

21 October 2022

Australian National Audit Office
GPO Box 707
Canberra ACT 2601
AUSTRALIA

Thank you for the opportunity to contribute to the Australian National Audit Office's (ANAO) performance audit of Australian Wool Innovation Limited (AWI).

FOUR PAWS International, Humane Society International and RSPCA Australia make this contribution jointly.

We appreciate that the scope of the ANAO's audit is whether AWI is effectively meeting the requirements of its Statutory Funding Agreement (SFA).¹

Our contribution largely focuses on whether AWI is effectively applying the performance principles under clause 10.2 of the SFA.

We believe that AWI is not effectively strategising, tailoring its activities, and measuring its performance to support the wool industry to meet the global demand for a product known as 'non-mulesed' wool,² despite that being within AWI's remit under the performance principles.

To illustrate this, we have structured our points as follows:

- Why AWI's performance principles include leading the wool industry to meet the demand for non-mulesed wool
- The (unquantified) business case for non-mulesed wool
- How AWI is failing to fulfil its performance principles.

Why AWI's performance principles include leading the wool industry to meet the demand for non-mulesed wool

The performance principles at 10.2 of the SFA are, in essence, AWI's objectives. These include 'to provide benefits to the Industry' and 'to improve profitability, productivity,

¹ Commonwealth of Australia and Australian Wool Innovation Limited, *Statutory Funding Agreement 2020-2030* (October, 2020) < <https://www.wool.com/globalassets/wool/about-awi/who-we-are/statutory-obligations/awi-statutory-funding-agreement-2020-2030.pdf>>.

² 'Non-mulesed' wool refers to wool produced without a painful procedure known as 'mulesing', in which Merino lambs have flaps of wrinkly skin sliced from around their breech and tail area to prevent a condition called flystrike. The demand for non-mulesed wool stems from animal welfare concerns, as the mulesing procedure may be performed without pain relief and can otherwise be avoided with farm management techniques and selective breeding of plainer-bodied sheep that are more resistant to flystrike.

competitiveness and preparedness for future opportunities and challenges’.

To do this, AWI is required to ‘consult stakeholders’ to discern what their desired benefits are, and to be ‘strategic, collaborative and targeted’ in its choice of RD&E.³

Translating this into practice, it is incumbent on AWI to monitor and assess market demands and gauge the wool industry’s ability to meet those demands. Where there is an actual or projected shortfall in the industry’s ability to do so, its RD&E activities should address that. It should then develop measures or targets to assess the effectiveness of those activities in overcoming that shortfall and achieving the overall objectives of a profitable and competitive industry that is prepared for the future.⁴ None of this falls within the definition of ‘Agri-Political Activity’ in the SFA, which we are aware AWI is prohibited from engaging in.

As a collective group, we are concerned that AWI is failing to effectively meet these performance principles in relation to non-mulesed wool.

The (unquantified) business case for non-mulesed wool

There is demonstrable market demand for non-mulesed wool. By way of example:

- According to AWEX data, 17.6% of all wool sold at auction in 2021 with mulesing status declared was non-mulesed and an additional 40.5% of the bales sold were produced with the use of pain relief for mulesing. In 2010, those figures were 5.5% and 8.4% respectively, indicating that the demand for better welfare wool has significantly increased in the past decade.⁵
- Nearly 60 global brands and retailers have signed a brand letter of intent demanding that the Australian wool industry switch to non-mulesed wool⁶
- Many hundreds of retailers have a position on mulesing⁷
- The CEO of one of the top-10 buyers of Australian Merino wool (and a major supplier of wool to European fashion houses) asked the then federal agriculture minister to

³ The way RD&E is defined in the SFA is about research that furthers woolgrowers’ priorities as per strategic plan, as well as work that facilitates growers adopting the findings of that research. The paraphrased definition of RD&E is (1) ‘R&D Activities’: research across science, technology, economics, industry leadership or business done for the purpose of acquiring knowledge that will further woolgrowers’ priorities, being those priorities set out in the AWI strategic plan; and (2) ‘Extension’: ‘facilitating the adoption of the outputs from R&D Activities’, i.e. encouraging growers to adopt/implement research findings.

