

**Senate Standing Committee on Rural and Regional Affairs and Transport**

**ANSWERS TO QUESTIONS ON NOTICE**

Additional Estimates February 2009

**Agriculture, Fisheries and Forestry**

**Question:** AWI 01

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Merino breeding ewe flock

**Hansard Page:** 109-110 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—We have now got about 80 million sheep and that is projected to decrease to about 72 million in 2013. Increasing this demand presupposes there will be sufficient flock to sustain the growth. What is the size of the current Merino breeding ewe flock?

**Mr Merriman**—It is generally recognised as about half the ewe flock.

**Senator FIERRAVANTI-WELLS**—What, about 40 million, 42 million?

**Mr Merriman**—I would say about 40 million. I sell rams for a living and I can tell you that, in my business and everyone else's business, this boat is going down like that and it is going to take a long time to bring it back up. The amount of crossbred rams we had this year was more than last year. You have got to start firstly by putting a Merino ram out before we can get more wool in the world. The graph is still going down.

**Mr Olsson**—I can take that on notice. I can get the actual figures for you.

**Senator FIERRAVANTI-WELLS**—Yes, I would appreciate that. I am happy for you to take it on notice if you cannot provide it. Of those, say, 40 million or 42 million ewes, how many will be used for Merino breeding and how many will be used with meat-bred for breeding?

**Mr Merriman**—It is the 40 million that is left, isn't it?

**Mr Olsson**—Once again, Chair, I think we can take that on notice, because we are getting statistical information coming through our forecasting committee as we speak.

**Senator FIERRAVANTI-WELLS**—Okay.

**Senator HEFFERNAN**—Just to clarify the question that it is on notice. This will be whether there is a terminal sire or a—

**Mr Olsson**—Or a Merino ram over the top of it.

**Mr Merriman**—Yes, that is there. It would be dated. It would be more like 12 months ago.

**Answer:**

Opening sheep numbers for 2008/09 were 79.21m

49.1 m (62%) of the sheep are Merino ewes

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32.9 m (67%) of Merino ewes will be mated to Merino rams

16.2m (33%) of Merino ewes will be mated with meat-breed/non-merino rams

Source of data: Australian Bureau of Statistics and Department of Agriculture and Food Western Australia Wool Desk Survey.

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**Question:** AWI 02

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** International retail and brand partners

**Hansard Page:** 110-111 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—In terms of your targeting the international retail and brand partners, have we actually seen an increase in orders in any of these firms?

**Mr Merriman**—The orders do not come to us.

**Senator FIERRAVANTI-WELLS**—But, surely, Mr Merriman, as one of the peak bodies or so-called peak bodies in the wool industry, you would be aware of the statistics in the industry. I mean, if one of your aims is to increase and to work with the top 200 international retail brands, I would assume that you would have at least some statistics in terms of whether there has been an increase in these markets.

**Mr Merriman**—I could not tell you. Stuart might.

**Senator FIERRAVANTI-WELLS**—Well, that is fine. I am happy, Mr Merriman, for that question to be taken on notice. I appreciate we do not have a lot of time this evening. I am just simply asking a question.

**Mr Merriman**—I can do that.

**Mr Olsson**—I would like to take that on notice. But just to give you a summary because your question is of interest to many wool growers in view of their investment via the levy and generous government contributions. The recent test marketing campaigns in the States were very interesting. We can give you that information. There has been a notable increase in certain sectors of some woollen knitwear that we organised through the American campaign, which we would love to show you. Secondly, the information coming in on the Japanese marketing program, the Korean marketing program and Asia's marketing program we are collecting now on actual woollen garments that we have invested with these retailers against last year's sales, so we can actually show some physical evidence of what extra wool sales are happening in these markets.

**Senator FIERRAVANTI-WELLS**—I am conscious of the time, so I will put some further questions on notice in relation to that. Moving to target B of the reduction, Mr Barry, I think you said that is still on target; the 40c reduction in the cost of production. Can you tell me whether you have done any benchmarking in relation to costs of production? Is that something that you do at AWI? Are you aware of any benchmarking that has been done?

**Mr Barry**—I will have to take that on notice. The most recent example was the last performance review, where the investment in on-farm activity showed—and I am not sure of the figures absolutely—certainly a return in excess of fivefold. I will come back with the exact figures. That is the last time that I am aware of an independent review.

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**Answer:**

1. AWI monitors the sell through data for customers we are working with on either product development or co-operative marketing. As part of any expenditure with brands, retailers or manufacturers on market research, extension and supply chain enhancement, AWI seeks to have on the sales data being provided back to AWI. AWI requests that this data be at a stock keeping unit (SKU) level and on a comparable store sales basis. By receiving, recording and tracking this information AWI can measure the return on investment (ROI).

Examples of this include AWI's Japan test Marketing Program (JMP) and Korea test Marketing Program (KMP). The trend from 2007 to 2008 in total kg consumed in Japan and Korea fell by 14 per cent (16mkg). AWI undertook co-operative marketing programs in Japan and Korea that saw the wool apparel sales of our business partners in those regions increase by 29 per cent for the Fall/Winter08 season.

These co-operative marketing programs are based on the Test Marketing Program (TMP) undertaken in the USA in collaboration with The Woolmark Company in 2007.

A similar program has been undertaken in China.

The significant positive results of these programs support AWI's marketing strategies and demonstrate the importance of the approach.

2. The AWI Strategic Plan has a goal to reduce the Cost of Production by 40c/kg clean over the next 3 years.

At the time of preparing the strategic plan in 2008 the most up to date information, provided by Holmes Sackett and Associates, indicated that cost of production (COP) varied between \$5 and \$17/kg clean for fine wool growers and \$3.50 and \$12.50/kg clean for medium wool growers.

The average COP was estimated to be \$8/kg clean and 40c represented an average 5 per cent reduction in this COP.

AWI is now collecting COP data on an annual basis, from three private consultancy firms that undertake benchmarking with their clients. This data will be used for monitoring the performance of the on farm R&D program. The information is reported on an annual basis for Western Victoria, WA and NSW through key AWI communications tools including Beyond the Bale and the AWI website.

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The 2007/08 benchmarking data for WA (wool with a component of first cross lamb production) indicates an average COP of \$6.20/kg clean compared to \$9.79/kg clean in NSW (wool only) and \$13.27/kg clean in Victoria (wool only). It is important to remember that there are a range of micron and types of Merino wool reflected in this data.

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**Question:** AWI 03

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Accredited animal ethics

**Hansard Page:** 111 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—I am happy for you to take this on notice: since 2005 or thereabouts, what steps have you taken to develop any accredited animal ethics standard to protect the industry against future animal rights intervention such as we have seen in the past?

**Mr Merriman**—I will have to take it on notice.

**Answer:**

State governments are responsible for setting the animal welfare laws and standards that govern animal welfare in Australia.

Individual growers and private commercial auditing and accreditation providers (e.g. The Merino Company) are able to institute specialist programmes above and beyond this should they be required by the market. AWI has previously worked with these types of companies.

As the wool industry R&D body, AWI seeks to work co-operatively with animal welfare stakeholder groups such as welfare scientists, the Australian Veterinary Association and Royal Society for the Prevention of Cruelty to Animals to ensure that R&D is undertaken to address key areas of current and potential future animal welfare concern, and thus to allow Australian wool growers to remain at the forefront of animal welfare standards and practices on a worldwide scale. It is to be hoped that such a pro-active and co-operative approach may prevent the industry from coming under future animal rights intervention, however, this can not be guaranteed. Many animal rights groups are completely opposed to all forms of animal farming.

AWI continues to be involved with a range of programs to verify and promote best practice animal husbandry, including the following:

- **National Wool Declaration** – allows woolgrowers to declare the status of their wool lots:
  - ceased mulesing (CM);
  - not mulesed (NM); and
  - mulesed with pain relief (PR).

