

australian wool

innovation

pty Ltd

## Statement of Corporate Intent 2001

This Statement summarises AWI's objectives, forward intentions, changing investment approach and principles, projects underway in 2001 and projected budget.

AWI has prepared an initial Strategic Plan 2001 to 2004.

see [www.wool.com.au](http://www.wool.com.au)

Industry issues, priorities and investment strategies will be further developed in the AWI Strategic Plan 2002-2005.

### AWI is owned by and working for Australian wool producers

Australian Wool Innovation Pty Ltd (AWI) is private company wholly owned by Australian Wool Services Ltd (AWS).

AWS was established on 1 January 2001 in response to the demand by wool producers in 1998, to own and control the organisations investing their levy contributions. Australian wool producers hold all the shares in AWS. see page 4

### Mission – the reason AWI exists

*To drive innovation that will increase the profitability  
and sustainability of Australian wool producers.*

AWI invests wool levy funds paid by wool producers plus R&D contributions from the Commonwealth Government, into research and innovation for the benefit of the Australian wool industry and the Australian community.

Levy funds will support wool product innovation by AWS, but will no longer be used for generic wool promotion activities.

AWI also exists to serve the producers' clear call for major change in the processes by which industry funds are invested.

**AWI intends to reshape the way wool industry research, development and innovation is delivered.**

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## Charter

The framework for AWI's activities is provided by:

- The **expectations** of the industry when establishing AWI, and shareholder decisions indicated through General Meetings of AWS and polls. *see page 4*
- The **Statutory Funding Agreement** among the Commonwealth Government, Australian Wool Innovation and Australian Wool Services. *see [www.wool.com.au](http://www.wool.com.au)*
- The **AWI Constitution** [www.woolshare.com](http://www.woolshare.com) plus the **Corporations Law** governing company and director responsibilities, including to shareholders.

In developing the new structure for wool industry organisations, producers stressed the need for change, action and delivery of commercial outcomes.

*"Woolgrowers have been waiting a long time for the chance to take control of their industry's research and development activities ... A succession of government-appointed AWRAP Boards have failed to deliver commercial outcomes for woolgrowers..." Wool producer representatives, Media release 19 October 2000.*

## Scope of operations

**AWI is empowered to, and intends to, undertake various activities**, including:

- Providing funds for Research, Development and Innovation
- Facilitating the dissemination, adoption and commercialisation of the results of research and development
- Managing, developing and exploiting Intellectual Property (patents, trade marks, plant varieties) arising from R&D activities; and
- Providing wool industry services not otherwise widely commercially available to Australian wool producers.

AWI may also collaborate with the Commonwealth or State Governments and agencies on activities that may be beneficial to the wool industry.

## Other responsibilities (from Statutory Funding Agreement and AWI Constitution)

**AWI intends to meet all statutory, contractual and good business requirements.**

AWI must conduct a poll of wool producers every three years on the rate of the wool levy. The next vote will need to take place by 1 January 2004.

Wool Services Privatisation Act 2000 s32

AWI must not provide grants or otherwise financially assist an industry body representing wool producers (or any agri-political activities). AWI may obtain services in a transparent and competitive manner from such bodies.

AWI cannot pay dividends to present or future shareholders. All profits made by AWI must be used to further its activities. AWI is exempt from income taxes.

## Investment goals

**AWI intends to achieve a set of strong outcomes by investment of funds.**

### **1. Improved long term profitability of wool production in Australia through application of innovation toward:–**

*Reducing costs of production*– Defining/ benchmarking costs and then contributing to reducing average unit cost of production of Australian wools

*Improving wool quality* – Defining wool quality criteria and improving quality

*Reducing costs of supply* – Lowering the costs of selling and transferring wool to customers, including through addressing technical and trade barriers

*Reducing threats/increasing market access* – Anticipating and assisting wool producers to circumvent trade and related threats to profitable production, and

*Increasing usefulness of wool* – Identifying and developing technologies that will increase wool's usefulness in world textile markets.

### **2. Over time, less AWI reliance on the statutory wool levy without reducing the overall level of funding for research and innovation by:–**

*Maximising IP value* – Increasing the benefit to Australian wool producers of intellectual property held by AWI

*Achieving returns on funds* – Ensuring the achievement of a commercially acceptable rate of return on AWI funds invested, and

*Developing a sustainable capital base for procuring innovation* – Utilising IP, assets and investment returns to build a capital base to sustain ongoing research and innovation.

