SYNOPSIS

NSW WOOL INDUSTRY & FUTURE OPPORTUNITIES

A report to the NSW Department of Primary Industries from Miracle Dog, Poimena Analysis, Scott Williams Consulting and DAFWA

NSW GOVERNMENT | Department of Primary Industries

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NSW - a project of Australian Wool Innovation Limited and NSW Department of Primary Industries.

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IAN ROGAN
Independent Chair
Project Steering Committee

To the reader,

The wool industry has been a significant part of the NSW society and economy since the early days of the colony. Over the past ten years we have seen a number of changes and challenges that have been impacting on the profitability of wool growers. This has coincided with drought, changes associated with the global financial crisis and the rise in the importance of income from the meat component of a sheep enterprise.

It is little wonder that this has left NSW Department of Primary Industries, on behalf of the State Government, questioning how it can best assist wool producers and the NSW wool industry in order to bring about improved economic viability. To help answer this question NSW DPI commissioned an independent report into the State's wool industry to:

- Understand potential future directions of the industry
- Identify opportunities and challenges
- Make recommendations for future actions to:
    - NSW Producers
    - NSW Wool Industry
    - NSW Department of Primary Industries

The project steering committee has been delighted and challenged with the information that has come forward from the consultants. They have collated and analysed information and trends from both on-farm and off-farm aspects of the wool industry and then linked that analysis together to present their recommendations.

NSW Department of Primary Industries is now seeking producers' and industry's views on the importance and weighting of the recommendations for actions by NSW DPI and others. I would encourage both wool producers and industry organisations to look at, question and embrace the report's recommendations for the future health and economic strength of this great industry.

Yours sincerely

Ian Rogan
Independent Chair – Project Steering Committee

> "THERE ARE MANY INDIVIDUAL WOOL ENTERPRISES THAT ARE PRODUCTIVE AND PROFITABLE. THIS STORY IS NOT WELL KNOWN AND NEEDS TO BE TOLD

THE CONSULTANTS

RUSSELL PATTINSON
Miracle Dog Pty Ltd

Russell has had a long association with the wool industry, both working in industry organisations and as a consultant. Prior to 2001 he was Group Manager, On Farm R&D for the Australian Wool Research and Promotion Organisation (AWRAP) and Group Manager, Australasian Operations for The Woolmark Company.

Since that time through his successful consultancy firm "Miracle Dog" Russell has delivered over 85 projects across most Australian agricultural sectors. He is currently Chair of AWI's Australian Wool Production Forecasting Committee and Chair of AWEX's Industry Services Advisory Committee.

SCOTT WILLIAMS
Scott Williams Consulting Pty Ltd

Scott has had a long association with the Australian wool industry and was an R&D Program Manager, Australian Wool Innovation (AWI) and its predecessors from 1997 to 2006.

With a veterinary and farm consulting background he brings significant skills in the areas of grazing animal health, welfare and production, R&D management and strategic planning, particularly in the area of strategic foresight. With over 80 projects since 2006 Scott has a proven history in adding value across a number of agricultural industries.

CHRIS WILCOX
Poimena Analysis

With over 20 years' experience delivering proven results in economic research, market intelligence, analysis and strategic assessment of key issues in the global wool industry, Chris is recognised as the world's leading analyst and commentator on the global wool industry. He is currently Chairman of the International Wool Textile Organisation's Market Intelligence Committee, Executive Director of the National Council of Wool Selling Brokers of Australia, and a Director of the Board of the Australian Wool Testing Authority. In addition, he prepares the International Wool Textile Organisation's annual Market Information statistics publication.

KIMBAL CURTIS
Department of Agriculture and Food, Western Australia (DAFWA)

Kimbal has built a reputation as one of the leading livestock industry demographic analysts and modellers in Australia during his 30 year period working for DAFWA. His extensive experience began with work on wool and sheep production systems before progressing to scoping, developing and maintaining flock models of the Australian and Western Australian sheep industries. He has successfully undertaken, on behalf of DAFWA, AWI, MLA and the Sheep CRC, some 25 market research projects aimed at collecting current data from primary producers with a mix of state and national coverage.

INTRODUCTION

The purpose of this report is to investigate the opportunities and challenges that do and will face the wool industry in NSW and to recommend to producers, industry and the NSW Department of Primary Industries the actions that will allow those opportunities to be embraced.

THE PROCESS

This review was developed by initially undertaking a brief but wide-ranging situation analysis of the NSW wool industry. Potential trends and implications of these were described and a series of four short scenarios of how the NSW wool industry might look in 2025 were developed. A consultation paper was then prepared and sent to 17 experienced industry participants who were subsequently interviewed and their responses collected. The outcomes of the consultations were highly influential in developing the key findings and recommendations within this report.

This synopsis is a concise outline of the report, designed to help the reader understand its major points. The full report and its supporting documents are available on request or through www.dpi.nsw.gov.au

THE WOOL INDUSTRY IN 2025

What might the NSW wool industry look like in 2025, and how should producers, industry and government best respond to address challenges and embrace opportunities?