⁴ See Australian National Audit Office, *Australian National University’s Governance and Control Framework* (Auditor-General Report No.11 2021–22, November 2021) pp 57-63 <https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_11.pdf>.

⁵ See Mark Grave & Kerry Hansford, Australian Wool Exchange Ltd, ‘NWD Update’, *AWI 2022 Flystrike RD&E Technical Forum* (Presentation, 10 August 2022) p 5 <<https://www.wool.com/globalassets/wool/sheep/genetics/merino-lifetime-productivity/2022-rde-update/4.-2022-flystrike-forum-nwd-update-mgrave.pdf>>.

⁶ Four Paws International, ‘Brand Letter of Intent’, *Wool with a Butt* (Web page) <<https://woolwithabutt.four-paws.org/wool-industry/brand-letter-of-intent>>.

⁷ See, for example, Humane Society International, ‘Better Wool Guide’ (Report, 2022) <<https://hsi.org.au/wp-content/uploads/2022/04/Better-Wool-Guide-2022-Edition.pdf>>.

mandate pain relief for surgical procedures on sheep and said that they had experienced a 50% increase in the requests for non-mulesed wool in the past year⁸

- An article published in July 2022 referenced the president of Wool Producers Australia as saying that a large number of brands wanted to buy non-mulesed wool⁹
- The Textile Exchange's 2019 'Preferred Fibre and Materials Market Report' notes that a range of major retailers have committed to sourcing wool from accreditation schemes that require non-mulesed wool, such as the Responsible Wool Standard (RWS)¹⁰
- Market reports indicate that there are significant premiums for wool produced under such accreditation schemes. As at March 2022, the premiums for the RWS 'are in the order of ten times the non-mulesed premium'.¹¹

How AWI is failing to fulfil its performance principles

Despite these indications that there is significant demand for non-mulesed wool, we question whether AWI has mechanisms in place to quantify this demand or gauge the wool industry's ability to supply enough non-mulesed wool to meet that demand. For example:

- the 'market feedback' section of the report from the AWI Technical Forum in August 2022 sets out six anonymised quotes from global retailers regarding their refusal to use mulesed wool, but the document does not quantify the demand or how that translates into the volume of non-mulesed wool needed, and thus whether there is sufficient supply in Australia¹²
- a market report from March 2022 states that 'low volume remains an issue' for wool that complies with the accreditation schemes for non-mulesed wool¹³
- there is no publicly available data on the demand for non-mulesed wool.¹⁴

⁸ This refers to 2014/2015. Sue Neales, 'Look after animal welfare or pay the price, warns wool buyer', *The Weekly Times* (online, 18 August 2015)

<<https://www.weeklytimesnow.com.au/agribusiness/look-after-animal-welfare-or-pay-the-price-warns-wool-buyer/news-story/524b287804fca0b208cd0adac97a12aa>>.

⁹ Fiona Myers, 'AWI fails to mention mulesing in strategic plan', *The Weekly Times* (online, 6 July 2022)

<https://www.weeklytimesnow.com.au/subscribe/news/1/?sourceCode=WTWEB_WRE170_a&dest=https%3A%2F%2Fwww.weeklytimesnow.com.au%2Flivestock%2Fawi-fails-to-mention-mulesing-in-strategic-plan%2Fnews-story%2F9c7ecd3ad255469043c954434d04a050&memtype=anonymous&mode=premium>.

¹⁰ Textile Exchange, *Preferred Fibre & Materials Market Report 2019* (Report, 2019)

<https://store.textileexchange.org/wp-content/uploads/woocommerce_uploads/2019/11/Textile-Exchange_PREFERRED-FIBER-MATERIAL-MARKET-REPORT_2019-1.pdf>.

¹¹ Andrew Woods, 'Quality systems volume and premiums', *Mercado* (Blog Post, 24 March 2022)

< <https://mecardo.com.au/quality-systems-volume-and-premiums/>>.

¹² Emma Gittoes, The Woolmark Company, 'International Stakeholder Engagement', *AWI 2022 Flystrike RD&E Technical Forum* (Presentation, 10 August 2022) p 7

<<https://www.wool.com/globalassets/wool/sheep/genetics/merino-lifetime-productivity/2022-rde-update/2.-2022-flystrike-forum-supply-chain-engagement-egittoes.pdf>>.