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- **National Mulesing Accreditation Program** – this program continues to provide accredited training to mulesing contractors and operators in the industry.
- **Best Practice Husbandry Guidelines for sheep** – AWI and MLA have invested in a project to develop Best Practice Husbandry Guidelines for sheep. The project is due to be completed in the next 3 months.
- **Land Transport Standards and Guidelines** – AWI was a member of the Reference Group for the development of the Land Transport Standards and Guidelines (Animal Health Australia), the Endorsement Version of which was submitted to PIMC on 17.10.08.
- **Review of the Model Code of Practice for the Welfare of Animals (Sheep)** – AWI is a member of the Reference Group for the Review of the Model Code of Practice for the Welfare of Animals (Sheep) which will result in the development of Standards and Guidelines (Animal Health Australia). The first meeting of this group is expected late in April.

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**Question:** AWI 04

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Biodegradable clips

**Hansard Page:** 112 (23/02/2009)

**Senator Heffernan asked:**

**Senator HEFFERNAN**—Will the clips be biodegradable?

**Mr Merriman**—Yes.

**Mr McCullough**—Yes.

**Mr Merriman**—They have worked on a biodegradable product.

**Senator HEFFERNAN**—Because that would be a pain in the you know what.

**Mr Olsson**—Just for the Senate's record, I have got an interest in mulesing. Not only do I run sheep and mules my sheep but our company invested in pain relief five years ago because none of the market would take it on; so I have an interest. But, in saying that, clips are one alternative I think that people can use because there is no blood with the product, and in some cases it is very effective, but I cannot agree that there will be a biodegradable clip available next year because I have not seen one yet. I think we should take that on notice and give more information on if it works and if it can be biodegradable. As yet, I am not sure we have gone that far.

**Senator FIERRAVANTI-WELLS**—Yes, absolutely.

**Answer:**

The clip technology has been handed over to a commercial partner – Leader Products.

A biodegradable version of the clips has been extruded and was found to break down too quickly. Leader is working with a biocomposite firm to slightly increase the life of the product but without sacrificing the rigidity and effectiveness.

Research and development continues on the biodegradable version of the clip.

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**Question:** AWI 05

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** United Nations Year of Natural Fibres

**Hansard Page:** 114 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—Thank you, Senator Heffernan. **2009 is the United Nations Year of Natural Fibres. You are participating in that?**

**Mr Merriman**—Yes.

**Senator FIERRAVANTI-WELLS**—I did not see AWI listed on their website, but I am sure you will remedy that fairly quickly.

**Mr Merriman**—I can tell you something about it and then I will hand you over to Stuart or somebody who knows about it.

**Senator FIERRAVANTI-WELLS**—I am happy for you to take on notice what your involvement is going to be.

**Mr Merriman**—One thing I can tell you is that there is a huge charge, which we cannot afford, to have our name sitting up on there.

**Senator FIERRAVANTI-WELLS**—Perhaps you might take on notice what you will be doing in relation to that.

**Mr Barry**—We will take it on notice.

**Answer:**

Although not an official sponsor, AWI is participating in the UN International Year of Natural Fibres (IYNF), and will be featured in the official publication

AWI participated in the planning forum in order to investigate how significant the real marketing opportunities were for AWI and how they aligned with the company's strategies. AWI deemed that the cost did not represent value for money for the company.

Instead, AWI elected to be represented through the International Wool Textile Organisation (IWTO), of which AWI is a funding member. IWTO has submitted a promotional brochure and film, for which AWI contributed footage. AWI will be assisting IWTO to undertake additional activities during the year.

AWI is assessing the possibility of holding an event in Australia to celebrate the IYNF.

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**Question:** AWI 06

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Hong Kong Polytechnic

**Hansard Page:** 114 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—Thank you, Mr Olsson. On the last occasion Senator Heffernan, I think it was, asked some questions about Hong Kong Polytechnic. Having spent now four months talking to a lot of people in the wool industry, one of the concerns that has been raised with me is what is really being seen as the development of the Chinese wool industry, perhaps at the expense of other traditional markets and, to some extent, our Australian wool growers. Could you take on notice the projects that have been undertaken by Hong Kong Polytechnic in the last 12 months. This will be on the record, Mr Olsson, in the transcripts.

**Mr Olsson**—Yes, no problem.

**Answer:**

AWI has had 4 active projects with (or that have involved) Hong Kong Polytechnic University (HKPU) over the last 12 months. These were:

1. Development of Washable Shape Memory Wool Garment. This was a Product Technology project and is now complete.
2. Self Cleaning Surface treatment for wool fabrics. This was a Product Technology project and was terminated during the last 12 months.
3. Hong Kong Polytechnic University Fashion Show. This was a Fashion Communications project and is now complete.
4. Woolmark Licensee Renewals – Trade Media Campaign. This was a Marketing Services project and is now complete. It should be noted that the HKPU involvement in this formed a very small component of the larger project.

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**Question:** AWI 07

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Blowfly management programs

**Hansard Page:** 111-112 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—Again, you may want to take this on notice: in terms of the blowfly management programs, with our 50,000 or thereabouts sheep producers, can you give us the sorts of concrete programs that have basically hit the ground, if I can put it that way, and actually improved the management of sheep? With your efforts and what is out there at the moment, have you seen any reduction in fly strike in sheep? The figure you mentioned was 3.5 million. Is that a static figure per annum or have you seen changes?

**Mr Merriman**—You have got a situation where everybody muleses. In the beginning there was no mulesing. I think during the thirties the mules operation started to become popular because it saved sheep. Out there now, everybody muleses. Now people are starting to come to grips with the idea of not mulesing, of using methods other than surgical mulesing, and the pain relief option has come in. As I said, some 10 per cent of the clip has now been declared. Two-thirds of that was unmulesed and ‘intend to cease mules’ and one-third of it was mulesing with pain relief. Over 90 per cent of the growers out there are still mulesing. That is what that shows.

**Mr Olsson**—If you require it, I would like to give you information from the New Zealand model when, five or so years ago, they decided to cease mulesing in most of the South Island, in response to the Icebreaker brand, which is one of the most successful Merino brands in the world, which had a high degree of demand for unmulesed wool. The modelling that is coming back from there shows a significant increase in costs and new deaths, especially when they came from the mountains to the plains. Thirty per cent of that flock, I am led to believe, is now going back to mulesing because of the costs associated with not mulesing. As a comparative model it would be, I think, very valuable for the Senate to see that. We can take that on notice and give that to the Senate.

**Senator FIERRAVANTI-WELLS**—Thank you.

**Answer:**

AWI has not undertaken a review of other countries’ ethical practices with regards to animal husbandry.

AWI has a host of research outputs with the potential of improving the management of sheep. Many of these have been adopted to greater or lesser degrees. They address issues ranging from pasture improvement and natural resource management, to sheep

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husbandry (e.g AWI's funding of the National Mulesing Accreditation Program), disease control (e.g. WormBoss & LiceBoss decision support tools) and wool harvesting (e.g. shearer and wool handler training).

Funding of intradermal alternative continues. Both the clips and intradermal products have been handed over to commercial partners. The commercial firms will take them to market and the commercial arena will test the products.

From 1 August 2008 to 28 February 2009, 84,900 bales of wool have been sold and declared through the National Wool Declaration. The declaration identifies wools as being from producers that have, not-mulesed, ceased mulesed or treated their animals with pain relief. This represents 8% of all wool offered for auction in that time period (1,075,993 bales).

In addition to this, mulesing management practices have been vastly improved for situations where sheep remain highly vulnerable to flystrike without mulesing. This has been achieved through the mulesing accreditation programme and through farmers adopting the use of pain relief.

Each of these measures reduces the risk of flystrike, although not to the same extent as mulesing. The calculations have not been repeated at this point in time, however, AWI has identified that research is needed to collect prospective data to monitor this progress and provide information regarding ongoing flystrike risk in Australian merino sheep, so that all future decisions regarding sheep welfare can be evidence based rather than politically or commercially driven. This will be a target area for future research.

AWI also continues to invest in activities such as the development of the FlyBoss® decision support tool.

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**Question:** AWI 08

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** CRC and program cuts

**Hansard Page:** 115 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—And also whether that sort of project was product development, garment development or R&D of wool fibres. To some extent, at a time when this government is talking about support for R&D, and R&D in Australia, I would be very disturbed to see Australian money being used for R&D being done in China that could well be done here. That is really the gist of my question, without taking you into the detail at this point in time. If there are problems with CSIRO not meeting R&D requirements, perhaps we should be looking at CSIRO rather than going off and giving money to Chinese organisations because we have a problem with CSIRO. Minister, I raise that because it was raised on the last occasion and I would like to put that on the record.

