started an inclusive "Whole of industry" strategic planning process in 2005 with assistance from the Federal Government under the Department of Agriculture, Fisheries & Forestry Partnerships program. Goal setting for 5-15 years was a central theme with a "Wool 2020 Vision". Unfortunately resistance from the then leadership of AWI through 2005/06, plus the distraction of industry leadership with animal welfare issues caused this initiative to fail.



Woolgrower shareholders of AWI have used democracy to change industry policy

Woolgrower shareholders of AWI have taken matters into their own hands and demanded a more balanced Research and Marketing approach, as in lamb. The effective and clearest way to implement change has been the democratic election process at AWI Director elections. Australian woolgrowers understand clearly how politics and democracy works, and have changed wool policy to the current version of AWI and Research/Marketing spend ratios.

On farm research, which is important, was over funded during the 2003-2007 period, which created duplication with other RDC's and industry. In some cases there was repetition of old research, which had clearly not been either promoted effectively to industry, or was not effective or practical.

Product innovation shows a similar story where the processing industry and brands, being closer to the consumers, may actually be more effective.

Australian wool needs a 'wool only' organisation

Australian wool needs a 'wool only' Research and Marketing organisation. This is particularly important as our markets are global. Suggestions of a "super RDC" merging AWI with MLA will not work. Woolgrowers will not support the Director voting system at MLA and the levy will be lost. There is also the potential conflict of interest between wool and meat strategies but more concerning is the conflict of enterprise choice between sheep and cattle.

There has been conflict in the past between funding streams within MLA between sheep and cattle programs influencing farmers to change enterprises.

Overhead costs at AWI must be reduced

It is hard to establish the exact overhead costs of AWI, as costs are split between company overheads and project costs. In the past year overall AWI costs have been reportedly reduced by over \$25 million. Estimates are that overheads account for more than 30% of the budget, which is considered too high. Further reductions in overhead costs need to be achieved and more funds directed towards project spending.

The solution to this issue is an organisation that is clear and focused on what it can do and what it cannot do. AWI must not attempt to be the solution for all things in the wool industry. AWI can be a lean and frugal organisation, with low overheads, yet still be effective.

Forming a "super RDC" in the attempt to reduce overhead costs will not work, as woolgrowers will lose control of their levy and vote against a levy at Woolpoll.



Critical facts about the Global Apparel Wool business

Global sales of wool apparel is around US\$80 billion per annum, which equates to around 8% of the global expenditure on clothing of all types (US\$1 trillion pa). This expenditure is dominated by 10 key regional markets, 5 of which account for 2-thirds of sales income to the Australian wool industry.

Wool's 8% share of consumer spending on clothing contrasts with 1.5% volume share. Wool is an expensive fibre, relative to its mostly cheaper traditional competitors, cotton and synthetics. Wool's volume share is largely a meaningless statistic, not only because about 90% of the reduction in volume share has been due to increased production of synthetics and cotton, but also because what matters most is the sales income generated per kilogram of product offered to consumers.

Close to 60% of global wool sales income is for wool knitwear and around 40% is woven wool fabrics. Mostly due to the higher processing costs associated with the woven process (a massively higher amount of yarn twist per metre of fabric and higher garment makeup costs), raw wool makes up around 6% of the retail price of knitwear and 2% of the retail price of woven products. Woolgrowers have a 3-fold greater value share in knitwear.

Australian growers receive around 3% of the consumer spend in wool apparel.

As suppliers of a raw material in a long pipeline, Australian woolgrowers receive *last price* (net of costs and profits associated with conversion to the retailed product). That is around 3% of consumer spend.

Consumers invest on average around US\$195 to buy each kg of retailed wool apparel. For Australian wool prices to rise, consumers need to invest more to buy each kilogram of fibre.

Consumers determine industry fate, through their spending. The income to Australian woolgrowers, AWI and pipeline partners is basically totally dependent on the amount consumers spend to buy the kilograms of wool Australia produces.

AWI must continue to pursue a demand-led strategy

Ultimately, success for AWI and shareholders is increased Australian wool value. Consequently, AWI has no choice but to pursue a demand-led strategy.