¹³ Andrew Woods, 'Quality systems volume and premiums', *Mercado* (Blog Post, 24 March 2022)

< <https://mecardo.com.au/quality-systems-volume-and-premiums/>>.

¹⁴ This is complicated by the fact that the National Wool Declaration – which allows producers to declare whether their wool was produced without mulesing, or whether mulesing was performed with pain relief – is only voluntary. AWEX data indicates that currently only approximately 75% of the bales of wool sold at auction have their mulesing status declared, giving an incomplete picture of the market for non-mulesed

Accenture's audit of AWI in 2021 recommended that AWI commission a report to measure and predict future trends in consumer sentiment towards non-mulesed wool.¹⁵ AWI states that implementation of this recommendation is 15% complete.¹⁶ This RD&E ought to quantify the demand for, and supply of, non-mulesed wool.

However, we are concerned more broadly that AWI has not put the mechanisms in place to strategically align its RD&E activities and targets with its objectives¹⁷ to provide benefits to industry and ensure that it is profitable, competitive and prepared for the future regarding non-mulesed wool.

We question why AWI does not have targets relating to mulesing or sheep welfare in its 2022-2025 strategic plan,¹⁸ such as a target for the industry to supply a certain percentage of non-mulesed wool by a given date, and for a portion of that to be certified non-mulesed wool.¹⁹ This is concerning, given performance includes 'setting organisational goals and developing strategies for achieving them, and being responsive to changing environmental demands, including the prediction and management of risk.'²⁰

This omission from the strategic plan also misses the mark with Accenture's 2021 recommendation to 'leverage the Wool 2030 Strategy to align [its] RD&E focus to industry strategic priorities, [which] includes determining outcomes and targets that align with the

wool. See Mark Grave & Kerry Hansford, Australian Wool Exchange Ltd, 'NWD Update', *AWI 2022 Flystrike RD&E Technical Forum* (Presentation, 10 August 2022) p 5 <<https://www.wool.com/globalassets/wool/sheep/genetics/merino-lifetime-productivity/2022-rde-update/4.-2022-flystrike-forum-nwd-update-mgrave.pdf>>. We do note that the 'Market Intelligence' section of the AWI website allows producers to 'see recent sale prices to benchmark and evaluate [their] clip performance against similar wool in the market.' As this resource is not publicly available, we are unclear whether it provides data on the demand for, and supply of, non-mulesed wool.

¹⁵ Accenture Strategy, *Independent Review of Performance: Prepared for Australian Wool Innovation Limited*, (Final Report, August 2021) p 5

<<https://www.wool.com/globalassets/wool/about-awi/media-resources/publications/rop-2021/awi-2021-independent-ROP-report.pdf>>.

¹⁶ Australian Wool Innovation, 'Research Development and Extension', *Review of Performance Implementation Portal* (Web Page, 2022) <<https://rop.wool.com/index.html>>.

¹⁷ See Australian National Audit Office, *Australian National University's Governance and Control Framework* (Auditor-General Report No.11 2021–22, November 2021) pp 57-63 <https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_11.pdf>.

¹⁸ Australian Wool Innovation, *Strategic Plan 2022-2025* (Report, 2022)

<<https://www.wool.com/globalassets/wool/about-awi/how-we-consult/stakeholder-consultation/awi-strategic-plan-2022-2025.a.pdf>>.

¹⁹ One of the goals in the Wool 2030 strategy is for more than 50% of wool to be sold under an accreditation scheme, yet many certification schemes do not require non-mulesed wool. See Australian Wool Innovation, *Wool 2030 Strategy*, (Report, 2020) p 15

<<https://www.wool.com/globalassets/wool/about-awi/how-we-consult/wool-2030-strategy/wool-2030-strategy.pdf>>.