In your last annual report you have a list of all the projects that you are undertaking. I am amazed at the number that we have with China and I am particularly interested in how many of those projects are a shift of any intellectual property to China. Could you please take on notice and tell me which of those projects you intend to continue and which of those projects you will now be ceasing—in particular, the projects that have Chinese involvement—because it seems to me from some of the things that I have been told recently that we have pumped a lot of money into the Chinese wool industry, I think at the expense of Australian wool growers, and I would like to know how many of those projects could otherwise have been done in Australia that are being done in China. I put that on the record.

Could you also take on notice how the CRC is going and your involvement in relation to that as far as program cuts are concerned. It is clear that AWI has bridges to mend in various areas, and I think that is an understatement. Can you tell me what AWI is doing to make wool growers who are not already shareholders aware of their entitlements to become shareholders—to encourage them to come into the fold, so to speak—because I am concerned you have about 30,325 AWI shareholders listed in your annual report. How many total eligible wool growers are there who pay a levy? I would be interested to know how many are shareholders.

**Answer:**

Regarding projects undertaken with Hong Kong Polytechnic University that appear in AWI's Annual Report – please refer to the answer to question AWI – 06.

AWI currently has 17 active projects in China, and over nearly ten years (since 2001) has undertaken 93 projects in China or with significant Chinese involvement.

The primary purpose of undertaking projects in China or with Chinese involvement

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is to build demand for Australian Merino wool. The projects can be clustered into 3 distinct categories:

- Removing trade barriers
- Increasing the use of Australian wool
- Education of the supply chain to increase the knowledge of and, ultimately demand for, Australian Merino wool.

China has become the manufacturing hub for the world and more than 60 percent of all Australian wool goes to China, of which about half is consumed in the Chinese domestic market and the remainder exported around the world in garment form. Therefore in terms of volume, China is by far the most important country in terms of manufacturing.

As would be expected of the leading wool research, development and marketing company in Australia, AWI invests in R&D with companies/institutions that are best placed to provide the highest level of expertise, value for money and delivery of high quality results in a timely manner against the needs and objectives of the company.

In many instances this also requires 'closeness to market'. By far the majority of early stage processing occurs in China. This often requires that R&D work be undertaken on the ground with AWI's early stage processing business partners.

AWI off-farm R&D is often undertaken with a commercial partner (manufacturer or retailer). Australian wool is predominantly sold and manufactured in the northern hemisphere and AWI therefore undertakes R&D in the key markets for Australian wool.

It is sad, but a reality that wool processing and as a result early stage R&D capabilities have steadily declined in Australia over the last several decades.

AWI supports and does currently undertake work with CSIRO.

AWI is committed and contracted to invest \$10m in the CRC for Sheep Innovation between 2007/08 and 2013/14. This commitment has not changed. AWI staff are actively engaged in the relevant CRC programs, through project and milestone reviews, participation in the annual planning conference and represented on the Executive of the CRC.

As at 27 Feb 09 AWI had 46,496 eligible levy payers of which 29,771 are shareholders. There are 16,725 levy payers who are eligible to become shareholders ie: they've paid \$100 or more levy over the last 3 financial years, but have not taken up a shareholding.

Each year in September AWI sends invitation letters to all eligible levy payers that are not shareholders inviting and encouraging them to become shareholders. In that correspondence AWI advises them what their voting entitlement would be if they became shareholders.

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The \$100 of levy payments over 3 years, which is required to become a shareholder and entitles the levy payer to one vote, is in line with the Government's requirement for eligibility to vote in the wool levy poll. The reason for selecting this figure is that is a woolgrower is paying less levy than this they are producing a (relatively) very small amount of wool and the administrative costs in providing shareholder services to these producers is significant compared to the levy amount obtained.

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**Question:** AWI 09

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** AWI board elections

**Hansard Page:** 115 (23/02/2009)

**Senator Fierravanti-Wells asked:**

**Senator FIERRAVANTI-WELLS**—At the last AWI board elections how many actual people—physical people—voted? You have this system where you have got to pay a \$100 levy to be able to vote in this archaic, strange—

**Mr Merriman**—By shareholding.

**Senator FIERRAVANTI-WELLS**—Which is, of course, something you have inherited. I am not making that comment. The question I am asking is: how many wool growers contribute? How many are enfranchised, participate? That is really what I am trying to get to.

**Mr Merriman**—The exact number, I am not sure whether we can tell you.

**Senator FIERRAVANTI-WELLS**—I would be very interested.

**Mr Barry**—We will take that one on notice.

**Answer:**

At the close of the share register on 10 October 2008 for 2008 AGM there were 31,224 shareholders on the AWI Share Register. Of those 31,224, 28,950 were eligible to vote at the 2008 AWI AGM.

The shareholders without voting entitlement were sent a formal notice at the same time as the AGM papers advising that AWI's records indicated that they were no longer eligible to be shareholders as they had not paid \$100 or more levy over the last 3 financial years and should contact AWI immediately if this information was not correct. This is standard practice each year.

5,590 shareholders (19.3 per cent) voted in the 2008 AWI Election of Directors.

29,234 shareholders were eligible to vote in the 2007 AWI Election of Directors.

4,896 shareholders (16.75 per cent) voted in the 2007 AWI Election of Directors.

The results of the elections indicated a resounding vote for change.

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**Question:** AWI 10

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan 2008/2009 – 2010/2011

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. During the hearing, contradictory evidence was given about the strategic plan. Mr Barry confirmed that the strategic plan is still current given the changes on the board and there would not be a revised plan. What is the work being done by Mr Boundy or any other person in relation to this? How will the strategic plan be revised?
2. If there is a revised plan, please provide a copy of the same.

**Answer:**

Following the Board election of 19 November 2008, the new Board carried out due diligence on the company and commissioned a review of the company's business model chaired by former Director Mr Ken Boundy.

The Boundy Report has been concluded (with the input of senior staff) and presented to the Board and has been endorsed.

The Boundy Report has been provided to the new CEO by the Board. The CEO will be responsible for reviewing the report and for the decision making of any changes.

Any changes to the Company's strategic plan will involve a consultation process with industry and will follow the requirements outlined in AWI's SFA. This process has begun.

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**Question:** AWI 11

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan 2008/09 – 2010/11

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In relation to the overhead reduction indicated by Mr Merriman at the hearing, please provide details of those reductions including:
  - a. a copy of the revised structure of the corporation;
  - b. Details of positions abolished, revised or amalgamated with other positions;
  - c. Costs of any redundancies;
  - d. Details of any former directors of AWI who are currently employed, receiving consultancies and in any other way financially associated with AWI;
  - e. Details of any candidates who ran for the AWI Board elections in 2008 who are currently employed, receiving consultancies and in any other way financially associated with AWI.

**Answer:**

AWI has been undertaking a review of its operations in light of the economic climate. As part of this review a number of senior roles have been restructured.

- a. A revised organisation structure will not be available until the CEO has acted upon the Boundy Report.
- b. The positions abolished, revised or amalgamated are: CEO, Deputy CEO, Senior Legal Counsel/Company Secretary (1), General Manager Human Resources, General Manager Marketing, General Manager Corporate Affairs, Senior Manager Ethical Production and Trade, Manager Industry Affairs, Program Manager - Wool Harvesting, Executive Assistant to the CEO and Chairman, and Strategic Adviser Marketing (full time consultant). It's anticipated that with the cost pressures on the company further redundancies will have to be made.
- c. Disclosing details of specific redundancy payments would place AWI in breach of its contractual obligations with these former employees. As in previous years, a global figure in respect of any termination payments for senior executives for the financial year 2008/09, will be included in the Annual Report to be sent to shareholders in October 2009.

AWI's legal advice is that if AWI were to provide a global figure for redundancies for a period shorter than a year, that this may also constitute a breach of AWI's contractual obligations with former employees.

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- d. Ken Boundy is a former Director who was commissioned to Chair a committee to review the company's business model.
- e. Will Roberts is the Chairman of the 2009 WoolPoll Panel. He was an unsuccessful candidate in the 2008 AWI Board elections.