Industries can be profoundly altered even over ten years making the future difficult to predict. However, the analysis strongly suggests that in 2025 the wool industry will be shaped by the following key forces:

- Price pressures from retail back to the producer will remain intense – that is, producers' terms of trade will continue to tighten
- Production conditions will be more variable as climate change takes hold
- The trend towards casualisation in consumer markets will continue, shifting demand away from some of wool's traditional market segments and towards other products, notably in active-leisure wear and knitwear
- Product quality, provenance and sustainability will assume increasing importance, as will animal welfare and ethical production practices, which will be required to maintain industry's social licence to operate
- Demand for sheep-meat will continue to grow, particularly from export markets

FIGURE 1

Australian wool production by micron

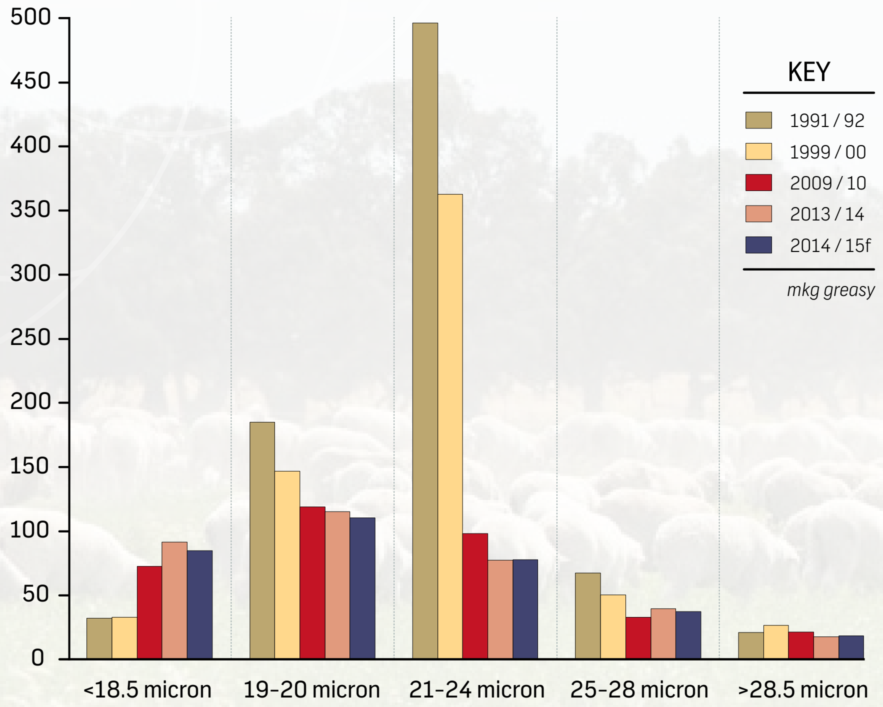
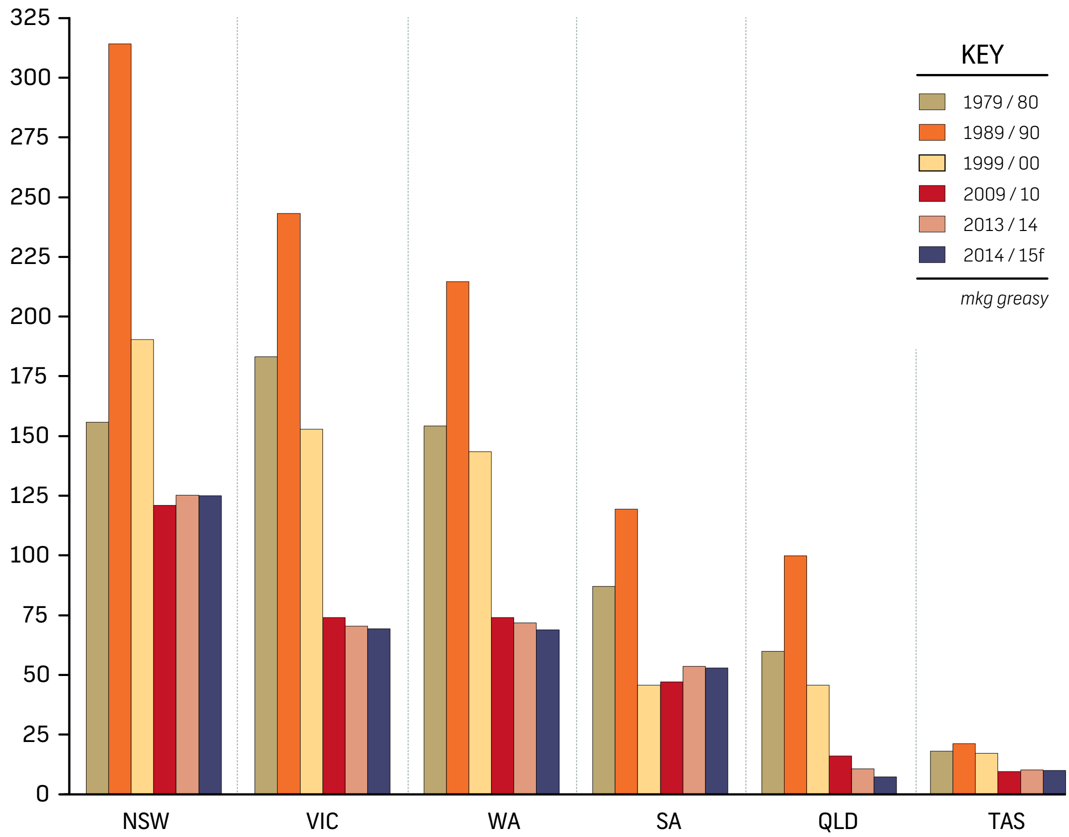