²⁰ M Edwards and R Clough, *Corporate Governance and Performance: An Exploration of the Connection in a Public Sector Context*, *Corporate Governance ARC Project*, Paper No. 1, January 2005, pp 2–3, cited in Australian National Audit Office, *Effectiveness of Public Sector Boards — Hearing Australia* (Auditor-General Report No. 36 2021–22, June 2022) <https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_36.pdf>.

aspiration of the industry'.²¹ A goal in the Wool 2030 Strategy is for 'Growers [to] have the confidence and tools to manage flystrike without mulesing'.²²

While AWI's annual report has a section to track 'performance against annual plan targets', the 'targets' for 'sheep health and welfare' are vague and do not accurately measure the extent to which they are future-proofing the wool industry with better welfare wool. For example, in the 2020/21 annual report:²³

- The target of 'evidence of investigations into novel pain relief options' is marked as 'achieved' with a comment that, in essence, a literature review has been conducted along with 'an investigation into novel pain relief options'. This measure reflects AWI's activities rather than its performance in achieving outcomes/results that align with the performance principles.
- The target of 'demonstrate a 10% increase in adoption of welfare improved practices' is again marked as 'achieved' because AWI considers that the 'index for welfare' of another company suggests 'an 11% increase in industry adoption of welfare improved practices'. This measure does not draw any link between AWI's activities and the described outcome, nor does it indicate what constitutes 'welfare improved practices' in a reliable, verifiable and unbiased way. Indeed, the so-called 'index for welfare' mentions 'welfare' twice in 92 pages and is instead about another company's RD&E frameworks for productivity.²⁴ This target is replicated in the 2021-2022 annual report, though is marked as 'achieved' on the basis that 'all contract milestones to date have been met'.²⁵ Again, these do not provide sufficient information to the public on what is being measured.²⁶
- The target 'evidence of successful development of a flystrike vaccine prototype' does not provide specific and measurable indicators as to what success would look like, though it is marked as 'partly achieved/on track to be achieved by 2022' merely because a four year project is in its third year. On this point, we note that a senior

²¹ Accenture Strategy, *Independent Review of Performance: Prepared for Australian Wool Innovation Limited*, (Final Report, August 2021) p 5

< <https://www.wool.com/globalassets/wool/about-awi/media-resources/publications/rop-2021/awi-2021-independent-ROP-report.pdf>>.

²² Australian Wool Innovation, *Wool 2030 Strategy*, (Report, 2020) p 15

< <https://www.wool.com/globalassets/wool/about-awi/how-we-consult/wool-2030-strategy/wool-2030-strategy.pdf>>.

²³ Australian Wool Innovation, *Annual Report 2020/21* (Report, 2021) p 109

<https://www.wool.com/globalassets/wool/about-awi/media-resources/publications/agm-2021/awi_2020-21_annual_report.pdf>.

²⁴ Meat and Livestock Australia, *Producer Adoption M&E Framework and Impact Assessment FY2020-21* (Final Report, 21 December 2021)

<<https://www.mla.com.au/contentassets/4fc6eb9cedde40f596217a4c705e4dcf/LADP-2111-Final-Report>>.

²⁵ Australian Wool Innovation, *Annual Report 2021/22* (Report, 2022) p 79 <<https://www.wool.com/about-awi/media-resources/news/awis-202122-annual-report/>>.

²⁶ Australian National Audit Office, *Effectiveness of Public Sector Boards — Hearing Australia* (Auditor-General Report No. 36 2021–22, June 2022) p 56 < https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_36.pdf>.

scientist has recently clarified that the commercial release of the vaccine could be 7-10 years away.²⁷

- The target 'development of integrated parasite management strategies to minimise the impact of chemical resistance' describes activities and an objective, rather than a performance measure. It is also marked as 'achieved' on the basis of an investigation completed by a state government department, an honours thesis that is partially-sponsored by AWI, and a webinar that AWI hosted; none of which indicates the extent to which AWI's activities have served to minimise the impact of chemical resistance. It also does not quantify the degree to which 'impacts' (unspecified) are sought to be minimised. As the ANAO has previously stated, 'without sufficient information [an organisation] cannot demonstrate that the measures are reliable, verifiable or unbiased.'²⁸

We suggest that the above examples indicate that AWI is failing in its performance measurement, which 'involves collecting, analysing and reporting information about the performance of an entity against its purposes. Having effective performance reporting and monitoring arrangements is a key aspect of good governance.'²⁹

