Executive Summary

The Australian wool industry, which has historically been very important to the Australian economy, is in crisis. Over the past ten years the industry has been under pressure from decreasing market prices, increasing input costs and competing land uses. As a result, the Australian sheep flock has plunged to record lows below 80 million sheep, not seen for the past 60 years.

In an industry with such a long and colourful history, we must challenge the status quo and look for new opportunities. Unfortunately, this is difficult when many of the 33,000 individual wool producers are experiencing low prices and continued negative media, especially regarding the mulesing issue.

As the average age of wool producers is about 60 years, it is understandable that this generation is not necessarily interested in new and innovative options when they have previously experienced the consistently reliable years of wool through the 1960s, 1970s and 1980s. A challenge is to manage the transition of the industry whilst there is still a core base of breeding ewes that can continue to produce the commercial quantities of wool that are required over the next five years to supply Australia's existing markets, and particularly the Italian market, before we even consider new market opportunities.

With the industry at record low numbers, the concern is what steps are required to manage this industry to maintain its crucial value (approx $2.6 billion) and to continue to provide employment across regional Australia. Also, we need to further strengthen the traditional links that have been built over many decades with international processors of Australian Merino wool.

It has been clearly demonstrated that it is critical to firstly concentrate on delivering quantities of quality wool to the textile industry to ensure all stakeholders have the opportunity to retain their position within the industry and secondly, to improve the image and presentation of the wool industry to allow Australia's prized Merino wool to fully exploit the opportunities which exist in this ever changing market.

Key stakeholders have displayed their interest in the wool value chain, including Australian companies investing in downstream businesses. This involvement in the value chain must be further developed to allow clear information flow in both directions to further develop relationships in the changing industry.

When I first commenced my enquiries, I found a publication called the *Wool Pages 2008, A Directory of the Australian Sheep and Wool Directory*. This is a lengthy publication which is published annually to provide information along the wool supply chain. One only has to look at the diversity of its contents to understand the wide spectrum of activities that are affected by the demand for wool.

If demand for wool is the criteria for determining livelihood, then much rests on the shoulders of those charged with the most important task, namely that of increasing consumer demand for wool. *Wool Pages* reflect many lives and livelihoods.

In my discussions with various people who have been in the industry for a long time, they have relayed to me that the history of the wool industry has seen the emergence of splinter organisations as disputes have arisen.

What is clear to me is that there is no one cohesive group which brings together all the interests of the wool industry. There is no "go to" body for wool – a body that can make decisions that can be enforced throughout the industry. If division is death, then the wool industry is well on the road to heart failure!

Whilst this fragmentation may have been sustainable in good times, when the industry is in such decline, this fragmentation may end up exacerbating the decline even more.

In the face of continued volatility of prices, continued contradictions in market information and industry infighting, the wool industry desperately requires some clear messages in these challenging times. These messages need to be clear and consistent, both domestically and internationally. This may mean that the industry must face some truths it may rather ignore. However, for the industry to continue to produce the world's leading wool clip, messages from both processors and consumers, must be clearly disseminated to grower organisations to allow for a clear path to be planned moving forward.

The large amounts of time and money invested in research in on-farm production and off-farm processing in the past have resulted in some innovations that offer improvements in both the production and performance of Australian wools. Overall however, there has been an inability to commercial wool research and development over many years. Stakeholders are looking for signs of a solid future for the industry before they invest in new systems within their business.

Australia has developed world leading reporting through the Australian Wool Exchange (AWEX) and wool testing through the Australian Wool Testing Authority (AWTA) which is the preferred testing authority in the global wool industry. This strengthens the message that Australia is the premier country within the global wool industry. With continued exporting to all key markets by established companies, Australian wool is well placed to consistently supply markets that offer acceptable prices.

Continued business with Italy, wool's flagship manufacturer and brand leader, remains the leading opportunity to continue wool's presence in the premium apparel market. By working closely with the Italian industry, Australia's specialty wool producers can continue to supply wools that meet the high standards of this market.

It is important to clarify that the first step in a quality wool product is to produce quality raw wool and quality wool tops. Australia has a demonstrated history in producing the world's best wool; an opportunity exists in specialty wool growers developing a professional relationship with the Italian market to take the steps needed under Mike Guerin's advice below to ask 'What do our customers want', and then set in place an action plan to move forward.

In times of continued economic pressures and environmentally aware consumers, wool is well placed to re-establish its position within the textile market. However, to fully exploit this opportunity the wool industry as a whole must base this on a winning strategy, work together and always be vigilant.

Mike Guerin, Managing Director Elders Rural Services summarises the key issues in moving forward:

> "In the history of wool, we have never started with the customer and worked back", he says.
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> "If there's one thing I would say to woolgrowers, and it's just my opinion, it is that we have singularly failed as an industry, ever, to start with a clear view of the needs of the customer and the properties of the product and worked back and produced that. We have always been a production-oriented business. And that's

> served us well for many years, but that's simply not the way of the world these days.

The success of all stakeholders in the wool industry is intertwined; growers must become more informed of the downstream requirements of its markets, especially, its flagship Italian market.