FIGURE 2

Australian wool production by state



> NSW IS THE LARGEST WOOL PRODUCING STATE. IF IT WERE A COUNTRY IT WOULD BE THE WORLD'S FOURTH-LARGEST SUPPLIER

A SUCCESSFUL PRODUCER IN 2025

The findings of the report suggest that in a decade's time, the successful wool producer will:

- Determine the optimum balance between sheep and other enterprises on their farm, and between wool, sheep meat and livestock trading, based on a considered well-informed and objective long-term view of the respective industries, resource capability and personal preferences
- Understand the target product segment for their annual wool production, such as the active leisurewear knitwear sector, and structure their wool production and husbandry practices to produce the wool with the specifications required by that main product segment
- Conduct annual production and financial analyses to monitor progress against business plans, adjusting as needed
- 'Know what they need to know' to successfully run their business – and source these skills either by their own professional development, or by retaining expert advisers where needed
- Have in place a sheep genetic improvement program optimised to the enterprise mix of the business and target market segment(s)
- Adopt a continuous improvement mindset where productivity improvements are vigorously and relentlessly pursued
- Participate in, and meet the standards of, an Australian wool industry provenance/sustainability scheme which has credibility in the eyes of customers in their target market for wool
- Actively manage production and price risk through flock structure, stocking rate, feed conservation/fodder purchases and use of price risk management tools
- Have sourced and structured the financial capacity required to put their plans into practice
- Have developed a clear succession plan in conjunction with their family and/or business partners

FINDINGS

The following key findings were drawn from the situation analysis and industry consultations.

i. The NSW wool industry is, and should consider itself to be, a component of the NSW sheep industry. The sheep industry comprises lamb, wool and mutton production.

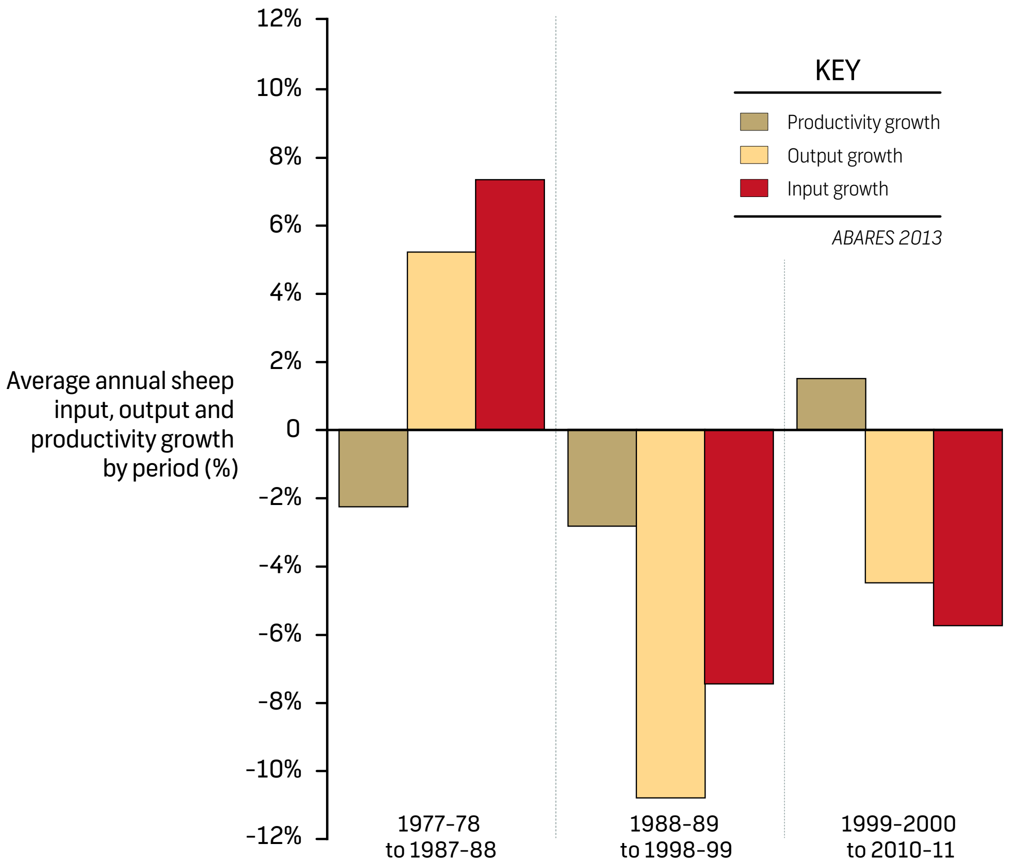
ii. There is a lack of a clear and shared vision / direction for the NSW wool / sheep industry. This is likely to inhibit confidence and investment.

