AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS INC

®

ACWEP PRESENTATION

FAWO INDUSTRY FORUM 23 AUGUST 2019

SOME BACKGROUND

1. **ACWEP was formed in 2005 by the merging of:**

    * The former Australian Council of Wool exporters; and

    * The former Australian Wool Processors Council

2. **ACWEP has 25 Members today.**

    They include:

    # The top 5 buyers at Auction.

    # 9 of the top 10; and

    # 17 of the top 20

    This has not changed since the drought began; and has been unchanged in recent years.

3. The Effect of The Drought on Wool Exporters' and Processors' Access to Wool

* In one way, this is largely similar to any factor that results in a smaller number of bales for sale.

* In this case, the number of bales offered at auction in 2018/19 was 1,657,891; Which was 12.1% less than in the previous season.

* In terms of the top purchasers at auction, on average:
  - # The top five buyers purchased 19.6% fewer bales in 2018/19; and
  - # The top ten buyers purchased 18.7% fewer bales.

3.1 The Effect of The Drought on Wool Exporters' and Processors' Access to Wool

Looked at in another way, it also impacts on quality aspects of the clip,
Which make it more difficult to fill orders for **quality** reasons as well as **quantity** reasons, e.g.

* AWTA tested	29.6% less wool of greater than 19.5 micron.
* Average Yield was down by	1.5%
* Staple Length was down by	2.2 mm; and
* Staple Strength was down by	1.3 Newtons per kilotex

4. Australian Wool Exports

Australia exported 289 mkg valued at $3.8 billion in 2018/19, as follows

* Greasy 93.6%
* Scoured 2.2%
* Carbonised 4.2%

* The 289 mkg was down by 13.6% from 2017/18 while $3.8 billion was down by 0.3%.
* The proportion of Greasy wool was unchanged from the previous season, while The proportions of Scoured (2.5%) and Carbonised wool (3.9%) were only marginally different.

4.1 <u>Export Destinations</u>

* The number of destinations appears to have been unaffected in 2018/19; or at least to date.

* Australian wool went to clients in 29 countries in 2018/19.

  # Which is similar to recent years, but

  # Is down from the 41 countries in 2013/14

4.2 Principal Export Destinations

* The principal export destinations were also largely unchanged.

* But, there were some significant changes within some countries (as per the following Table)

RANK	COUNTRY	%	CWLY %
1.	China	78.0	-14.6%
2.	India	5.8	-15.6%
3.	Italy	3.6	+0.5%
4.	The Czech Republic	3.6	-41.3%
5.	Korea	2.4	+52.8%
Top 5		93.4%	
6.	Thailand	0.9	+166.5%
7.	Egypt	0.9	-21.6%
8.	Taiwan	0.6	-27.5%
9.	Japan	0.5	-39.8%
10.	Malaysia	0.6	+53.1%
Top 10		96.9%	
CWLY	*Compared With Last Year*		

5. Buyer and Exporter Demographics

* In terms of numbers:

  # 61 Buyers operated at auction in 2018/19 (when 1.7 million bales were offered at auction).

  # This is well down from the 84 who did so in 2008/09 when 2.0 million bales were offered at auction.

5.1 Buyer and Exporter Demographics

While Chinese and European companies have an important presence among buyers and exporters; The industry, today, is largely dominated by Australian companies of varying sizes, including:

* The top 2
* 3 of the top 5; and
* 7 of the top 10

5.2 <u>Buyer and Exporter Demographics</u>

Another change has been in the role of the "*Corporates*"

* A number of "*Corporates*" have entered and exited the industry over the years.

* Why have the "*Corporates*" generally exited after a relatively short period?

* While one should be wary of speculation, wool buying, trading and exporting and the uncertainty of the market do not appear to suit their traditional Business Model.

6. Other Effects Arising from Reductions in Supply

* In today's changing wool industry, falls in supply because of the drought (and for other reasons) make it difficult for exporters to meet the additional contract specifications for:

  # Animal Welfare (particularly Mulesing Status).

  # Traceability

  # Sustainability; and

  # Environment

* Exporters are aware of lost orders due to the lack of availability of NM/CM wool; and in some cases just because Australia continues to Mules

6.1 Other Effects Arising from Reductions in Supply - Mulesing Status Continued

ACWEP believes that the current NWD Review is the most important issue facing the Australian wool industry after the drought and current market conditions.

* In saying this, ACWEP regards the current Declaration Rates (as follow) as low after 11 years; and particularly for NM and CM:
  - # NM 13.0% (including approximately 8% for Merinos).
  - # CM 2.5%; and
  - # PR 35.6%
* ACWEP regards it as imperative that the industry makes changes which have a high probability of increasing the Declaration Rates for NM, CM and PR wool.

6.2 Other Effects Arising from Reductions in Supply - Mulesing Status Continued

The importance of making changes is demonstrated by the following falls in the number of bales offered for sale with a declared Mulesing Status in 2018/19.

* NM -5.9%
* CM -22.3%; and
* PR -6.3%

These falls have occurred because the small increases in Declaration Rates were insufficient to cancel out the falls in production.

6.3 Other Effects Arising from Reductions in Supply - Mulesing Status Continued

ACWEP and PTWMA believe:

* The limiting factors are both structural and motivational in nature; and

* Have proposed changes in their Submission to the 2019 NWD Review that they believe have a high probability of achieving the necessary kind of success.

  These proposals primarily revolve around moving from a Mob-Based approach to a Property / Age -Based approach.

  They are similar to changes proposed by ACWEP and PTWMA at the two previous Reviews.

6.4 Other Effects Arising from Reductions in Supply - Mulesing Status Continued

* ACWEP also notes the work done by WoolProducers Australia, and others in the wool growing industry, to promote the mandatory use of the NWD and of Pain Relief if mulesing.

* ACWEP believes that these changes and those proposed by ACWEP are not mutually exclusive; and that they may work best in tandem.

6.5 <u>Other Effects Arising from Reductions in Supply - Traceability and Sustainability</u>

Although no statistics are available, ACWEP believes that:

* The availability of wool meeting customer requirements for these parameters suffers similarly in a drought; and that

* It is important that work is done to increase their availability.

  In this context, ACWEP regards the transfer of SustainaWOOL from New England Wool to AWEX as creating a great opportunity to increase the availability of wool that better meets customers' changing requirements.

* We have some other ideas also.