I would like my report to be seen as a realistic snapshot of the wool industry including the positives and the negatives. My conclusions and recommendations are intended to be thought provoking. Established entrenched views will likely be critical. Others will view them as being in the best interests of the wool industry.

We must remember that if things are done in the wool industry in the same way as they were before, under the same structures as before and using the same systems as before, then the only outcome is the same result as before.

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Glossary

Biological harvesting	Biological harvesting is an alternative method of harvesting wool from a live sheep. The biological harvesting process involves fitting the sheep with a wool retention net and injecting the sheep with a protein based chemical which causes the wool fibre to break at the skin over a four week period. This practice is traditionally used on ultra fine Merino sheep which are housed in a shed. Example: The farmer chose to harvest his wool using biological harvesting rather than traditional shearing.
Dark and Medullated Fibre (DMF)	The wool of a Merino sheep can become contaminated by DMF if that sheep comes in contact with a fleece-shedding sheep. This contamination causes problems at the dyeing stage of wool processing because the dark fibres do not take dye as well as white Merino wool. Example: It is estimated that dark and medullated fibres cost the wool industry about $100 million per annum.
Early stage wool processing	Early stage processing involves a number of automated steps which transform greasy wool into wool tops. The process is started with the greasy wool being scoured (washed) to remove the natural lanolin, vegetable matter and dirt. The washed wool is then subjected to the carding and combing processes whereby individual fibres are placed parallel to each other and combed together to form a soft ‘rope’ of fibre. Example: Early stage wool processing transforms greasy wool into wool tops.
Eastern Market Indicator (EMI) (wool)	The EMI represents the average price of wool sold at auction centres in the Eastern states of Australia. The EMI is usually converted into a cents per kilogram (clean) measurement. The EMI is compiled by the Australian Wool Exchange. Example: As at 6 June 2008, the EMI was trading at 845 cents/kg.
Fellmongering	A process for the removal of wool from a slaughtered sheep. Fellmongered wool is often sold through the traditional wool auction system. Example: Fellmongering is a common way of obtaining wool.
Greasy wool	Greasy wool is wool that has been shorn from the sheep but has not been subjected to early stage processing (see definition above). Greasy wool contains a high percentage of lanolin, vegetable matter and dirt. It is then scoured and carbonised to produce wool tops. Greasy wool can also be known as ‘raw’ wool. Example: In 2005-06, Australia exported 467 kilotonnes of greasy wool.

Late stage wool processing	Late stage processing includes spinning, weaving, knitting and fabric production. Example: Australia exports wool for early and late stage processing.
Micron (wool)	A micron (one millionth of a metre) is the measurement used in wool classing to measure the actual diameter of a wool fibre. The smaller the number the finer the fibre.
Mulesing / mulesed (sheep)	Mulesing is the surgical removal of strips of wool-bearing wrinkle skin from around the tail of a sheep. It is common practice in Australia used to reduce the incidence of blowfly strike (where fly maggots eat the flesh off live sheep). Blowfly strike causes pain, death and economic loss in the sheep/wool industry. Animal rights groups actively campaign against mulesing. The industry is currently researching non-surgical alternatives. Example: Lambs are normally mulesed a few weeks after birth to prevent the occurrence of blowfly strike later in life.
Scoured wool	Wool that has been washed (scoured) to remove wool grease (lanolin) and dust. Example: As facilities have closed, output of scoured wool in Australia has declined markedly from its peak in the early 1990s.
Woolpacks	Woolpacks are bags used to package greasy or processed wool, or for the packaging of other products such as grass clippings. Woolpacks are not manufactured in Australia, and their import is prohibited under the Customs (Prohibited Imports) Regulations, unless permission is granted by the Minister’s delegate, or the consignment is accompanied by a Quality certificate issued by the Australian Wool Exchange (AWEX). Example: AWEX currently maintains a quality management program which governs the manufacture and testing of woolpacks at overseas facilities.
Wool bales	A wool bale is a standard sized nylon pack of wool typically compressed by the mechanical means of a wool press. This is the preferred method of packaging and transportation for wool to keep it uncontaminated and allows information about the individual producer to be retained. A “bale of wool” is also the term of reference for a container of raw wool. Example: In the week of 12 January 2009, an estimated 51,100 wool bales were to on offer.
Wool sales	The majority of Australian wool is bought and sold through open cry public auctions. Other methods for selling wool include sale by tender; private treaty; forward contract; and direct to mills. Auctions are conducted in five selling centres: Sydney (weekly), Melbourne (weekly), Fremantle (weekly), Newcastle (six sales a year) and Launceston (weekly). Example: This week, wool sales will be held in Sydney, Melbourne and Fremantle.

Wool testing	Greasy wool sold through the auction system must be tested by the Australian Wool Testing Authority. The testing process involves taking a number of samples from the farmer's 'lot' of bales, and testing these samples for fibre diameter, strength, length, colour as well as weight (not including lanolin, vegetable matter and dirt). Example: The greasy wool must first be tested before it can be sold through the auction system.
Wool tops	The end product of early stage wool processing is known as 'wool tops'. Example: Australia is no longer a significant exporter of wool tops.

Source: Briefing, Department of Agriculture, Fisheries and Forestry, January 2009