iii. The wool industry is perceived by many to be 'unattractive' (old-fashioned, low tech, hard work, non-dynamic), discouraging people from investing or working in it.

iv. There is a need to make the industry more satisfying and profitable, especially for young people. The average age of Australian farmers, including wool producers, is increasing so the industry would benefit from the adoption of good succession planning practices, both for individual

FIGURE 3

Productivity growth – Sheep enterprises



businesses and for industry organisations. It will be important to make the industry more 'tech savvy' to both attract young entrants and enhance profitability.

v. Aggregated industry statistics indicate low productivity growth and low profitability.

vi. However, there are many individual wool enterprises that are productive and profitable. This story is not well known and needs to be told. Greater use of benchmarking information (or practical case studies) would be beneficial.

vii. Sheep and especially wool production is perceived by many as a good risk management tool in broadacre production. This benefit needs to be quantified and incorporated with advice on the complementary benefits of sheep in a mixed farming enterprise.

viii. There is an undue reliance or expectation that the price of wool will increase ('the market will save us'). However, there are many external factors (exchange rates, global economic conditions, competitive fibre price, fashion trends) that influence the price of wool in Australia and that are beyond the control of anyone in the industry or government.

ix. As a result, producers and other participants in the wool supply chain need to take responsibility for the profitability of their own enterprises.

x. Despite the 'average' low productivity gains in the industry there are technologies (genetics, labour-saving etc.) and information packages (such as Prograze, Lifetime Ewe Management, Bred Well Fed Well, Ram Select, Managing Scanned Ewes and wether trial analyses) available to turn this around – and many producers are using these.

xi. The use of these technologies and information packages (genetics, business planning, agronomy, marketing etc.) will require the attainment of or access to new skills by many industry participants.

xii. Over recent decades there has been a reduction in government-funded extension services to agriculture generally, including the wool industry. As a result there is a transition from the public sector to the private sector for the provision of advice. The capacity of the private sector and its use by producers needs to be further encouraged.

xiii. Delivery of advice to producers is not limited to agribusiness consultants but is also sought from other service providers such as wool brokers, agribusiness bankers, stock agents, and accountants. Professional development of all providers should be encouraged.

xiv. Margins in broadacre industries, including wool, are and will continue to be tight. This situation in combination with increased variability in climatic conditions and market prices will require producers to maximise their flexibility and maintain resilience.

xv. There is ongoing disjoint of the wool supply chain between the production and processing / manufacturing sectors. This is more evident in wool than other agricultural products. This disjoint reduces clarity of market information and the understanding of what wool goes into what products.

xvi. There remain a number of key challenges for which solutions need to be found. These include ongoing improvements in the sophistication and adoption of genetic technologies, better harvesting techniques, reduced reliance on mulesing, management of predation from feral pests, enhanced animal health and welfare and obtaining higher pasture production per millimetre of rainfall. Ongoing innovation[1] in these areas is critical.

The industry remains vulnerable to many external factors including exotic diseases, environmental legislation and climate change. These need to be taken into consideration.

1. 'Innovation' refers to all activities along the research, development and adoption continuum, from 'blue sky' research through applied R&D to producer-driven demonstration sites, learning groups, formal training and other activities.

RECOMMENDATIONS

OVERARCHING RECOMMENDATION FOR ALL STAKEHOLDERS

1. **Develop a Strategic Plan for the NSW Sheep Industry to 2025 or beyond**

   Of overarching importance is the need to develop a preferred future for the NSW sheep industry, one that is owned and shared by industry, providing confidence to both current stakeholders and future investors. To that end, the NSW sheep industry should develop a Strategic Plan to help guide the decisions of all stakeholders (producers, input suppliers, buyers, brokers, processors, industry service bodies, NSW Government, etc.) over the next decade and beyond.

WHAT THE REVIEW HEARD

Wool industry lacks direction and transparency. The industry doesn't have growth or a growth strategy.

Wool is a competitive industry with a real image problem. Data says it is profitable but the industry is seen as poor and always whingeing about price and issues.

The most important change for wool is that it is no longer a stand-alone industry. It is an important component of the sheep industry that produces lamb, wool and mutton.

RECOMMENDATIONS FOR NSW WOOL PRODUCERS

2. **Develop an understanding of the product market segments in which they wish to operate**

   It is critical that whole supply chains focus on producing the right product for their chosen market. Producers need to understand the raw product specifications of the market segments they are targeting. Without knowing what the customer wants, it is very difficult to make decisions that improve the business.

WHAT THE REVIEW HEARD

Growers need to know more about the types of products that different wools go into. Need to make a connection to the buyers and get some feedback.

The industry should identify new apparel products and then say what wool producers need to produce to meet that market.

3. **Set long-term goals and actively plan and manage their business accordingly**

   Producers have a high degree of control over their own production systems and virtually no control over commodity prices. Each producer must focus their efforts on running their business as effectively as they can.

WHAT THE REVIEW HEARD

The sheep enterprise (wool and meat as co-products) should be part of a balanced portfolio of enterprises on each farm, with the enterprises reflecting those best suited to the geography and climate of each farm.