## Outcome philosophies

**AWI intends to produce the best direct and measurable returns for funders** (wool producers and the community). Projects need to turn around more rapidly and results be fully commercialised.

**AWI intends to provide tools to producers to aid their business operations.** Given different production priorities and drivers, producers will decide whether to test and adopt specific innovations. AWI will work to assist understanding.

**AWI will support viable projects with outcomes benefiting various sectors along the wool pipeline.** Improved operations at each stage should increase returns to Australian wool producers and to the Australian community.

Project outcomes should potentially benefit a substantial proportion of the stakeholders in a sector and ultimately AWI producer and community funders.

## AWS and AWI structures

Australian Wool Services (AWS) is the holding company for Australian Wool Innovation (AWI) and TWC Holdings Pty Ltd (TWCH) – which in turn owns The Woolmark Company Pty Ltd.

AWS is owned by 36,000 wool producer shareholders, with 'A' and 'B' class shares.

At an AWS Annual General meeting :  
'A' class shares carry voting rights regarding AWI.

'B' shares carry voting rights for TWCH.

'A' class shares are fixed with wool producers and are not intended to become tradeable.  
'De-merger' of AWS would make AWI and TWCH separately owned companies. TWCH 'B' shares could be tradeable

Directors of Australian Wool Innovation are the 'A' group directors of AWS.  
Ms Maree McCaskill (Chair) Mrs Patricia Murphy Mr John Patten,  
Dr Michael Staley Professor Andrew Vizard  
plus, AWI Managing Director, Mr Col Dorber.



See: [www.woolshare.com](http://www.woolshare.com) ... News Speeches to IWTO May 2001 provide background on AWS and TWCH.

## AWI Governance

**The AWI Board aims for best practice in corporate governance and intends to continue to develop governance practices as the company evolves.**

The primary role of the AWI Board is to optimise company performance in order to achieve its mission. In pursuing this, its functions include:

- Adopting the company's strategic aims
- Appointing the leadership required to put into effect the strategic aims
- Monitoring the management of the business and the Managing Director
- Ensuring compliance with the Statutory Funding Agreement and Constitution
- Ensuring systems of financial control, information management, legal compliance
- Convening meetings of the company
- Ensuring compliance with key policies, regulations and controls, and
- Reviewing its own performance.

**AWI is developing systems and processes to ensure professional operation.**

For example:

- Procedures for directors and staff to disclose any potential conflicts of interest
- Enabling the Board and committees to obtain independent professional advice
- Providing guidance to AWI employees on how to deal with business issues by preparing company values and code of ethical conduct policies.
- Principles and practices for risk management.

AWI's auditor is PriceWaterhouseCoopers.

## Accountabilities

**The AWI Board is accountable to AWS and ultimately to AWS 'A' shareholders (wool producers).** Day-to-day operations are delegated to the Managing Director who is accountable to the AWI Board.

General meetings of AWI may be called by the AWI Board at any time, or by shareholders (AWS is the current sole shareholder of AWI) where entitled to do so by the *Corporations Law*.

Under the Australian Wool Services Constitution ([www.woolshare.com](http://www.woolshare.com)) wool producers as shareholders may vote at AWS Annual General Meetings (AGM) and General Meetings. An AGM considers accounts and reports required by law, elects Directors, and transacts business under the Constitution or special business. Four AWS directors (two AWI) will retire before the first AGM and are eligible for re-election.

**AWI is also accountable to the Commonwealth Government under the Statutory Funding Agreement (SFA)** ([www.wool.com.au](http://www.wool.com.au)). AWI invests levy funds (2% of sales of wool) that are collected under federal legislation, plus Commonwealth R&D contributions. Matters covered in the SFA include:

- Management and usage of funds
- Conducting polls of wool producers
- Levy payers as shareholders
- Strategic Plan and Guidelines
- Operating Plan and reporting
- Reviews of Performance

AWI's expenditure is subject to audit by the Commonwealth Government to ensure accountability to wool levy payers, Parliament and taxpayers. AWI the company, its directors, staff and contractors are subject to the law of the land.

