

Senate Rural and Regional Affairs and Transport Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Supplementary Budget Estimates October 2009
Agriculture, Fisheries and Forestry

Question: AWI 01

Division/Agency: Australian Wool Innovation

Topic: Flystrike

Hansard Page: 138 (19/10/2009)

Senator Back asked:

Senator BACK—Thanks, Chair. Mr Merriman, Ms McGahan, I wonder if you could just give us some prediction as to which way you think wool prices are going over the next one to two years in terms of helping wool producers make their decisions.

Mr Merriman—They are trying to go up now, but we have a Reserve Bank that keeps raising interest rates and that puts our dollar up. Our customers are paying more in US dollars, but it is not getting through to us. I do not know the figures over the last couple of weeks, but I think the wool market has risen something like 17 per cent or something in the US. I could take that on notice and find it for you.

Answer:

Many factors impact the price of wool sold at auction in Australia. They include currency movements, credit availability, international stock of greasy wool/wool tops/yarn/fabric, consumer sentiment, climatic conditions, fashion trends, quotas, import tariffs and duties, processing capacities and financial volatility in the markets that consume apparel wool products. On this basis, Australian Wool Innovation (AWI) does not predict wool prices.

The independent Wool Production Forecasting Committee publishes a quarterly report forecasting volume and micron (not price). AWI sources its information from the committee's reports.

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Question: AWI 02

Division/Agency: Australian Wool Innovation

Topic: AWI Governance

Hansard Page: 138-139 (19/10/2009)

Senator Back asked:

Senator BACK—Very quickly, the industry report recently spoke about governance issues. Would you care to comment on how you think they can be improved? Do you accept that criticism that came of governance issues and, if so, can you give us advice on how they are to be addressed?

Mr Merriman—Since the new board was appointed, we identified several governance issues and steps have been taken to address those already. I will just let Brenda take you through them.

Senator BACK—Just briefly. I can take it on notice if necessary.

Ms McGahan—Yes, we can.

Mr Merriman—We will take it on notice

Answer:

The Australian Wool Innovation (AWI) Board acknowledges that its governance, procedures and policy setting must be best practice.

The Board and senior management are working together to address a range of governance issues, including those identified in the Review of Performance. Independent expert advice is being obtained, where required.

The scope of this work includes developing and adopting new strategic planning processes, setting measureable objectives and Key Performance Indicators, and reporting performance against those objectives. It also includes enhanced monitoring of compliance and risk, fraud prevention, and increased opportunities for stakeholder consultation.

AWI had already identified and adopted many of the recommendations in the Review of Performance by the time the consultant's report was presented.

A formal conflicts policy has been introduced. An update of AWI's fraud and risk plans is underway. The company is implementing a new, formal research governance process and framework.

These changes to corporate governance have been progressively introduced since the second quarter of 2009.

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Question: AWI 03

Division/Agency: Australian Wool Innovation

Topic: Flystrike, Merino Fresh garments

Hansard Page: Written

Senator Williams asked:

1. With AWI's announcement in July that it was unlikely to meet the 2010 deadline for eradicating mulesing, has a new timetable been set?
2. What was the market's reaction to the announcement?
3. What percentage of Australian woolgrowers are still using conventional mulesing techniques?
4. Is it affecting our ability to sell overseas?
5. Has there been a backlash from consumers?
6. You mentioned at the may estimates there had been a successful launch of merino fresh garments in Paris and Shanghai; has that interest continued?
7. What age group is being targeted?
8. Is the market growing?
9. Can you update me on what AWI has done to try and get more wool use in homes both here and overseas?

Answer:

1. No. Australian Wool Innovation (AWI) is reluctant to set timeframes for research and development programs, however AWI has developed a communications roadmap. It is important to note that the roadmap reflects the information provided to the industry and marketplace.

Pursuing a deadline approach, not based on sound health and welfare science, may risk a serious deterioration in the welfare of sheep and/or a critical negative impact on the production and supply of wool.

2. There was no appreciable change in the market price of wool following this announcement.

However, the announcement does have implications for the market as it requires retailers who wish to source non- or ceased-mulesed or pain relief-treated wool to institute selective sourcing policies based on this specification.

This is expected to generate increasing inquiries as the market supply and demand system develops. There is evidence of this beginning to occur with reports of increased inquiries for wools with such specifications. At present, however, this remains a small percentage of overall demand for wool.