4. Attain the necessary skills to plan and operate their business

Producers need to understand what skills they need to be successful, which of these skills can be acquired through professional development such as training, and which ones should be bought in from consultants and other sources of advice.

WHAT THE REVIEW HEARD

Efficient management of a three-product sheep business is a high-tech job and not enough 'wool producers' have grasped this point.

There is a need to recognise that skills development is needed – sheep management is a professional job – when done well it is both satisfying and profitable.

5. Relentlessly pursue productivity gains through the adoption of best management practices suitable to their geography, climate and business structure

The success of the industry will be strongly driven by how well individual enterprises achieve productivity increases and hence drive profitability. Producers must actively seek, trial and adopt best practices in all facets of their business.

WHAT THE REVIEW HEARD

Sheep producers have a differing mentality between lambs and wool. For lamb many are very active and innovative – they focus on outcomes. Is it because contact with buyer is closer?

The industry has totally failed to increase productivity. Industry thinks price will save them – it won't.

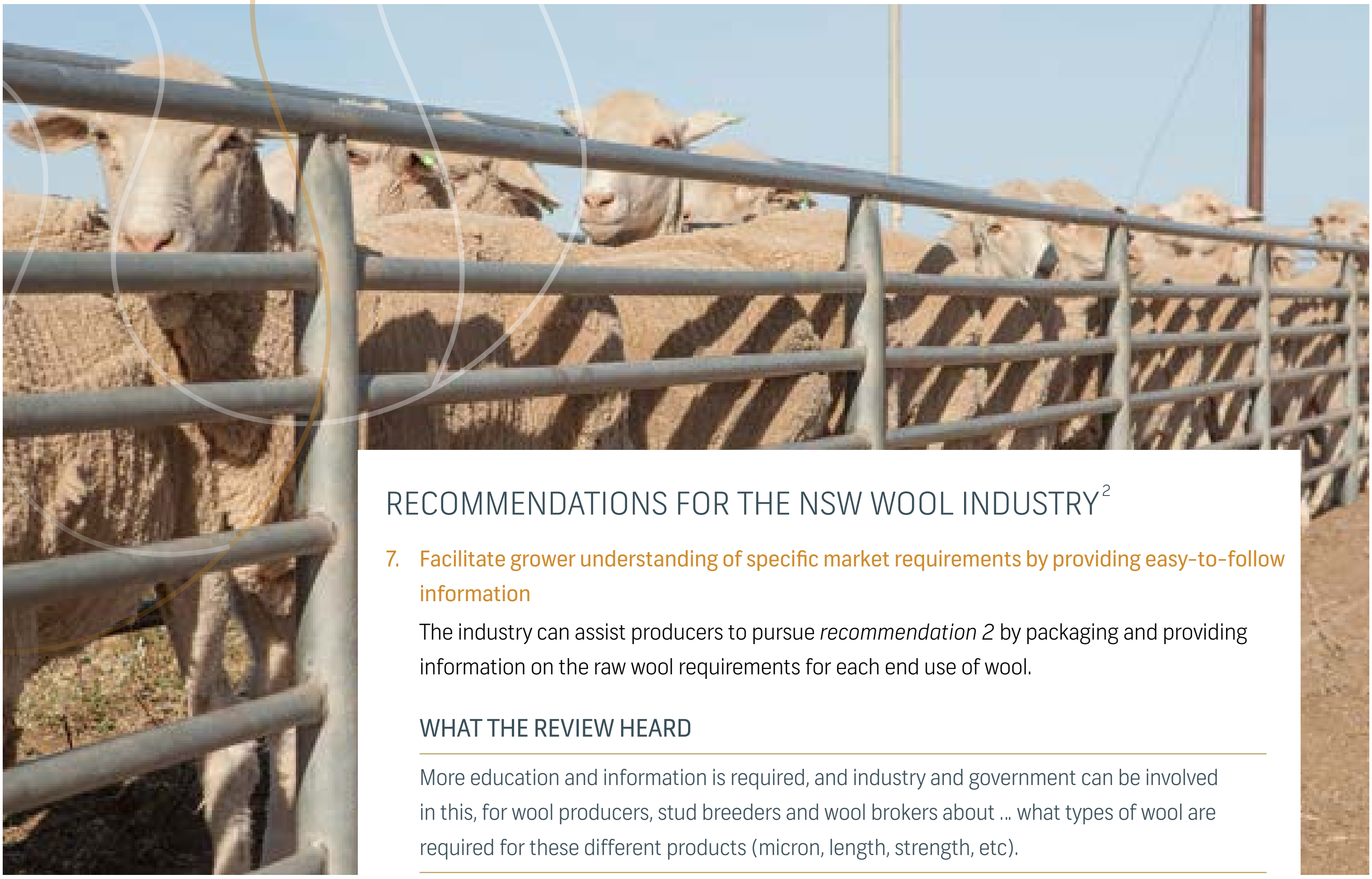
6. Include a succession plan as an important element of the farm business plan

A thorough succession plan, developed with the guidance of financial and legal advisers, allows farming businesses to be run in a way that serves each individual's best interests.