**AWI intends to report properly, consistently and usefully to wool producers, other stakeholders in the wool chain, and to Government.**

## Communication and consultation

**AWI intends to consult in various ways with stakeholders to facilitate progress towards objectives to benefit of the wool industry.** AWI invites communication from wool producers, researchers and others. AWI will develop a realistic communication strategy with wool producers and organisations.

A Wool Advisory Group (WAG) has been established by AWS and will provide advice to AWS and AWI from time to time, to assist director decision-making.

**AWI intends to establish a Commercial Advisory Group and an Eminent Scientists Advisory Group.** These, plus informal committees, will provide AWI with professional and impartial advice from time to time on R&D and innovation.

An active and informative website is operating. AWI will be open about project criteria and selection. Producers will have access to project status and results.

## Operational approach

**AWI intends to be commercially focussed in achieving objectives and returns for Australian wool production businesses and the Australian community.**

**AWI intends to contain management costs, by:**

- keeping the organisation focussed on results
- with a small, flat executive structure
- supported by outsourced specialist services
- establishing formal portfolio planning and project management systems.
- ensuring decision-making processes are open and well-managed, with effective linkages to producers, government and service providers.

## Investment principles

**AWI intends to achieve strong outcomes by concentrating on a number of active, high impact programs, while considering all project ideas objectively.**

- Systematic decision-making will be based on an effective Strategic Plan
- Profitability (return) and risk levels on projects will be assessed before approval
- Formulae for expected rate of return of investment in projects will be published
- Projects will be driven by their chance of concluding with successful adoption
- Innovative market oriented ideas are invited. AWI will seek projects to further its strategic objectives and will not be constrained by traditional approaches.

**AWI will apply wool levy and R&D contribution funds in an effective, efficient and ethical manner.**

- All research, development and innovation expenditure will be project based.
- All projects will be funded via a contract established at the outset.
- AWI will seek controlling influence over projects wherever possible and will nominate the project manager where AWI is the principal funding source.
- AWI may leverage its resources by co-funding with other bodies but will seek majority-funding status where possible.
- Ownership of intellectual property (IP) will be actively managed by AWI. Where AWI is sole investor it will own the IP outright. Where a co-investor, AWI will be a joint owner of IP and will seek a proportional return on IP.
- AWI Project funding will cover full project costs, including commercialisation, protection of IP, administration and auditing, AWI's oversight costs and costs of communicating outcomes to wool producers.
- For each project, milestones, review points and outcomes will be pre-established and reported against. Cancellation points will be pre-established and checked.
- AWI will retain a part of funds which may be withheld if a project milestone is not met in the contract time frame (AWI will appoint appropriate reviewers).
- AWI will actively manage its IP portfolio and the commercialisation process.

## Where AWI stands on ...

### **AWI intends to manage its financial performance, its conformance with societal expectations and the impacts of its activities on the environment.**

This is 'triple bottom line' reporting.

AWI will have performance indicators, project selection criteria and processes for evaluating real project outcomes against these three areas.

AWI will be innovatively conservative in front-line research; alongside but not ahead of mainstream thinking (on genetically modified organisms for example).

**In its investment decisions, AWI intends to support regulations and policies set by governments as representatives of the community** – on environmental protection and sustainability, animal welfare, GMOs, safety and in other areas.

AWI may fund controversial exploration of different strands of research until the point of benefit can be shown. The AWI portfolio will likely include some longer term, high risk, potential high return (in benefits and IP) projects.

AWI recognises the importance of accumulated research expertise in some fields but that alone will not warrant investment. New partners will be sought if needed.

AWI funds will not be spent on generic wool promotion, however, product innovation and application, plus trade access issues are important R&D areas.