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**Question:** AWI 12

**Division/Agency:** Australian Wool Innovation Limited

**Topic: Strategic Plan – Target A**

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to questions put at the hearing, please ensure that in relation to the target to create an additional 20 million kgs per annum (clean) demand for Australian merino by working with the top 200 international retail and brand partners to lead the market, AWI outlines what specific plans are in place to achieve this.
2. Further to questions put at the hearing, what specific performance indicators have been put in place to achieve this target over each of the next three years?
3. What is the nature and breakdown of the kind of wool that is projected to form the additional 20 million kgs pa over each of the next three years?

**Answer:**

1. Those targets were put in place prior to the fundamental shift in the global market. Having said that AWI targets companies in the ‘bridge and better’ sectors, who not only consume high amounts of fibre, but have a retail price point that suits wool.  
AWI targets the top 200 apparel wool sales companies worldwide. AWI engages with these companies to undertake product development and cooperative marketing to move new products into the market place.
2. The Strategic Plan sets out specific strategic initiatives, which are further detailed in AWI’s Operating Plan 2008-09. The Operating Plan 2008-09 outlines key performance indicators and how each initiative will be measured across the regions.  
Each region (USA, Europe and Asia) is measured on its contribution to the targets specified in AWI’s Strategic Plan. These regions actively participated in the development of this Strategic Plan.
3. AWI is primarily targeting apparel markets. Since the onset of the global financial crisis these apparel markets are in decline and participants in this segment are re-examining their markets. Much of AWI’s project focus is in the apparel sector, which can be categorised as 23 micron and finer. That being known AWI’s project spend will predominantly be focused on 22 micron and finer.

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**Question:** AWI 13

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What is the size and composition of the current sheep flock?
2. Do you agree that the flock is projected to decline to about 72 million sheep by 2013? If not, please provide your views.
3. What is the projected decrease or increase in the flock over the next five years?
4. What is the estimated increase in the size and composition of the sheep flock that will be required to achieve the projected increase in demand of an additional 20 million kgs of wool over the next three years?
5. If you increase demand, does AWI believe that there will be a sufficient flock to sustain the projected growth in demand of 20 million kgs pa over the next three years?

**Answer:**

1. The opening sheep number for 2008/09 was 79.21m, with 49.1m (62%) being Merino ewes. Of Merino ewes, 32.9 m (67%) will be mated to Merino rams, and 16.2m (33%) to meat-breed/non-merino rams (*ABS; DAFWA Wool Desk Survey*).
2. AWI funds the (AWI) Wool Production Forecasting Committee, which aims to provide the best possible estimates of future sheep numbers for wool production.

The Committee has a two-level structure, with a National Committee considering information and advice from state sub-committees. The National and state sub-committees comprise wool producers, wool brokers, exporters, processors, private treaty merchants, AWEX, the Australian Wool Testing Authority, ABARE, and the Australian Bureau of Statistics

The Committee produces consensus-based, authoritative forecasts of Australian wool production four times a year. Key inputs into the forecasting process are twice-yearly wool grower surveys and a computer -based flock model.

The Committee releases its forecasts of production in the form of a press release and a report providing the detailed forecasts, historical data and commentary on the key drivers of the forecasts.

The forecasting committee reports on current sheep numbers and makes projections to the end of the coming financial year.

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AWI does not project sheep numbers out to five years, and can therefore not accurately comment on likely sheep numbers in 2013.

3. AWI does not model or project sheep numbers out to five years and can therefore not accurately comment on likely sheep numbers in 2013.
4. Significant assumptions would need to be made in order to make this projection. Variables include price drivers at each micron range, sheep breeds (dual purpose sheep – meat and wool vs Merinos) and average fleece weight across different breeds.

Increasing the demand for wool can be reflected in increased sale prices for the same quantity of wool or increased quantities of sales at the same price

Increased demand for the same sized clip will lift the price of wool. Statistically, we know that the price of wool and the production of wool are intimately connected; i.e. when wool prices go up, so does production. If prices continue to decrease, so will wool production. Every kilogram of wool produced in Australia is sold; it is the price that is variable.

5. Yes. The market forces will drive wool production decision making. An increase in demand at the current level of production will drive up prices, making wool production more profitable and appealing to producers.

Large numbers of producers run dual purpose sheep, and will shift towards greater wool production to take advantage of the market conditions and higher prices.

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**Question:** AWI 14

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to the question taken on notice about the size of the current merino breeding ewe flock, please provide a profile of the ewe flock such as age etc.?
2. Of those current merino breeding flock, how many are used for merino breeding and how many are used with meat breed rams?

**Answer:**

1. AWI does not record this data.
2. There are currently 49.1m (62 per cent) Merino ewes in the Australian flock, of which 32.9m (67 per cent) will be mated to Merino rams, and 16.2m (33 per cent) to meat-breed/non-merino rams this year (*ABS; DAFWA Wool Desk Survey*).

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**Question:** AWI 15

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What is the national average lambing percentage?
2. Taking into account the national average lambing percentage, how many merino lambs do you envisage will be born:
  - a. in each of the next three years?
  - b. over the next five years?
3. How many of the estimated merino lambs born are likely to be ewes:
  - a. in each of the next three years?
  - b. over the next five years?

**Answer:**

1. AWI does not record this data.
2. AWI does not record this data.
3. (a) and (b) Approximately 50 percent of lambs born will be ewes.

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**Question:** AWI 16

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. With the number of merino ewes being slaughtered for historically high lamb prices, will there be a sufficient ewe base:
  - a. in each of the next three years; and
  - b. over the next five years to maintain, let alone increase the Australian merino flock?
2. With the number of merino ewes being slaughtered for historically high lamb prices, will there be a sufficient ewe base over the next five years to maintain, let alone increase the Australian merino flock?

**Answer:**

- 1 and 2. The number of Merino ewes slaughtered in any one year is dependant on the relative returns from meat and wool production and drought conditions. This year 67 per cent of the Merino ewe base will be joined with Merino sires.

If the returns from Merino wool production increase through either productivity gain or price there will be increased impetus to maintain the ewe base rather than slaughter it. With 67 per cent of the Merino ewe base joined to Merino rams there should be adequate Merino replacements to maintain the flock.

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**Question:** AWI 17

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. How many lambs born in each of the next three years will need to be kept for breeding to increase the flock necessary to meet the projected increase in demand of 20 million kgs pa?
2. To ensure quality, how will AWI ensure that these lambs are kept for breeding and not used for the dual purpose?

**Answer:**

Increased demand can be reflected in an increase in price for the same quantity or an increased quantity at the same price.

AWI does not control individual enterprises decisions. AWI monitors what the result of those decisions are but can not predict what our woolgrowers business plans are for the forthcoming season. These decision are dependent on many factors not least the climatic condition that might prevail. Growers will make their own decisions about whether to focus on meat, wool or dual purpose based on enterprises best suited to their farm and relative returns.

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**Question:** AWI 18

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. At the moment we have about 80 million sheep and we produced last year about 440 million kgs of wool. So to produce 460 kgs of wool – that's an increase of about 4.5% pa, we will need more than 80 million sheep – arguably an extra 3.6 million of which 1.8 million would be ewes. Does AWI agree? If not, will AWI be reviewing its forecast set out in AWI press release of 12 December 2008?

**Answer:**

Firstly, to generate an additional 20mkg of supply per annum, the industry needs only 1.4m extra ewes (4.5 per cent of a total of 32.9m ewes). The increased production can be achieved in a number of ways, reduced slaughterings and retaining wethers and ewes as wool cutters or through increased joinings of Merino ewes to Merino rams. Increased returns from wool will increase the retention of ewes within the flock.

On 27 March 2009, the (AWI) Wool Production Forecasting Committee revised its forecast for Australian shorn wool production this season to 355 mkg greasy, 15 mkg greasy lower than its forecast in December and 10.5 per cent lower than in 2007/2008.

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**Question:** AWI 19

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What is AWI doing to inform growers of the need to plan for the future? Is this not the role of AWI?

**Answer:**

AWI is highly committed to future planning, and funds a number of initiatives designed to prepare growers for future challenges in the industry, including 'Making More From Sheep', Business Planning, extension networks, Cost of Production workshops, and future production estimates from the (AWI) Wool Production Forecasting Committee.