WHAT THE REVIEW HEARD:

The number of younger people in rural areas has fallen, which makes it difficult to attract young people into the wool and service industries. This is a major challenge for the NSW wool industry. More needs to be done to bring young people in and train them.

Need more on succession planning ... it is a bigger issues across the board – farm, industry, leadership, extension, R&D etc.



RECOMMENDATIONS FOR THE NSW WOOL INDUSTRY[2]

7. Facilitate grower understanding of specific market requirements by providing easy-to-follow information

The industry can assist producers to pursue *recommendation 2* by packaging and providing information on the raw wool requirements for each end use of wool.

WHAT THE REVIEW HEARD

More education and information is required, and industry and government can be involved in this, for wool producers, stud breeders and wool brokers about … what types of wool are required for these different products (micron, length, strength, etc).

8. Continue to provide packages of information to producers on best practice sheep production

The industry can assist producers to pursue *recommendations 4 and 5* by continuing to package information on best practice sheep production.

Best practice packages should take account of the multi-enterprise nature of wool production (meat production and cropping) where appropriate. Where possible, packages should be developed and delivered at a regional level.

WHAT THE REVIEW HEARD

If wool production gets too hard, people will walk away … mulesing, worms, dogs, harvest, other animal welfare like lamb mortality, castration.

Everyone blames producers for being slow but they won't adopt if they don't see the value.

9. Continue to drive innovation for the industry's leading edge through R&D

The industry must continue to drive the R&D needed to enable the industry to become more competitive over time. All of wool's competitor fibres are continually becoming cheaper to produce and of higher quality and wool cannot afford to fall behind.

WHAT THE REVIEW HEARD

Core business should be research … when info comes out it must be evidence-based – not opinions.

Genetics is the crucial factor. It is the driver of productivity improvement, disease management … best practice genetics is needed to compete with declining terms of trade.

Must concentrate on developing R&D especially for productivity – and the big ticket items that may take 10 to 15 years to address – genetics, harvesting, parasites, new wool products.

10. Continue to support the development and recognition of young leaders in the industry

Industry has an interest in maintaining a critical mass of industry participants for both human resource and investment reasons. The industry needs to continue to identify, support the development of and celebrate a new generation of leaders who will act as role models for others.

WHAT THE REVIEW HEARD

The age profile of farmers is a concern. More must be done to encourage and support young farmers in the industry because the older ones find it difficult to break out of the cycle of doing what has always been done in the past.

11. Facilitate the transition to a private farm advisory sector to encourage adoption of best practice by producers

Industry (and NSW Government) can play a valuable role facilitating the transition to a private service sector through initiatives such as free or subsidised provision of 'wholesale' information to 'retail' advisers, training, accreditation schemes and registration for specific skills. Recent reviews of this area and the experiences of other states should be taken into consideration when determining responses to this recommendation.

WHAT THE REVIEW HEARD

Skills development and support of private sector service providers and consultants is vital.

The rise of private advisers may fill the void created by the reduction in DPI advisers, but doubt growers will pay for sheep advisers like they will for agronomists – growers are too traditional, and sheep are a lower cost system compared to cropping. But there are good advisers around and people are probably making money using them.

12. Critically consider the feasibility of an industry-wide provenance / sustainability scheme for wool

One of the competitive advantages for wool is its clean, green image. Wool's capacity to exploit this edge would be enhanced by an industry-wide system to describe and capture the provenance of individual wool lots.