Australia is the global leader in production of apparel-type wool (especially less than 19.5 micron). Others are much better at above 24.5 micron. Free-riders on our demand-building efforts proliferate from 19.6-24.5 um, and totally dominate above 24.6 um.

AWI cannot ignore 15 years of concerted grower action. That is, demand and production have shifted to fine apparel and meat production. Driven by the fining up of the clip, the average price of wool in Australia has been slowly rising, at around 1.7% pa in AU terms, but rising rapidly in US\$ terms at around 6.1% pa.



Australian growers have been responding to market needs

Australian woolgrowers have been responding to market needs by increasing production of low micron fibre used in high retail value per kg products such as lightweight knits and luxury wovens. These use more square metres of fabric per kg and high numbers of retailed units/kg.

Australia cannot be the lowest cost of production (COP) supplier. Australian labour costs are around double that of competing wool suppliers. Australia has relatively expensive land, and large distances to processors and consumers. To be the best at low cost of production would further decimate local industry and rural communities, as less people would be involved in production.

Australian farmers will continue to invest in wool production, if they believe it has a viable future. Reducing COP is an *off-strategy* focus for AWI, since if demand for wool continues to fall, it won't matter how cheaply Australia produces the fibre. Australian Research and Marketing needs to focus on issues which increase wool's value per kg.

AWI's first priority must be to grow demand, not increase production.

SUMMARY – KEY POINTS

- 1. National flock begins to stabilise**
- 2. Woolpoll 2009 – a vote of confidence by growers**
- 3. What Australian wool needs now is stability**
More structural change will put the wool levy in doubt
Industry Restructures - the cause or solution to Industry failure?
- 4. Collective Research and Marketing is important**
Combined Research and Marketing is essential
Aussie Lamb is an example of effective Research AND Marketing
- 5. Australian wool needs a 'wool only' organisation**
Forming a "super RDC" in the attempt to solve overhead costs will not work
- 6. AWI must continue to pursue a demand-led strategy**



Australian Wool Industry Bodies, Committees & Acts

Industry Restructures - the cause or solution to Industry failure?

1	1936	Australian Wool Board
	1941	The Central Wool Committee (CWC)
2	1944	Wool Research Trust Fund (Levy funded)
	1945	UK Dominion Wool Disposals Ltd
3		Australian Wool Realisation Commission (AWRC) Wool Consultative Council
4	1953	Australian Wool Bureau
5	1957	Australian Wool Testing Authority
6	1963	Australian Wool Board
7	1968	Australian Wool Marketing Corporation Pty Ltd
8	1970	Australian Wool Commission
	1972	The Wool Industry Act 1972
9	1973	Australian Wool Corporation
10	1982	AWTA Ltd
	1987	Wool Marketing Act 1987
	1990	Flock Reduction Scheme, National Marketing Quotas
	1991	Australian Wool Corporation split into;
11		- Australian Wool Realisation Commission (AWRC)
12		- Australian Wool Corporation (AWC)
13		- Wool Research & Development Corporation (WRDC)
14	1993	Wool International (WI) replaces AWRC
15		Australian Wool Research & Promotion Organisation (AWRAP) replaces WRDC Wool Processing Taskforce
16	1994	AWRAP & International Wool Secretariat (IWS) merge
17		Australian Wool Exchange (AWEX)
18	1997	The Woolmark Company Pty Ltd * (TWC) established under AWRAP
	1998	Commonwealth Gov. announces to privatise WI Interim Advisory Board
19	1999	Woolstock replaces WI Wool Taskforce Report
20	2001	Australian Wool Services (AWS)
21		- Australian Wool Innovation Pty Ltd (AWI)
22		- The Woolmark Company Pty Ltd
	2002	AWI separates from AWS
23	2007	AWI acquires The Woolmark Co from AWS

Since 1936 (74 years) we have had 23 wool organisations:

Averaging 3.2 yrs per organisation.

Since 1991 (19 years) we have had 13 wool organisations:

Averaging 1.5 yrs per organisation.