AWI informs growers of these initiatives through Beyond the Bale, AWI's flagship publication which is sent to 27,000 shareholders every 2 – 3 months; AWI's website; through the press via media releases and other targeted forms of communication which vary depending on the activity.

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**Question:** AWI 20

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. If Australia cannot maintain its breeding flock, how is AWI and the wider industry going to supply the markets it wishes to develop?

**Answer:**

If wool prices increase, sheep will be retained to meet the demand, thereby becoming competitive with crops, lamb and cattle. Working to develop new markets for wool also aims to increase demand.

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**Question:** AWI 21

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. How has AWI improved demand for Australian merino wool in regard to the AWI goal of increasing demand by 20 million kgs?
2. Where does this show through to the wool market in Australia where we see continued falling prices?
3. Is there a strategic plan for which micron / price points this 20 mil kg increase should be aimed?

**Answer:**

1. AWI is investing in cooperative test and research marketing programs such as the Japan Marketing Program (JMP) and Korea Marketing Program (KMP). The wool apparel sales of AWI's business partners in these regions increase by 29 per cent for the Fall/Winter08 season.

In addition, the 2007/08 trend in total kilograms consumed in Japan and Korea fell by 14 per cent (16mkg). This represents a positive swing against the mean of 43 per cent.

These co-operative marketing programs are based on the Test Marketing Program (TMP) undertaken in the USA in collaboration with The Woolmark Company in 2007.

Similar programs and research have also been undertaken in China.

Overall, in instances where AWI has contributed to marketing activities, significant increases in demand from certain sectors of the international retail industry have been shown.

2. Many factors impact upon 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, quotas, import tariffs and duties, processing capacities and financial volatility in the markets that consume apparel wool products.

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3. AWI's investments are mostly in the apparel sector aims to be proportionate to the value of production across the micron ranges. AWI does aim to invest in coarser micron counts proportional to levy revenue in those areas.

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**Question:** AWI 22

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Is there not a significant difference between the fine wool market for quality apparel versus broader wools?

**Answer:**

Yes, there is a significant difference:

**Fine Wool Market**

This produces fine, elegant garments such as mens/womens suiting and fine, lightweight knitwear.

**Broader Wools**

Are mainly used for garments that require good wear performance (e.g. socks and workwear/schoolwear). It is also used to blend with acrylic fabrics to produce 50/50 blends which are cheaper wool garments.

Other products include hand knitting yarns, interior textiles (blankets, upholstery and bedding), and carpets where strength and resilience is required.

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**Question:** AWI 23

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

Going back to your target of 200 top international retail and brand partners, have we actually seen an increase in orders from any of these firms? Please provide specific details in terms of quantity and value.

**Answer:**

Refer to answer provided to **AWI 02**.

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**Question:** AWI 24

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Declining Flock and Ewe Numbers

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to questions put at the hearing, please ensure that in relation to the target to reduce wool's cost of production by 40cents a kg clean over 3 years through increased productivity and lower costs, AWI outlines what specific plans are in place to achieve this.
2. Further to my questions at the hearing, what specific performance indicators have been put in place to achieve this target over each of the next three years?

**Answer:**

1. The 2007/08 benchmarking data for WA (wool with a component of first cross lamb production) indicates an average Cost of Production (COP) of \$6.20/kg clean compared to \$9.79/kg clean in NSW (wool only) and \$13.27/kg clean in Victoria (wool only).

The target is to see a reduction in cost of production of 40c/kg, which on average equates to a 5 per cent reduction across the states.

A range of training and extension programmes are in place to make growers aware of the importance of COP, to increase productivity, lower input costs and ultimately, lower COP – Evergraze, Integrated Parasite Management, Making More From Sheep, and initiatives in genetics and reproduction are examples of this.

2. Methods by which AWI measures its progress include: annual COP benchmarking; new technology modelling and impact studies on COP; and successful grower case studies.

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**Question:** AWI 25

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target B

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. There seems to be an exodus away from merino wool with trends showing that wool merino breeding stock is not being replaced and consequently, cost of production is going up, not down? Do you agree? If not, please provide details as to why this may not be the case.
2. What are the figures on trends in costs of production?
3. Has any benchmarking been done by AWI? Please provide details regarding the same.

**Answer:**

1. COP benchmarking varies on an annual basis. Drought in recent years has resulted in increased feeding costs and COP for many producers, as have increased prices of fertilizer and fuel. COP also varies according to micron category and production system.
2. The target for COP has only been in place since July 2008, therefore, only benchmarking data for 2007/2008 has been collected to date. Additional data will be collected at the end of every year.

<b>2007/08 COP \$/kg clean</b>	<b>Top 10%</b>	<b>Average</b>	<b>Bottom 10%</b>
NSW tablelands/slopes (wool only)	7.39	9.79	13.01
Western VIC (wool only)	10.34	13.27	16.10
WA (wool and prime lamb component)	3.81	6.20	11.15

3. The first year data shows huge variation between growers and reflects different levels of productivity per hectare (increased productivity per hectare allows overhead costs to be spread over more units of production).

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**Question:** AWI 26

**Division/Agency:** Australian Wool Innovation Limited

**Topic: Strategic Plan – Target C**

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to questions put at the hearing, please ensure that in relation to the target to provide woolgrowers with alternatives to mulesing in support of the industry's commitment to phase out the practice out by the end of 2010, AWI outlines what specific plans are in place to achieve this.
2. Further to questions put at the hearing, what specific performance indicators have been put in place to achieve this target over each of the next three years?

**Answer:**

1. Since the industry commitment to find a viable alternative to mulesing by the end of 2010, AWI has spent approximately \$19 million on research and development into viable alternatives.

Leader Products will make clips commercially available.

Cobbett Industries are working on a possible intra-dermal solution, which is still in the research and development phase.

AWI is also funding genetic programs (to breed sheep with breechstrike resistance), which are also significant in the fight against flystrike.

2. Every project, program and contract written by the company has key performance indicators (KPI's) and stop/go points or milestones, where the future success of the project is evaluated based on the outcomes of already completed milestones; a decision can then be made whether to terminate or continue the project.

AWI has been tasked by parts of industry to undertake research and development into alternatives to mulesing and to deliver these alternatives to the market. This is done through the transfer of the technology and intellectual property to a commercial partner.

Adoption rates and sales figures indicate the commercial success of the technology or product. The commercial arena tests a product (any product) well and ultimately the adoption or sales figures will show us if the product has been successful or not.

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**Question:** AWI 27

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. One of the perceptions that is out there is that this board has been elected on a pro-mulesing ticket? Your view?

**Answer:**

The candidates were elected on various platforms. Predominantly their theme was to evaluate sales and marketing of wool as well as a desire to ensure the financials of the company were in check. Animal welfare practises including mulesing were also an issue. All candidates expressed the desire to see the traditional practice of mulesing phased out in favour of more humane options of preventing suffering and death from flystrike. Improved research governance was a common theme among the newly elected board members.

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**Question:** AWI 28

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to the question taken on notice about any steps that AWI has taken to develop accredited animal ethics standards to protect the industry against future animal rights interventions such as have been seen in the past, please advise:
  - a. whether AWI has in the past considered or rejected supporting animal ethics programs in Australia? If so, please provide details regarding the consideration or rejection. If rejected, why was it rejected?
  - b. whether there such standards in place in other countries such as the United States?

**Answer:**

1. (a and b) State governments are responsible for setting the animal welfare laws and standards that govern animal welfare in Australia.

Individual growers and private commercial auditing and accreditation providers are able to institute specialist programmes above and beyond this should they be required by the market. However, this sort of activity is not within AWI's jurisdiction.

As the wool industry R&D and marketing body, AWI seeks to work cooperatively with animal welfare stakeholder groups such as welfare scientists, the Australian Veterinary Association and the Royal Society for the Prevention of Cruelty to Animals to ensure that R&D is undertaken to address key areas of current and potential future animal welfare concern. This allows Australian wool growers to remain at the forefront of animal welfare standards and practices. Such a proactive, cooperative approach may prevent the industry from coming under future animal rights intervention, however, this can not be guaranteed. Some animal rights groups are completely opposed to all forms of animal farming.