WHAT THE REVIEW HEARD

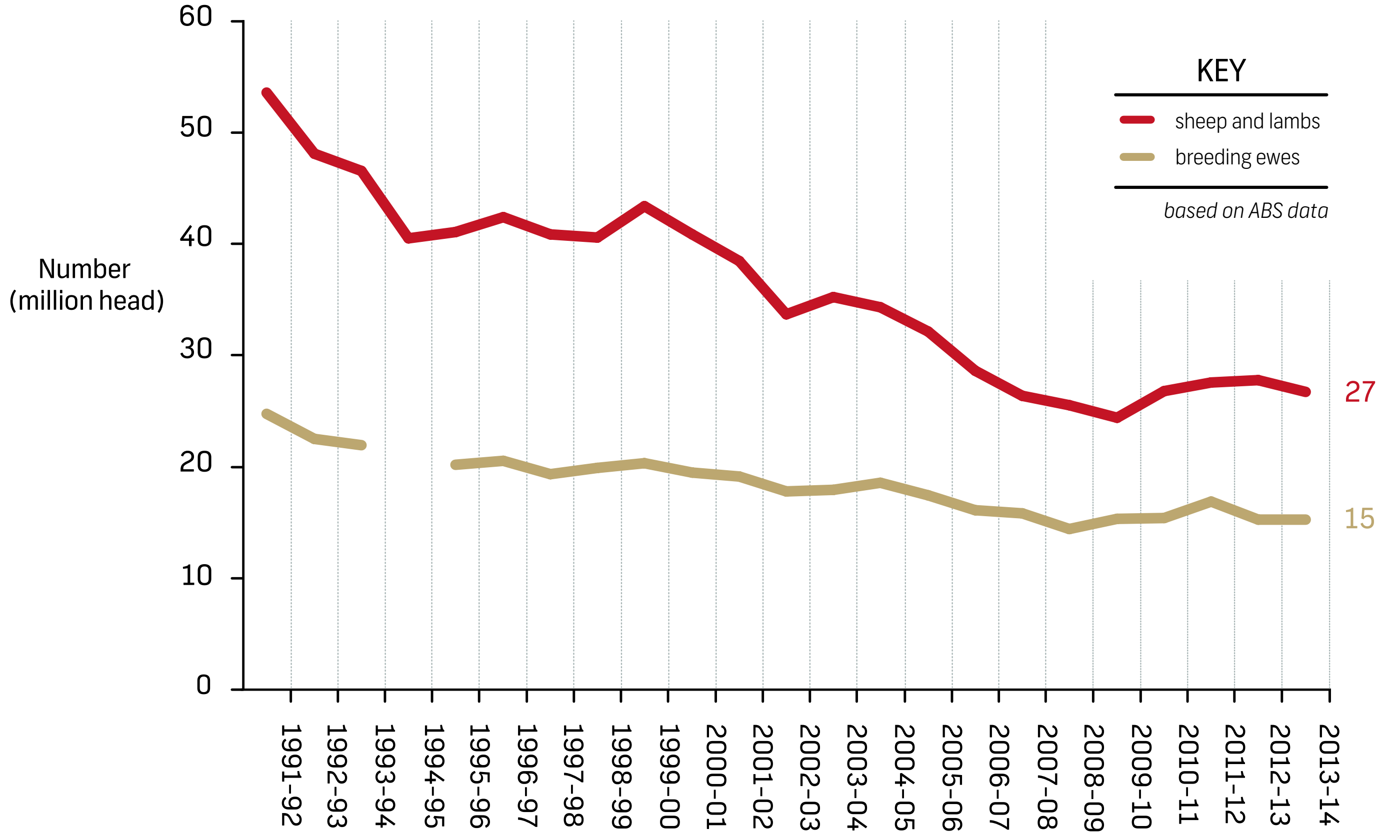
Consumers want to know provenance of the products they are buying but how do you get that message to them about wool being natural etc as opposed to oil-based synthetics? Accreditation through the supply chain is a worthy objective.

Australian wool has good possibilities and needs to build on its sustainability credentials covering its clean and green elements.

2. For the purposes of this paper, 'Industry' comprises all of those organisations and individuals that participate in the wool industry, including (but not exclusively) seedstock producers, input suppliers, consultants, brokers, stock agents, test houses, R&D and marketing bodies and peak bodies.

FIGURE 4

Number of sheep and lambs (millions), and number of breeding ewes (millions) in NSW



RECOMMENDATIONS FOR THE NSW DEPARTMENT OF PRIMARY INDUSTRIES

13. **Continue to provide biosecurity, animal health and welfare and related services, where these have industry or public good outcomes, to help industry maintain its productivity and broader societal acceptability**

NSW DPI has a critical role to play in protecting individual producers from the negligent actions of other producers or members of the broader public because the private sector will never adequately discharge these functions.

WHAT THE REVIEW HEARD

Quarantine / biosecurity must not be neglected.

Biosecurity is a major issue, and Australia is dropping the ball on it.

Quarantine and biosecurity cannot be eroded – they must be better resourced.

14. **Continue to make all reasonable efforts to reduce the impact of predation on NSW sheep flocks**

Predation by wild dogs in particular has major impacts on sheep production (and the mental health of owners) in certain areas of the State. Several NSW Government agencies (for example, National Parks, Local Land Services and Wildlife Service) bear responsibilities in managing the dog problem. NSW DPI should advocate collaboration among these bodies for their full and vigorous fulfilment of these responsibilities.

WHAT THE REVIEW HEARD

There should be more focus on the rangelands as it covers a third of the state. If sheep fail there, what's next? Predation should be examined continuously.

15. **Facilitate the provision of benchmarking data on productivity and profitability for a range of broadacre enterprises at a regional level**

NSW DPI can play an important role in facilitating the gathering, analysis and/or extension of data on the performance of sheepmeat, wool, beef and cropping enterprises in particular regions – although this must be done in such a way as to promote rather than cut across the activities of private consultants, some of whom are already active in this area.

WHAT THE REVIEW HEARD

Private sector needs greater encouragement. Not enough consultants. People should have access to good data to help them make decisions, but then it is up to them.

What's missing is the analysis of 'what is a profitable sheep'. Finer, more weight? Who knows??

RECOMMENDATIONS FOR THE NSW DEPARTMENT OF PRIMARY INDUSTRIES (continued)

16. Continue to support industry-specific R&D as recommended for industry and evolving from the proposed strategy development

NSW DPI has been a strong provider of R&D services to the sheep industry for many years and is a national leader in particular areas such as genetics. It should continue to co-invest with industry in priority R&D in partnership with industry, as set out in *recommendations 7 through 12* for Industry, along with the priorities identified by the industry strategic planning process of *recommendation 1*.

WHAT THE REVIEW HEARD

Satisfaction comes from making a profit but also from enjoying farming. Farmers need "smarts" to help with sheep management. Currently they have to employ people to help and they don't like that.