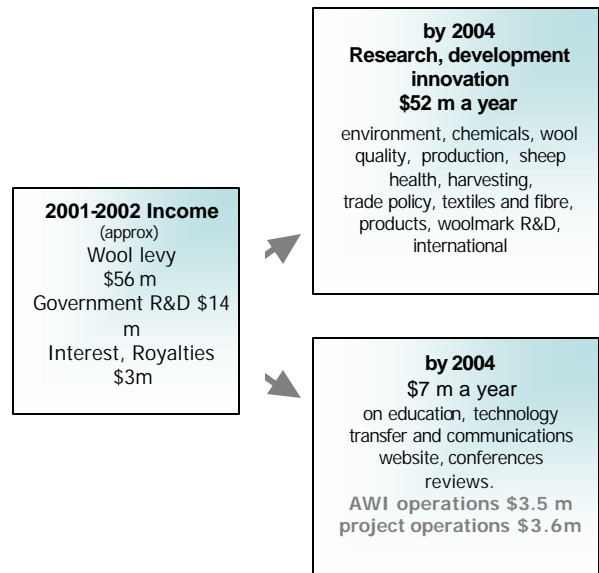
## Income and forward investment – in summary

During 2001-2002, Australian wool producers will contribute a 2% levy on wool sales; more than \$56 million. The Government will provide near \$14 m. Over \$70 million will be available for R&D and innovation.

### **AWI intends to invest these funds wisely in line with this Statement and AWI's Strategic Plans.**

It will take a few years to build a new investment portfolio. The diagram shows possible investment levels about 2004.

AWI has resolved to sell a number of property assets accumulated over many years and will add the funds obtained to R&D and innovation reserves.



## Current investment portfolio

In June 2001, AWI announced outcomes of its first round of project reviews. Ten projects were formally finished. Most were at completion stages. New projects applications were called, especially for 21<sup>st</sup> century genetics. Of the continuing projects, SCIPS and Woolpro are scheduled for review.

### Project Activity Areas from July 2001

#### Sheep and wool production

Sheep Genome Map, Part Records in Breeding  
National Annual Pasture Legume Improvement  
– High rainfall zone and Cereal zones  
Genetically Modified Pastures  
Sustainable Control of Internal Parasites (SCIPS)  
Biocontrol of Curse and Thistles  
Control of Red Legged Earth Mite in Spring  
Grassgro, Phalaris Improvement  
Breech Strike, Permanent Wool Removal  
Australian Agriculture Grazing Industry Survey  
Bestprac, Triple P - Paired Paddock Program  
Focus Farm Cicerone, South Roxby Geelong  
Lucitrap, Bestwool 2010, Woolpro 2  
National Action Plan for Salinity & Water Quality

#### Innovation and Business Development

Global Pipeline Study  
Business Intelligence - Pricing Analysis  
Business Intelligence to AWI Board, Management  
Strategic Grower Industry Intelligence

**Member Communications** Levy Database  
Wool Techstyles Magazine (under review)  
Upgraded Communications Network (developing).

#### Textiles and Fibre – general

Plastic Melter, Fibre to Fabric, Short Staple Solospun, Microbial Treatments, Whiter Wool Products, New Dyeing Auxilliary, TEC Wovens Process Extension, Improved Reactive Dyeing, Wool Plasma Treatment, Chlorine-free SR Process, Zero Pill Knitwear, "Up Wool" Fill Material, Air Jet Spinning for Wovens, Product Service and Development. AWI Mill Technical Advisory Service.

#### Woolmark Company projects

Next Generation Continuous Top Total Easy Care  
Short Staple Blends, Metal Free Drying  
Non Wovens Needle Punch (Apparel), Sportswool Outdoor,  
New Equipment Development, Titanium Dioxide Wool, Flame Retardation and Machine Wash Aircraft Fibre, Machine Wash Wool Blankets  
Sportswool Vapour Device, Non Woven Hydro entanglement (Spunlace), Machine Wash, Tumble Dry Bedding Covers,  
Thermal Comfort of Wool IT Products, Bench Top Conditioner  
Technology Proving Transfer Commercialisation.

Plus AWI Wool market –trade access projects.

## Performance Indicators

**AWI intends to develop and track a range of long-term indicators plus near-term targets related to projects each year.** Key performance indicators (KPIs) and realistic measures will be provided in the 2002-2005 Strategic Plan.

Long term measures could take varying forms, including:

- Proportion of projects established at AWI's initiative.
- Proportion of projects initiated by AWI that achieve their performance hurdles.
- Outcomes from innovation that, when used, enhance the profitability of wool production in Australia, plus measures of the spread of usage.
- New systems for identifying the needs of the global wool market and translating these into innovation priorities.
- Average AWI management cost per innovation and per successful project.
- Declining reliance on statutory levies while funding a high level of innovation projects (measured by statutory levy as a proportion of total funding).
- Value of benefits secured through commercialising the IP portfolio.
- More use of international researchers and commercial participation in research.
- Levy payer endorsement of AWI's strategic objectives and project priorities.