We do note, however, that AWI's annual operating plan for 2022-2023 indicates that 'priority investments' in AWI's Sheep Health and Welfare Program are the development and implementation of a flystrike extension program to train growers and agriculture advisors in moving to a non-mulesed enterprise.³⁰ These targets are more specific; activities and outputs are measured, such as the number of workshops held and the percentage of workshop participants who report increased confidence in the workshop exit surveys. Nonetheless, the targets ought to measure growers' uptake of flystrike management techniques that don't involve mulesing, as the Wool 2030 Strategy is ultimately seeking to support and educate growers to make a behavioural change 'to manage flystrike without mulesing'.³¹

We also note that while AWI lacks appropriate performance indicators and strategic priorities that accord with the increasing global demand for non-mulesed wool, it does partly fund the Sheep Sustainability Framework (SSF). Focus areas in the SSF include 'Reduce, refine and replace painful husbandry practices'³² and 'Deliver products that

²⁷ Liz Wells, 'Booster awareness lifts hopes for flystrike vaccine', *Sheep Central* (online, 18 August 2022) <<https://www.sheepcentral.com/booster-awareness-lifts-hopes-for-flystrike-vaccine/>>.

²⁸ Australian National Audit Office, *Effectiveness of Public Sector Boards — Hearing Australia* (Auditor-General Report No. 36 2021–22, June 2022) p 56 <https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_36.pdf>.

²⁹ Australian National Audit Office, *Effectiveness of Public Sector Boards — Hearing Australia* (Auditor-General Report No. 36 2021–22, June 2022) p 51 <https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_36.pdf>.

³⁰ Australian Wool Innovation, *Annual Operating Plan 2022-2023* (Report, 2021) <<https://www.wool.com/globalassets/wool/about-awi/how-we-consult/stakeholder-consultation/awi-annual-operating-plan-2022-2023.pdf>>.

³¹ Australian Wool Innovation, *Wool 2030 Strategy*, (Report, 2020) p 15 <<https://www.wool.com/globalassets/wool/about-awi/how-we-consult/wool-2030-strategy/wool-2030-strategy.pdf>>.

³² The On-Farm Insights report from the National Producer Survey, released in October 2022, provides specific data on the nature and extent of on-farm procedures that impact consumer/retailer demand for

customers demand',³³ which may serve to address some of AWI's shortcomings in meeting its performance principles under the SFA. Since the SSF is led by Sheep Producers Australia and Wool Producers Australia, we query whether AWI's outsourcing of these functions to the SSF is an appropriate management and governance arrangement.

To summarise, we contend that:

1. there is a business-case for non-mulesed wool;
2. AWI's remit under the performance principles includes providing strategic leadership with its RD&E for the wool industry to meet that demand; and
3. AWI is failing to tailor its activities and set appropriate targets and measures to achieve that objective.

We trust that the ANAO will consider these issues in its assessment and findings.

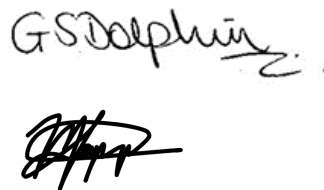
Yours sincerely



Rebecca Picallo Gil
Farm Animals & Nutrition Campaigner
FOUR PAWS International



Animal Welfare.
Worldwide.



Georgie Dolphin & Martine
Lappan
Animal Welfare Campaigners
Humane Society International



HUMANE SOCIETY
INTERNATIONAL
AUSTRALIA



Melina Tensen
Senior Scientific Officer
RSPCA Australia



non-mulesed wool. See Sheep Producers Australia and Wool Producers Australia, *Sheep Sustainability Framework: On-Farm Insights from the National Producer Survey* (Report, October 2022) <https://www.sheepsustainabilityframework.com.au/globalassets/sheep-sustainability/media/ssf_on-farm_insights_report_web.pdf>.

³³ See Sheep Producers Australia and Wool Producers Australia, *Sheep Sustainability Framework: On-Farm Insights from the National Producer Survey* (Report, October 2022) p 4 <https://www.sheepsustainabilityframework.com.au/globalassets/sheep-sustainability/media/ssf_on-farm_insights_report_web.pdf>.