AWI continues to be involved with a range of programs to verify and promote best practice animal husbandry, including the following:

- **National Wool Declaration** – allows woolgrowers to declare the status of their wool lots:
  - ceased mulesing (CM);
  - not mulesed (NM); and
  - mulesed with pain relief (PR).

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- **National Mulesing Accreditation Program** – continues to provide accredited training to mulesing contractors and operators in the industry.
- **Best Practice Husbandry Guidelines for sheep** – a joint AWI and MLA investment project due to be completed in the next 3 months.
- **Land Transport Standards and Guidelines** – AWI was a member of the Reference Group for the development of the Land Transport Standards and Guidelines (Animal Health Australia), the Endorsement Version of which was submitted to PIMC on 17.10.08.
- **Review of the Model Code of Practice for the Welfare of Animals (Sheep)** – AWI is a member of the Reference Group for the Review of the Model Code of Practice for the Welfare of Animals (Sheep) which will result in the development of Standards and Guidelines (Animal Health Australia). The first meeting of this group is expected late in April.

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**Question:** AWI 29

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to comments about the “interim” period at page 111 of the hearing transcript, please advise whether the incoming AWI has changed its position on mulesing? If not, then is AWI on track to meet its timetable for a 2010 timetable?
2. If AWI has changed its position on mulesing, what is the revised timetable for phasing out of mulesing?
3. Assuming that such a revised timetable goes beyond the 2010 deadline, is AWI considering defending mulesing and the need for it during this interim period? If so, will this involve some form of communications or marketing campaign? If so, please provide details.

**Answer:**

1. On 21 November 2008, the new AWI Board passed a resolution that supported the previous Board’s position with regard to mulesing.
2. and 3 AWI continues to invest in R&D to develop viable alternatives to mulesing. To date, AWI has invested \$19m in this area with the current Board increasing the annual spend. The 2010 phase-out date was set by industry in a meeting held on 8 November 2004. At this time early results from research into intradermals using collagenase were promising and it was anticipated that this product would be commercially available within several years.

AWI is the R&D company for the Australian wool industry and has been tasked by the industry to find an alternative to mulesing. It is not the Company’s role to police the wool industry nor to enforce dates set by industry in collaborative consultation.

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**Question:** AWI 30

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to questioning at page 111 of the hearing transcript, please provide specific details as to which practices in other countries do the ethics of the Australian wool industry compare so favourably?

**Answer:**

The ethical practices of other countries are outlined in the welfare codes of practice and animal protection laws. The Australian welfare laws and codes of practice for sheep are determined by the state governments

The federal government recently commenced the Australian Animal Welfare Strategy which aims to ensure that Australian welfare standards remain amongst the highest in the world.

AWI looks to contribute to this by undertaking R&D to pro-actively identify and address areas where welfare enhancements can be achieved in the care of sheep, and delivered to industry. The flystrike prevention programme is an example.

Australian sheep farmers are pro-actively undertaking genetic breeding for flystrike resistance and, through the wool levy investing millions of dollars in R&D to undertake a programme to support a phase-out of a traditional husbandry practice that saves the life of their sheep.

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**Question:** AWI 31

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What actions have AWI to increase its programs in blowfly management to its 50,000 sheep producers? What real actions have hit the ground to improve the management of sheep in this area?

**Answer:**

AWI has a host of research outputs with the potential to improve the management of sheep. Many of these have been adopted to greater or lesser degrees.

In addition to this, management practices have been improved for situations where sheep remain highly vulnerable to flystrike without mulesing. This has been achieved through the National Mulesing Accreditation Programme and through farmers adopting the use of a multifunction wound anaesthetic, antiseptic and haemostatic agent.

From 1 August 2008 to 28 February 2009, 84,900 bales of wool have been sold and declared through the National Wool Declaration. The declaration identifies wools as being from producers that have, not-mulesed, ceased mulesed or treated their animals with pain relief.

This represents approximately 8 per cent (7.89 per cent) of all wool offered for auction in that time period (1,075,993 bales).

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**Question:** AWI 32

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Strategic Plan – Target C

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Please provide details of the nature of commercial arrangements that AWI has entered into with any persons or entities in relation to non-biodegradable clips and/or biodegradable clips, including:
  - a. The relationship of any such person or entity to any current director or person employed or otherwise engaged with AWI;
  - b. The relationship of any such person or entity to any past director or person employed or otherwise previously engaged with AWI in the past five years.

**Answer:**

Australian Wool Innovation Limited (AWI) has licensed Leader Products to commercialise anti-flystrike clips.

a) and b) To our knowledge there are no relationships with any directors or persons employed with AWI (or otherwise engaged with AWI) and Leader Products. Nor are there any former AWI directors or employees who are directly connected with Leader Products.

Under AWI's licence agreement with Leader, AWI is funding a member of staff (Ian Evans) to assist this company in the commercialisation of the product. This support function is due to conclude at the beginning of April. This resource has been provided for one day a week

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**Question:** AWI 33

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Has AWI fully investigated the validity of grower declarations in regard to animals status of mulesed or not mulesed?
2. Do the current standards of this grower declaration meet the needs of a quality assured value chain?
3. In a global market where AWI is trying to promote our ethically grown wool should there not be a more stringent set of standards regarding non mulesed certification?

**Answer:**

1. AWI is currently funding a two phase audit of the National Wool Declaration (NWD). AWI is providing the funding for phase 1 (desk audit) and is providing funding support for infrastructure creation as part of phase 2.

Phase 1: is a desktop auditing which aims to validate the "Mulesing Status" field published in the Auction Sale Catalogues.

Phase 2: (Pending) The second phase of the audit is the verification of on-farm inputs on the NWD.

This on-farm audit is to seek and proof each of the following declared inputs on a random sample of properties and mobs:

- ceased mulesing (CM);
  - not mulesed (NM); and
  - mulesed with pain relief (PR).
2. AWI openly supports the NWD. The NWD was created through the AWEX Industry Services Advisory Committee. AWI recognises that the NWD has only been launched relatively recently and will evolve and be improved over time to meet the needs of global customers.
  3. The NWD allows customers to source wool that meets their corporate and social responsibility requirements. The declaration is still relatively new and is likely to evolve through time to respond to the needs of the market.

In addition, private brokering companies and direct supply chain companies (e.g. The Merino Company) exist that can provide additional auditing and certification for customers should they require it.

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**Question:** AWI 34

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

Is the National Wool Declaration a desk audit only?

**Answer:**

Yes

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**Question:** AWI 35

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Is AWI aware of instances where growers are just ticking the box? Are these declarations validated?

**Answer:**

1. AWI is not aware of any such instances. A signed NWD is enforceable under the Trade Practices Act (1974).

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**Question:** AWI 36

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In relation to paragraph 1(a) of the National Wool Declaration, does AWI believe that this is a clear statement?
2. In relation to paragraph 1(b) of the National Wool Declaration, does AWI believe that this is a clear statement or is it simply a loophole?
3. Does AWI agree that this is a question of substantiation and if a grower is not being accurate with his disclosure, then this undermines the integrity of the system.
4. Would the National Wool Declaration be clearer if paragraph 1(b) were deleted?

**Answer:**

1 – 4. The NWD was created through the AWEX Industry Services Advisory Committee (ISAC), following broad consultation of Brokers, Growers, Buyers and industry stakeholders to ensure that all views have been considered.

In November 2008 AWEX, through its Industry Services Advisory Committee (ISAC), sought input from all sectors of the wool industry for its annual review of the National Wool Declaration (NWD). Submissions were received by 28th January 2009 for consideration at the ISAC meeting held on Friday 6th February 2009. Further deliberations continued after this meeting.

In making its recommendations to the AWEX Board, ISAC agreed that changes would only be made to the NWD that would enhance its understanding and/or adoption by industry. The following recommendations were put forward to and approved by the AWEX Board:

- (a) There is no change to the NWD Mulesing Status Codes of Not Mulesed (NM), Ceased Mulesing (CM), Mulesed with Pain Relief (PR) and Not Declared (ND).
- (b) For consistency, the NWD will adopt a Yes/No format for questions.
- (c) The Definitions are refined to ensure they are clear and unambiguous, and are able to be audited. This particularly applies to sheep transferred onto a property.
- (d) That Clips and Intradermals not be included in the NWD at this time.