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## Annex to Statement of Corporate Intent 2001- I

## Australian Wool Innovation Budget Outline for 2001-2002, 2002-2003

	2001-2002 expected \$ million	2002-2003 indicative \$ million
<b>INCOME</b>		
Wool levy	56.3	56
Government contribution	13.8	14
Royalties	0.3	0.4
Investment income	2.5	4.5
Other income (rental)	0.1	0.1
<b>Total income</b>	<b>\$73.0 m</b>	<b>\$75.0 m</b>

EXPENDITURE	August 2001 position	Indicative new investment over a few years	Building to 2002-2003 - 2004 levels
<b>Major new programs</b> (others will develop)			
Genetics and genomics	0	4.5	4.5
Environment – chemicals	0.2	1.8	2.0
Natural Resource Management / Environment	3.2	0.8	4.0
Trade Policy	0.1	1.3	1.4
	<b>3.5</b>	<b>8.4</b>	<b>11.9</b>
<b>Areas of research, development, innovation</b>			
Contamination	0	2.5	2.5
Quality assurance, technology on farm	0	6.0	6.0
Wool production (current genetics, sheep health, pastures, production, adoption) AAGIS and harvesting	3.2	2.8	6.0
Other production related initiatives	0	3.0	3.0
Textiles and fibre – general	0.4	7.6	8.0
International projects	0.5	3.5	4.0
Woolmark Company R&D	3.2	6.2	9.4
Innovation and business development	0.7	0.8	1.5
	<b>8.0</b>	<b>32.4</b>	<b>40.4</b>
Feasibility and scoping studies	0		1.5
Awards and rewards	0		0.4
Education, training, technology transfer	0		0.8
National industry representation – shows etc	0.1		1.2
Education, scholarships, university links, chairs	0		1.0
Member-Producer communications	0.3		1.0
Seminars, conferences	0		1.2
	<b>0.4</b>		<b>7.1</b>
<b>Total Research and Development Programs</b>	<b>11.9</b>		<b>59.4</b>
AWI operational, administration, communication	3.5	0	3.5
AWI project related operations	0.1		3.6
<b>Total Estimated Expenditure</b>	<b>\$15.5m</b>		<b>\$66.5m</b>

**NOTE:** The later year expenditure figures are indicative only. AWI will assess each program and project on its merits. Reserve funds will be invested as the R&D portfolio builds.