There should be more funding for DPI from Government. They have some excellent people and knowledge but they are constrained.

17. Commit to the employment and professional development of the next generation of R&D professionals/practitioners

The successful wool industry of the future will be more technologically sophisticated. To support *recommendations 9* and *16*, DPI should play a lead role in providing opportunities for 'innovation' professionals to contribute to the industry.

WHAT THE REVIEW HEARD

No other country will solve our sheep issues like worms, lice etc. We need a higher level of R&D, and it will have to be home grown.

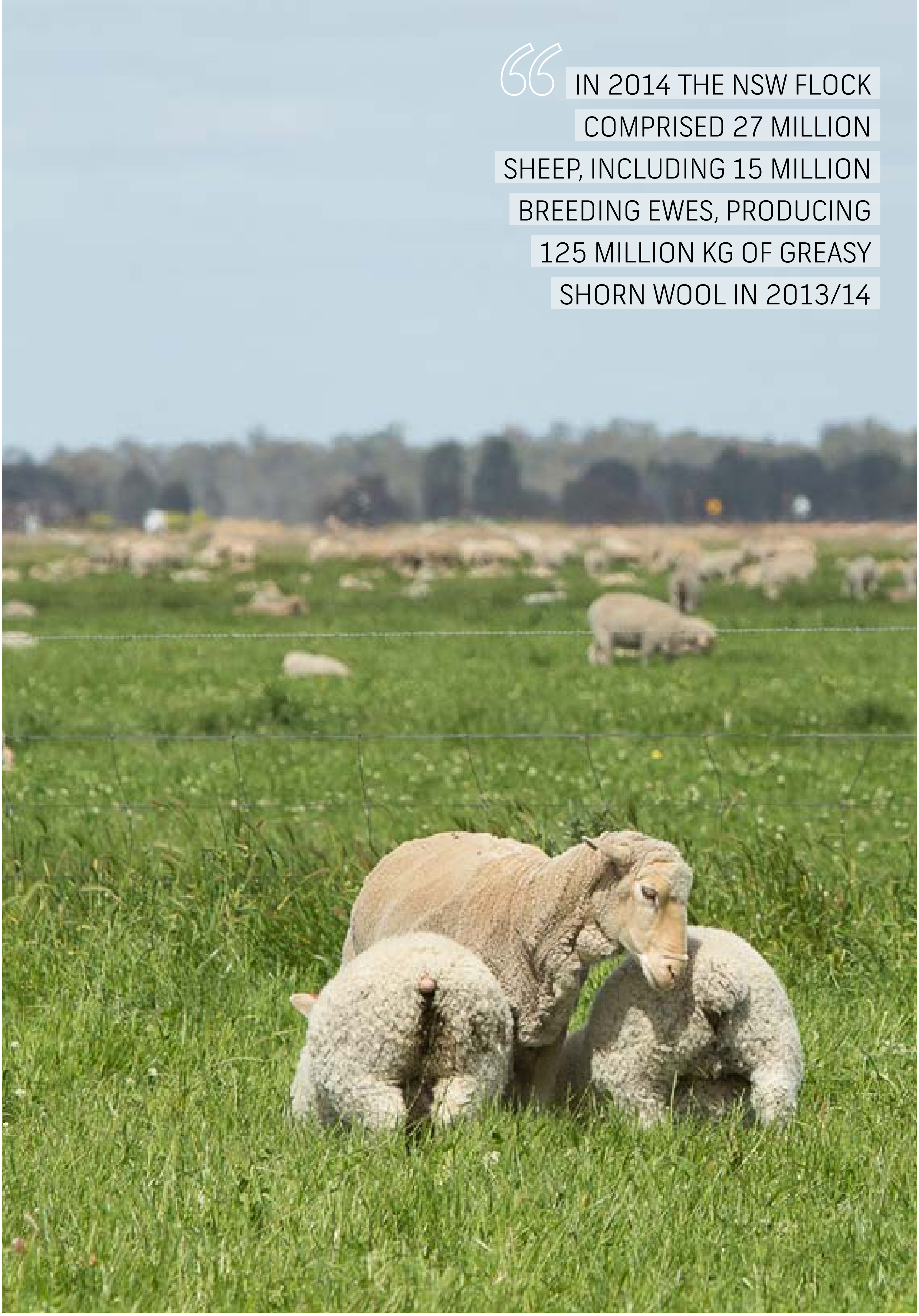
18. Support the sheep industry by facilitating, wherever possible, reductions in red tape

NSW DPI should support the sheep industry by advocating, among other State and also Commonwealth agencies, for the removal of undue regulatory burdens wherever this is possible. The recent review of biodiversity legislation in NSW provides one example of how this may occur.

WHAT THE REVIEW HEARD

The best approach is to make farmers as profitable as possible so they will take control. Currently they are just incurring a whole lot of costs. We need to reduce burdens wherever possible.

The role of State Government is to 'simplify and enable' – make it easier to be a sustainable producer – and prove it.



> IN 2014 THE NSW FLOCK COMPRISED 27 MILLION SHEEP, INCLUDING 15 MILLION BREEDING EWES, PRODUCING 125 MILLION KG OF GREASY SHORN WOOL IN 2013/14

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