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(e) The addition of a Grower ID box for use by Brokers in identifying clips.

These changes will be introduced in the new selling season commencing Monday 3rd August 2009.

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**Question:** AWI 37

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In evidence at the hearing, it was indicated that AWI undertakes random audits. Is AWI aware of the nature of such random audits, including:
  - a. The frequency of such audits;
  - b. How they are undertaken;
  - c. Are growers notified in advance of the random audits
  - d. Any statistics regarding discrepancies or failure to properly disclose.

**Answer:**

1. AWI does not undertake random audits, however AWI is aware of the audits undertaken by Australian Wool Exchange Ltd.

Please refer to the response provided in Question **AWI 33**.

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**Question:** AWI 38

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Of the large quantity of wool AWI claims is available as ethically produced, what percentage is mulesed with pain relief (or known as the better choices brand)?
2. What percentage is from flocks that have ceased mulesing? What percentage is from animals that are not mulesed?

**Answer:**

1 & 2. Of the total NWD bales offered for auction from 1Aug 2008 to 28 Feb 2009 (first 7 months of the NWD) the details are summarised below

<b>Status</b>	<b>No# bales</b>	<b>Percentage</b>
CM (ceased mulesing)	24,417	29%
NM (non – mulesed)	32,855	39%
PR (mulesed with pain relief)	27,635	33%
<b>Total</b>	<b>84,907</b>	<b>100%</b>

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**Question:** AWI 39

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Does AWI explain to processors that a large percentage of the ethically produced wool is from sheep which are mulesed with pain relief? Is this an acceptable standard for the marketing companies promoting the new ethical non mulesed approach to ethical consumers?

**Answer:**

1. Yes. When discussing the offerings described under the NWD, AWI carefully takes the customer (Processor or Retailer) through what each sub category represents.

Every retailer has a different CSR (Corporate and Social Responsibility) plan. Only a few retailers have stipulated NM (non-mulesed) wool. The remaining retailers have a varying interest across the three categories.

The NWD provides processors with a tool to enable them to deliver against their customers' needs/specifications.

The real test of interest will be evident in the premium (or discount) that's paid in the auction room in an open-cry environment. Support for that type of wool will be shown through a premium or discount being paid.

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**Question:** AWI 40

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. I refer to AWI Press release of 2 February 2009 – 10 million kgs sold as either non-mulesed, ceased mules or mulesed with pain relief, upon what facts and circumstances did AWI rely upon to make the assertions contained therein including:
  - e. whether AWI independently verified the information contained?
  - f. How the three categories were quantified?
  - g. Is it the obligation of the overseas buyer to verify the accuracy of the declaration by the grower?

**Answer:**

1. This data was provided by AWEX, who manages the NWD. Questions relating to the NWD should be directed to AWEX.

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**Question:** AWI 41

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** National Wool Declaration

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. It seems that on the one hand AWI relies on the veracity of the Wool Declaration System whilst the other hand deny faith in the system. Please clarify this contradictory position.

**Answer:**

AWI openly supports the NWD. AWI recognises the NWD has only been launched relatively recently. The market signals driven from retailers back through the supply chain to the NWD will be an important stimulus for more growers to declare CM, NM or PR produced wool.

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**Question:** AWI 42

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Annual Report – Projects listed

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Further to the questions asked at the hearing and taken on notice, please list all projects funded by AWI or otherwise undertaken by AWI since 2001 that have been undertaken with, or for the benefit of, Chinese companies, persons or other entities with a Chinese parent company, including those associated with:
  - a. genetics or the transfer of genetic material;
  - b. intellectual property or the transfer of the same;
  - c. product or garment development.

**Answer:**

AWI currently has 17 active projects in China, and over nearly ten years (since 2001) has undertaken 93 projects in China or with significant Chinese involvement. Of these 69 have been completed, 1 has been deferred and 6 have been terminated.

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**Question:** AWI 43

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** AWI: Annual Report – Projects listed

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

**AWI: Annual Report – Projects listed**

1. Please provide details of any projects, studies or investigations undertaken by AWI since 2001 years in relation to getting wool into sophisticated blends/garments? If none have been undertaken, what plans does AWI have to undertake such projects in the future?

**Answer:**

1. See attached spreadsheet next page (Attachment 3)

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**Question:** AWI 43 (continued)  
**Attachment 3**

AWI Projects - Wool Blends

<b>Project Name</b>	<b>Description</b>	<b>Partner</b>
Micromerino (Optim)	<p>ERDOS is one of the largest cashmere brands for domestic with about 1500 retail outlets and major export cashmere manufacture located in Inner Mongolia, we have been working with them since Oct 2008.</p> <p>Up to now the target market is Japan and domestic China brand “1436” – retail price is around RMB 5000 for ladies top. The following products have been developed:</p> <ol style="list-style-type: none"> <li>1) Superfine wool blend with micromerino (70% wool/30% micromerino)</li> <li>2) Superfine wool blend with micromerino (30% wool/70%micronmerino)</li> <li>3) Micromerino blend for Circular knits yarn, in development may be finished by mid 2009</li> </ol> <p>ERDOS is discussion with Michell for commercial supplying contract.</p>	ERDOS
Micromerino (Optim)		Maglia

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<b>Project Name</b>	<b>Description</b>	<b>Partner</b>
Mergerised Merino/Cashmere Blend	Xinao Group is one of the major Spinners in China with a capacity of 4,500,000 kg yarns per year. Products which are in development:  1) Mergerised merino blend with cashmere : 80% wool / 20% cashmere  2)Merino Luxury Platform : 90% wool / 10% silk (to be launched at Spinexpo Shanghai, Sept 2009	Xiano Group
Mergerised Merino / Silk Blend	Working with Sudwolle on blending Mergerised Merino (19.5micron) with and silk to create new luxury knitwear yarns to compete with 100% cashmere yarns.	Sudwolle

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**Question:** AWI 44

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Annual Report – Projects listed

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

What consultation with industry is undertaken in the development of new marketing campaigns i.e. focus groups for feedback. Please provide details as to what consultation processes AWI will undertake in relation to its proposed marketing strategy?

**Answer:**

Prior to the development of AWI's current Strategic Plan, AWI contracted high profile marketing and research firm, Milward Brown, to survey 23,000 consumers in the northern Hemisphere to understand their needs and perceptions about wool and the Woomark brand.

In 2006 a Test Marketing Program was conducted in the USA. This approach is being further trialled through test and research marketing programs in Japan, Korea and China. These programs involve co-operative marketing and utilise a business-to-business – consumer and business-to-business - employee approach.

Prior to the finalisation of AWI's current Strategic Plan, AWI held a workshop with representatives from industry organisations, AWEX, the Australian Wool Testing Authority and brokers. The purpose of the workshop was to obtain input into the Strategic Plan from these stakeholders and grower groups. This included the marketing component of the Strategic Plan.

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**Question:** AWI 45

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

As specified in the 2007/08 Annual Report, there are 30,325 AWI shareholders. What proportion of the total eligible wool growers does this figure make up?

**Answer:**

This represents 62.9 per cent of eligible wool grower levy payers.

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**Question:** AWI 46

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** AWI: Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Does AWI have a list of all wool growers eligible to become shareholders?

**Answer:**

1. Yes, as each year AWI invites all eligible levy payers to become shareholders.

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**Agriculture, Fisheries and Forestry**

**Question:** AWI 47

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In relation to the results of the last AWI Board elections – how many actual people voted?

**Answer:**

5,590 shareholders voted in the 2008 Election of Directors.

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**Question:** AWI 48

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In relation to the voting system, does it mean that the vote is controlled by those people who pay more levy because they sell more wool – it favours those growers who sell at the high end?

**Answer:**

1. No, as the largest shareholder holds just 0.3 per cent of the total shareholder votes.

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**Question:** AWI 49

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Does AWI intend to undertake a review of governance issues, including making recommendations for change to its voting system?

**Answer:**

1. Not at this time. We are bound by our constitution.

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**Question:** AWI 50

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. One of the issues that has given rise to some controversy has been the appointment of interim directors pending nomination at the next AGM. Do you intend to review your constitution to review this?