## Annex to Statement of Corporate Intent 2001 – ii

## Australian Wool Innovation Projects 2001-2002 and new programs

Projects at 2001 budget funds for 2001-2002	Researchers and Participants	Notes
<b>Areas of RESEARCH, DEVELOPMENT, INNOVATION</b>		
Australian Agricultural Grazing Industry Survey AAGIS	ABARE /AFFA Aust Bureau of Agric. & Resource Economics	Main outcome is the annual Profile of Australian Wool Producers
<b>Current Genetics</b> Sheep Genome Map	Univ. Melbourne, Univ Adelaide, CSIRO LI, Agriculture WA	Rampower projects have concluded. New genetics projects are being sought and considered (below).
<b>Sheep health</b> Sustainable Control of Internal Parasites in Sheep, SCIPS [under review]	CSIRO L'stock Industries Unis Melbourne Sydney Agriculture WA, VHR PL	SCIPS covers: Adoption of Nemesis genetics, Wormworld model, worm resistance and scouring, worm control training courses, website.
Breec strike (fly) Lucitrap	CSIRO L'stock Industries Qld Primary Industries	
<b>Innovation transfer &amp; adoption</b> Bestprac	Qld Primary Industries, NSW Agric. WA Agric. RIST Centre, Vic DNRE Victorian DNRE & VFF WA Dept of Agriculture Cicerone Inc. Univ of Melbourne	Aims to improve efficiency of rangeland wool production, group learning. Higher productivity pasture systems. New skills, adoption of innovation. Technology adoption farms in WA. Farms for woolgrower driven research, demonstration, comparison, education.
Triple P Bestwool 2010 Woolpro WA 2 [under review] Focus Farm – Cicerone Focus Farm South Roxby		
<b>Pastures and production</b> National Annual Pasture Legume Improvement Program NAPLIP Gen. modified pastures Grassgro	Victorian DRNE, NAPLIP joint funded by GRDC. CSIRO Plant Industries CSIRO Plant Industries	Plant breeding and selection, seeking 8+ new annual pasture legume varieties to meet producer requirements. Software CD pasture decision tool
<b>Harvesting</b> Harvesting-processing study	Domain PL Invetec, contractors	Review possible new harvesting technologies. Investigate feasibility and technologies.
On-farm testing <b>Textiles and fibre – general</b> Continuing into 01-02	CSIRO Textiles & Fibre Technology	A set of major new projects proposed by CSIRO is under consideration.
Product Service and Development	AWI In house	AWI Mill Technical Advisory Service for three years
<b>International</b> Global Wool Pipeline Study	Global Information Services PL	July 01 -Feb 02. To quantify Australia's place in the global wool industry.
<b>Woolmark Company R&amp;D</b> Technology Proving & Transfer (TPT) 15 projects	TWC Holdings	Includes: short staple blends, metal free drying, sportswool outdoor, equipment development, machine wash wool blankets and covers, thermal comfort, commercialisation.
<b>Innovation, business development</b> Business intelligence for AWI series of projects	TWC Holdings PL	2001-2004 Includes pricing analysis, strategic grower industry intelligence

## Annex to Statement of Corporate Intent 2001 – iii

<b>MAJOR and NEW PROGRAMS</b> (others will develop)		
<b>Genetics and genomics (new)</b>	Proposals under consideration	AWI has called for 21 <sup>st</sup> century genetics and genomics proposals. Some will develop from former Rampower projects.
<b>Environment – chemicals</b> Biocontrol of Curse / Thistles Control of Red legged earthmite	CSIRO Entomology, NSW Agriculture, Vic DRNE, PIRSA, Agriculture WA CSIRO Entomology	Continuing elements of an envisaged larger program.
<b>Natural Resource Management</b> National Action Plan for Salinity & Water Quality 14 sub-projects	AWI, LWRDC, MLA, GRDC  AWI Land & Water R&D Corporation (LWRDC)	Co-operative program in partnership with LWRDC. Sub projects from July 2001 to 2003 to 2006 cover: salt land grazing, riparian lands and pastoral lands – grazing animals & wool, climate, vegetation, future landscapes, and adoption
<b>Trade Policy Program</b> 14 sub-projects	AWI and contractors	Started August 2001. Projects include: information for producers on wool and globalisation, prospects for early stage processing, wool trade relations with Japan, trade barrier effects, Americas free-trade issues, Asia Pacific textiles/ clothing forum, China considerations, a trade policy platform, key WTO issues, value of wool to Australia.

**Developing areas of AWI investigation, negotiation, review** (2001-2002)

refer also [www.wool.com.au](http://www.wool.com.au) for reports and statements

- On farm wool testing – producer demand, technology options, economics.
- An integrated Australian Sheep Genetics System.
- Major new Genetics and Genomics technology projects, with MLA and others.
- Truth in labelling and potential wool quality systems.
- Exotic diseases, pest incursion and the wool production industry.
- With GRDC, MLA, L&W, a sustainable 'grain and graze' program – 2002 start
- Critical project reviews – SCIPS, Woolpro
- New wool product and processes R&D (Woolmark)
- New processing technology projects (CSIRO).
- Uses of lanolin and keratin.
- Identification and cataloguing of AWI Intellectual Property holdings.
- AWI Net Present Value (NPV) investment assessment model and process.
- Communications and interactions with producers including Women in Wool.
- Levy payer database system.
- AWI Human Resources Manual, AWI Operating Procedures Manual (finalised).
- New Fabric concepts and development with WRONZ

**Projects concluded in 2001** (from AWI Board reviews, March to June 2001)

Wool Profit Map 2  
Extended sire evaluation  
Rampower, Rampower WA  
Lice detection test

Farm OH&S Program  
Wool residue pesticide breakdown model and lab testing  
Falkiner Memorial Field Station  
Wool Market Link, Wool PIRDs