

AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS INC.



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Australian Council of Wool Exporters and Processors Industry Statement

On reading Mr Wal Merriman's recent letter to shareholders, there were a number of issues we felt that as exporters and processors we have a great responsibility to raise with Wool Growers and Industry Members. Together we've experienced and endured a long period of recovery, and now see our industry is in an enviable position with true potential for longevity that is not to be taken for granted.

It's in our collective interest to ensure that Australian Wool Growers are rewarded for their passion and dedication to producing the unique and beautiful fibre now earning a growing respect amongst global consumers of great diversity.

In the past 20 years we have seen wool production fall to just 1/3rd of its peak. Demand was never sufficient to support the 1.00 billion kilograms of wool grown in Australia alone during 1989/90, a level supported only by an unrealistic Floor Price Scheme. Let's not have short memories after 25 years plus of rebuilding; and make sure that we remember how we found our industry in that position.

Today, our industry has matured into a well-balanced global business, with supply barely meeting the growing global consumer demand. The painful adjustment on the supply side of the equation was clearly necessary and now, it is fair to look back and ask what is driving the demand side today? One key point is consumer appetite has moved distinctly in favour of natural fibres, with health, sustainability and ethical practices leading the way. Consumers know what they want and wool is certainly much higher on the shopping list today than it has been for many years.

In addition to real growth in demand for natural fibres, we have been fortunate to see wool become incredibly versatile via great technical developments which have enabled production of a far wider range of garments with strong consumer appeal; active wear, sportswear, high fashion items, next to skin apparel. All are far removed from the traditional image of wool being largely limited to suits and sweaters.

These developments have been driven by a range of wonderfully committed and progressive researchers, manufacturers and marketing teams. AWI can certainly be proud to be part of this group along with a number of pioneers in leading the way forward. However, it's perhaps a little arrogant for any individual organisation to claim price rises are a direct result of their work alone.

Looking ahead to the proposed Wool Exchange Portal (WEP), Mr Merriman states that "*Brokers, Buyers and Growers unanimously agree that it proceed*". This is not correct from the Australian Council of Wool Exporters and Processors perspective. We understand that its first iteration will be as an information hub for wool growers. Our Association understands the potential value of such a development, provided that it does not become a point of unauthorized access to confidential commercial information. We do have sincere grower based concerns beyond this stage. We are yet to fully learn how it is ultimately intended to operate and where any significant cost benefits or market gains will be achieved.

In this respect we also see significant benefits can be gained by closer collaboration between AWI, AWTA and AWEX. If the ultimate aim is deliver cost benefits to the industry and increase “*competitive tension*”, elimination of cost duplication throughout the pipeline will benefit investors.

The Bulletin Board concept of offering wool for sale is not new. It currently operates with limited support on a number of Australian based platforms. It has been in place in China for a short time, although doubtfully inspired by the proposed WEP. Mr Merriman refers to Red Sun “*building a complimentary portal*”. We have been advised that Red Sun China are not building any such complimentary portal.

As we have previously stated, exporters and processors are the first entity to purchase and finance wool, fund the initial transaction, safely deliver growers’ wool to combbers, spinners, knitters and weavers reaching garment producers and fashion labels throughout the globe. If a WEP becomes our first point of access, we will continue to perform the same functions. We only ask that we are consulted and that we have significant involvement in further development of the WEP to ensure that the key “*first transaction*” happens securely, ensuring Australian Wool Growers can continue to be rewarded for their long-term commitment to producing this special fibre.

Our industry is valued at over \$A3.5 billion today. At this level, AWI will receive levies from shareholders valued at circa \$A70.0 million this year. We are aware of commentary regarding the eligibility or suitability of different board candidates in the media. It is our opinion that for an investment of this level it is fair that wool growers expect a board of directors consisting of individuals with unconditional eligibility and who collectively possess a supreme depth and breadth of industry knowledge.

Matthew Hand

A handwritten signature in black ink, appearing to read 'Matthew Hand', with a stylized, cursive script.

President