**Answer:**

1. AWI does not intend to review its constitution at this time.

The appointment of interim directors to fill vacancies on the Board is common practice by public companies and provided for in most Constitutions in accordance with section 201 H(3) of the Corporations law. These interim directors are required to stand down at the next AGM following their temporary appointment and may be eligible to stand for election at the AGM if resolved by the Board or shareholders to do so.

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**Question:** AWI 51

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. I note that the make up of the Board – between 5 and 10 – is determined by the Board itself. This seems very complicated and open to creative manipulation. Does AWI intend to consider a more simple system?

**Answer:**

1. AWI does not intend to review its constitution at this time.

The number of directors on the Board of public companies is determined by the Constitution of each company and that number is normally provided in a range to enable the Board to provide for fluctuations in requirements including special skills from time to time.

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**Question:** AWI 52

**Division/Agency:** Australian Wool Innovation Limited

**Topic: Governance and voting on Board**

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What is the basis for determination of AWI directors' fees? Do wool grower shareholders have any, and if so, what say in the determination of or setting of the level of directors fees?

**Answer:**

1. Review of like company directors fees, Consumer Price Index, frequency of meetings, directors committee responsibilities and independent assessment form the basis for determining directors' fees.

The Charter of the Committees of the Board delegates specific responsibility to the Remuneration and Appointments Committee for oversight of Directors Fees subject to the Board approving or not any recommendations made by that Committee. Shareholders input was not sought or received when the Directors Fees were last reviewed in 2006. The 2006 review included an assessment of all of the above and AWI contracted an independent remuneration assessment firm Spencer Stuart to recommend Director Fee levels. Directors' fees have remained unchanged since July 2006.

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**Question:** AWI 53

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Governance and voting on Board

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

How many stud breeders are currently on the board of AWI?

**Answer:**

1. 3 of 9 total.

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**Question:** AWI 54

**Division/Agency:** Australian Wool Innovation Limited

**Topic: Governance and voting on Board**

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. In relation to the AWI Board elections, please advise:
  - a. Are the current directors all shareholders of AWI?
  - b. What is the shareholder voting entitlement of each Board member elected to the Board?

**Answer:**

1.
  - a. No, 6 of the 9 Directors are shareholders.
  - b. Voting entitlements are confidential information because the vote entitlement of any individual is a reflection of what wool tax they have paid over the last three years; a simple extrapolation would yield that individual's gross income in any one year from wool.

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**Question:** AWI 55

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Woolpoll

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What steps are the AWI Board undertaking to ensure growers are adequately prepared / informed for Wool Poll vote?

**Answer:**

1. As has been the standard process in previous years, AWI has appointed an experienced industry representative, Will Roberts, to select and Chair the 2009 WoolPoll Panel.

One of the core responsibilities of the Panel is to ensure that woolgrowers are well informed about WoolPoll, the process, levy options and proposed investments by AWI at each levy rate. This includes scrutiny over the Voter Information Memorandum and Ballot Paper for the Wool Levy Poll. These requirements and the conduct are outlined in the Wool Levy Poll Regulations.

The AWI Board has approved a communications budget to ensure that this information is communicated to and understood by woolgrowers. The details of the communications activities to be undertaken are yet to be determined by the WoolPoll Panel.

AWI is required to undertake a three yearly review of performance, as outlined in the company's Statutory Funding Agreement (SFA) with the Government. This performance review will be published on the AWI website prior to the Wool Levy Poll and a summary of the findings provided to woolgrowers with the voter information memorandum and ballot paper for WoolPoll.

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**Question:** AWI 56

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Woolpoll

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. With the indication of a shift by AWI to more marketing and the acquisition of the Woolmark, is it proposed that AWI will spend less for on-farm R&D? If so, how much less government funding will be available?
2. What action or strategies will AWI undertake to address this potential reduction in government funding?

**Answer:**

- 1 and 2 Any changes to the current 60 per cent off-farm and 40 per cent on-farm investment structure that AWI operates to – which was the outcome of the 2006 WoolPoll – is yet to be determined.

Support for a change to the funding split will need to be sought from woolgrower levy payers through the WoolPoll process.

AWI currently undertakes R&D in excess of the minimum requirement to secure matching Government funds. Therefore AWI could theoretically reduce R&D investments and still secure the same level of matching Government funding.

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**Question:** AWI 57

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Woolpoll

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. Given criticism of millions of dollars spent by AWI in useless R&D, it is understandable that growers do not see they are getting value for money with AWI? How is AWI going to convince growers to support a continuation of the levy at 2% or any levy at all?

**Answer:**

1. It is AWI's role to invest in research, development and marketing to benefit Australian woolgrowers.

Under the Statutory Funding Agreement AWI is required to undertake a three yearly review of performance. This review will evaluate the delivery of benefits to woolgrowers foreshadowed by the company's plans.

The performance review report will be published on the AWI website prior to the Wool Levy Poll, and a summary of the findings sent to eligible woolgrower levy payers along with the WoolPoll Voter Information Memorandum and Ballot Paper.

AWI reports to woolgrowers annually, through the company's Annual Report and through communications mechanisms including Beyond the Bale and the AWI website to provide growers with an understanding of the investments undertaken and outcomes of AWI's research, development and marketing activities both on-farm and off-farm.

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**Question:** AWI 58

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Woolpoll

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. I refer to AWI press release of 11 February 2009, please specify the process by which Mr Roberts was appointed.
2. Was Mr Roberts ever a director of AWI or a candidate for election to the AWI Board? If so, please provide details of the same.

**Answer:**

1. The AWI Board considered a number of appropriately experienced wool industry representatives to undertake the important role of chairing the WoolPoll Panel.

Following a vote, the Board agreed to approach Will Roberts, who is the President of the Australian Association of Stud Merino Breeders and a previous member of the WoolPoll Panel, and seek his agreement to chair the 2009 WoolPoll Panel. Mr Roberts agreed and has subsequently signed a contract with AWI to undertake this role and support the requirements of the Wool Levy Poll Regulations.

2. Mr Roberts was an unsuccessful candidate in the 2008 AWI Board Elections.

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**Question:** AWI 59

**Division/Agency:** Australian Wool Innovation Limited

**Topic:** Woolpoll

**Hansard Page:** Written

**Senator Fierravanti-Wells asked:**

1. What is the process for the establishment of the “independent WoolPoll Panel”?
2. Is there a selection criteria for the establishment of the Panel? If so, please provide details including
  - a. A copy of the same
  - b. Who determines the criteria
  - c. The process for establishment of the panel
  - d. The number of panel members

The remuneration paid the panel members

**Answer:**

1. Regulation 14.4 of the Wool Levy Poll Regulations states:

*(4) For paragraph (3) (b):*

*(a) the composition of the panel is to be agreed between the research body and a representative, or representatives, of the entities that will be, or are likely to be, eligible to vote in the poll; and*

*(b) the panel must include a representative, or representatives, of those entities.*
2. In 2009, the same process for selecting the WoolPoll Panel and its Chairman has been followed as in previous WoolPoll years:
  - a. Outlined in part 1 of this question – above.
  - b. The criteria are determined by the Wool Levy Poll Regulations.
  - c. AWI appoints a WoolPoll Panel Chairman.

The WoolPoll Panel Chairman writes to industry organisations (including state farming organisations, breed groups, the peak industry body and other industry associations) outlining the WoolPoll process and seeking nominations from these organisations for representatives to sit on a Panel of between 5 and 7 industry representatives, plus the Chairman, a Government representative and an AWI representative.

The Panel Chairman then selected 7 of these nominees. These 7 industry representatives were selected to ensure that the interests of the states, breed groups and industry associations are represented. For the industry organisations that are not sitting on the WoolPoll Panel, the Chairman has requested that the Panel

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members work with these organisations in their states to ensure that their views are represented around the table.

- d. The total number of people on the WoolPoll Panel is 10 – 7 industry representatives; Chairman; DAFF representative; AWI representative.
- e. The industry representatives on the Panel receive a \$500 per day sitting fee for their time. There are 4 full day Panel meetings scheduled for the year. The DAFF and AWI representatives receive no remuneration. The Panel Chairman has a contract with AWI to manage the whole process and involves significantly more time. The total value of this contract is \$32,450.