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Question: AWI 03 (continued)

3. One of the most accurate ways to monitor the actual adoption of growers' practices is through the volume of declared and sold wool through the National Wool Declaration (NWD).

The total volume of wool declared (November 2008 to October 2009) is 31.7 million kg greasy (or 70.9 million pounds) or 25.3 M kg clean.

The following table summarises the change in growers' intention of using different flystrike control options.

DAFWA Survey Results	Feb-09	Aug-08	Feb-08
Prop'n lambs born to be un-mulesed	54%	46%	32%
Prop'n of wool prod un-mulesed	18%	14.5%	11.5%

A similar survey was conducted in 2004 which indicated 5 per cent of growers intended not to mules their lambs. Compared to the 54 per cent in February 2009, this reflects a significant increase in the adoption of alternative flystrike practices.

4. There is no evidence to suggest this. Given the global financial crisis has reduced discretionary spending in the northern hemisphere, wool demand has been relatively strong over the past four months in both USD and AUD terms.
5. No, there is no evidence of a consumer backlash.
6. Yes.
7. The target age group in the fashion sector is the 18 to 32-year-old professionals. This group typically includes white collar workers, who need to look smart for work, however cannot afford to spend too much on a garment's after care ie dry-cleaning bills.

The target group for Merino Fresh work wear and corporate wear spans all ages.

8. Yes, the market for Merino Fresh continues to grow.

AWI is working closely with commercial partners in Japan, Korea, China, India, UK, US and Mexico.

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9. Only a small component of the Australian wool clip is 30 micron (μm) and above and suitable for the interiors market. This represents 1.3 per cent of the Australian clip by volume.

The interior textile sector is divided into three different industries: a) bedding b) floor coverings, and c) upholstery – in order of revenue generation and number of Woolmark licensees.

Bedding

In Japan (the Nishikawa group) and Italy, AWI is focused on product innovation. In Turkey, AWI is actively working with bedding manufacturers on product diversification and increased usage of wool.

AWI participates in a targeted set of international trade events – Heimtextil in Frankfurt and Intertext in Shanghai – to promote the most progressive and innovative bedding products from our licensees all over the world. In 2009, AWI co-exhibited with four licensee partners. Demand from licensee partners has grown such that AWI will co-exhibit with eight partners in 2010.

AWI is currently in discussions with leading domestic partners to develop an Australian program.

Floor coverings

In Europe, AWI is working closely with the machine made wall-to-wall carpet manufacturers of the Benelux region. This includes working with Balta, the largest carpet manufacturer in Belgium. Similarly, AWI is working with St Maclou - one of the largest interior retailers in France with 55 stores - creating tailor-made point of sale materials and retail staff education. One of the most important services provided to these manufacturers is Woolmark Interiors colour and weave trend forecasting.

In India, AWI is working closely with the buying houses of large retail chains such as Ikea and William E Connor to introduce them to the Woolmark Carpet Inspection Services that offers pre-delivery inspection and quality control of handmade woollen rugs and carpets.

AWI is currently working with one of Australia's leading carpet manufacturers.

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Question: AWI 04

Division/Agency: Australian Wool Innovation

Topic: Carbon Pollution Reduction Scheme

Hansard Page: Written

Senator Heffernan asked:

1. What work has AWI done on the impact of the CPRS on the Wool Industry?
2. What has that work shown?
3. Have you considered any alternative policy positions that might provide new income sources for farmers?
4. Have you looked at the way the US Waxman Markey bill treats agriculture and the generations of agriculture offsets?
5. Do you think that would be a good approach for Australia to take?
6. For the past 50 years the wool industry and the accompanying government funding has been doing extension work to get farmers to take up best management practices such as:
 - Switch from set stocking to rotational grazing systems;
 - Unimproved pastures to improved pastures;
 - Smarter application of fertilizer; and
 - Nutrition management.
7. A Waxman Markey style ag offset style scheme would be the first time there would be a chance for monetizing the incentive for growers to take up these management and carbon emission reducing practices is that right?
8. If these offsets were allowed, the money for farmers would be coming from the market and would not be in the form of government assistance is this correct?
9. The tax payer would be pretty happy with that, and they will still be able to buy a June or Humula Roast lamb?
10. The wool industry has a very long pipeline. What are you doing about working with your processors to reduce carbon emissions along the wool pipeline?
11. Wool's ultimate customer is the consumer wanting to buy clothes, if you can work with your processors and growers to reduce their emissions in all stages of production, you would increase demand for your fibre by making it meet consumer preferences, is that right?
12. In the Waxman Markey Bill there is a section calling for the establishment of a US Carbon Labeling system for importation of products into the US, everything from Fendt tractors, Holden Police Cars to Wool jumpers. This could be a huge threat to wool or a monumental opportunity for increased demand if we get all the policy right and you work with your pipeline? What have you done about that?
13. Similarly the UK Carbon Trust is expanding its Carbon Labeling program for consumers, are you doing anything on that?
14. What experts are you working with to assist you with this work?
15. Last week in The Land (15/10/09) there was a Carbon Calculator launched by Australian Farm Institute. It didn't paint a very good picture for people to stay in wool production did it?
16. That work was funded by the Australian Government, is that right?

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Question: AWI 04 (continued)

17. So the Farm Institute is pushing the government's story for ruining agriculture and wool production?
18. The Chairman of the Farm Institute is John Keniry, is that right? Isn't he the bloke cruising AWI and the upcoming elections? Wasn't he on the board of AWI until recently? Why would he be pushing for the destruction of the wool industry and agriculture by pushing the government's policy on the CPRS?

Answer:

1. Australian Wool Innovation's (AWI) current focus is in four areas:
 - AWI has conducted a detailed assessment of its carbon footprint across the entire wool supply chain, from cradle to grave.
 - AWI works with external partners such as the Australian Farm Institute and has examined the costs to growers of the CPRS, and also considered the impacts of alternative models such as the US Waxman Markey approach.
 - AWI has been working with the grower representative bodies and the International Wool & Textile Organisation in development of an industry policy framework relating to carbon.
 - AWI is instituting a call for ongoing R&D projects to ensure that the intrinsic carbon value of wool and wool production is adequately recognised and accounted for in any CPRS policy so that farmers will have maximum opportunity to contribute to and profit from wool-related global carbon emissions reduction
2. AWI's research has shown that:
 - While the Australian wool industry generates only approximately 1-2 per cent of national emissions, inclusion of the sheep industry in a CPRS cap would have profound negative economic consequences for Australian growers in terms of reduction in Gross Value of Production and production levels.
 - Australian wool is consumed around the globe, and there are gaps in our knowledge of the implications of the various carbon pollution reduction schemes being considered and implemented.
 - The industry has the potential to make a significant contribution to reduction in the global carbon footprint by:
 - a. on-farm, ensuring growers have the ability to generate compliance-level 'C' credits (eg soil sequestered carbon) from activities other than agro-forestry.
 - b. Post-farm gate, working with the major processors of Australian wool.
 - c. That there may be enormous potential to capitalise on the natural carbon sequestration and thermal efficiency attributes of wool fibre to reduce global emissions due to burning of fossil fuels for heating and cooling. Forty per cent of European carbon emissions are due to buildings – principally heating requirements.

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3. Yes. While it is not AWI's role to generate policy on carbon for the wool industry, we have considered and will continue to consider the implications of differing emission trading models for the industry.
4. Yes.
5. In principle, yes.
6. No question asked.
7. It is feasible to have a carbon accounting system which encourages sheep growers to sequester carbon on their farms, through adoption of improved farm management practices.
8. This would be determined by the design of the model implemented and market forces.
9. No question asked.
10. AWI is working with processor partners globally to help them to adopt research outcomes in the interests of Australian growers. These include R&D outcomes which help processors to become more efficient, while also establishing and communicating their green credentials. There are also great opportunities to work with processors to benchmark and further improve their carbon footprint.
11. AWI knows from consumer market research that the natural and green credentials of wool are important to wool consumers and that global consumers, especially young adults, are increasingly concerned about the environmental attributes of consumer products. The carbon labelling systems under consideration in a number of key markets are an example of this shift.

AWI believes wool has a positive environmental story to tell and is working with processor and retailer partners to do that.

12. The foundation of any carbon labelling is a product life cycle analysis. AWI has completed a detailed life cycle analysis for the whole industry, from soil to shop, and back to soil. What this has shown is a lot more information about the supply chain, garment wear, and recycling is needed.

AWI will be working with processor partners in this area.

13. Refer to question 12 above.
14. AWI is working with a range of external and internal experts.

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Question: AWI 04 (continued)

15. AWI believes it is important to consider the full range of models and tools.

Questions relating to the models developed by the Australian Farm Institute are best directed to that organisation.

16. See answer to question 15.

17. See answer to question 15.

18. See answer to question 15.