

RECOVERY & GROWTH

Whilst we write this newsletter we are still in various forms of lockdown and restrictions but we can safely say, for the wool industry, the worst is behind us.

The last 12 months has been a bit of a roller coaster ride but, fortunately, since January it has been mostly on the upturn. Much of the improvement in price was seen in the finer end where the 17 micron indicator has risen a healthy 60% year-on-year whereas 21 microns were only 8% dearer. The improved seasonal conditions tell the rest of the story where production of fine wool has fallen in the range of 10-15% whilst the opposite has occurred in 19.5 and broader.

From our perspective it was relieving to see NSW production increase around 15% year-on-year although the figures of wool sold were significantly higher indicating quite a lot of held wool coming forward as the market rose. No doubt anyone who held fine wool has done very well.

We have now completed a full year of trading for the new enterprise Carmichael & Co Woolbrokers alongside Macdonald & Co. The integration of Jason Carmichael with his team at Cooma, Cootamundra, Crookwell, Wellington and Guyra has been a wonderful success. With around 40% of the throughput coming through the Dubbo store it has turned a drought ravaged woolstore into a hive of activity combined with the natural increase from drought recovery, we saw 35,000 bales through the core line here in Dubbo and another 11,000 bales through the other centres. It has been an incredible effort by the team to pull all of this together but not without its issues, most notably in the area of wool storage here in Dubbo. The combination of a Covid-induced weak market and higher throughput has seen a considerably higher amount of held stocks. This has been an issue right across the country as many brokers had reduced space during the drought. We have had a development application with Council for 4 months to build a new 2000sqm store here on site and that approval finally came through July 20. So, all going well we will have that finished and occupied before Christmas - maybe another



Don Macdonald and Jason Carmichael at the Cooma Store recently

excuse for another wool store party! It has been 10 years since 400 gathered for that memorable event.

Before I go on, I do want to make special mention for some employees who really stood up over this past year in a few of the areas that felt the most pressure. In the admin section Sharon and Stephanie have done an incredible job getting all this information, much of it for new clients, into the system and processed so wool sales could happen on time and payments made on time. In accounts Danielle, who was new to the position last year, has likewise done a fantastic job meeting all the deadlines. In the wool store Walshy and Brett shouldered much of the load and countless hours of overtime making sure everyone's wool was received, lotted, cored and shipped all to deadlines. Lastly, at the showfloor Sharpy and Jason, through the Covid lockdowns and interruptions, have done a remarkable job with close to \$70 million dollars falling under their hammers in the 12 months. Whilst many of you only see the one person at shearing time or periodically, it's the people behind the scenes that make them look good.

As many of you would be aware I have been on the Board of AWI for the last four years. It certainly has its challenges and its satisfactions. I decided to stand for



the position on the platform of independence, transparency and progress in the areas I felt woolgrowers would benefit most from. My term of four years will be up this November and I have to offer myself for re-election to continue which I intend to do. Many of the reasons as to why I stood are still there and it's for the "unfinished business" that I will be asking for your support later in the year.

One of the areas that I see most important and have worked hard within the company to pursue is the issue around fibre advocacy and defending wool's eco credentials in the EU labelling laws. You may remember a few years back I did a story around micro plastics in waterways. I will elaborate more on this in a separate story but, suffice to say, I'm very happy to see AWI now being very active in this space in Europe.

Another issue I feel strongly about is market signal transparency. I believe woolgrowers need all the facts to make the best decisions for their own operations. The story on Page 4 address's market signals around mulesing.

I hope you are all enjoying a good season. I know it's very wet in some areas with others just having a good to fair season. I trust you have survived the mice plague and Covid and I look forward to catching up wherever we might bump into each other.

If anything I raise in this newsletter raises interest or concern and you would like to discuss please feel free to call me 0438 638 654.

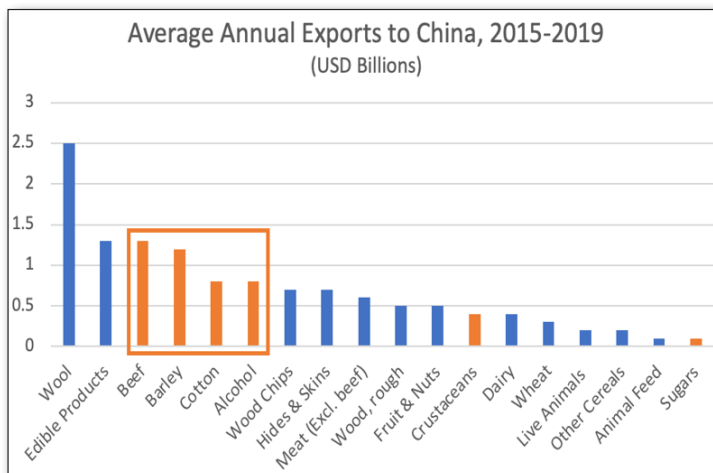
Best Regards
Don Macdonald.

WHAT DOES CHINA MEAN TO US, AND WHAT DO WE MEAN TO THEM?

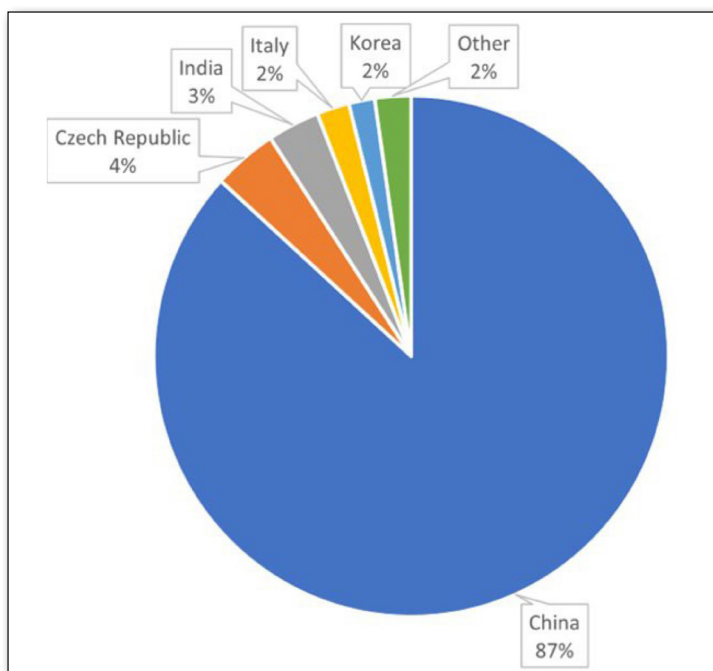
An often asked question is "What happens if China stops buying off us?". This is a topic under constant scrutiny by AWI and thoroughly explored.

The simple answer is that we can't say politically what might happen and the final decision on our terms of trade aren't with the traders but at a government to government level. However, let's look at wool's position and put forward the case that we are as safe as we could be.

Agriculturally wool is by far the largest export to China. (See bar graph showing commodities in orange that have been targets of trade disruptions). Pre-Covid the four year average for wool was around \$2.5 billion US which was around double the next closest. We know of recent times the percentage of China-destined Australian wool has risen from around 80% to closer to 90%. But then have a look at where China sources its wool from - the pie chart is almost identical at 80% from Australia.



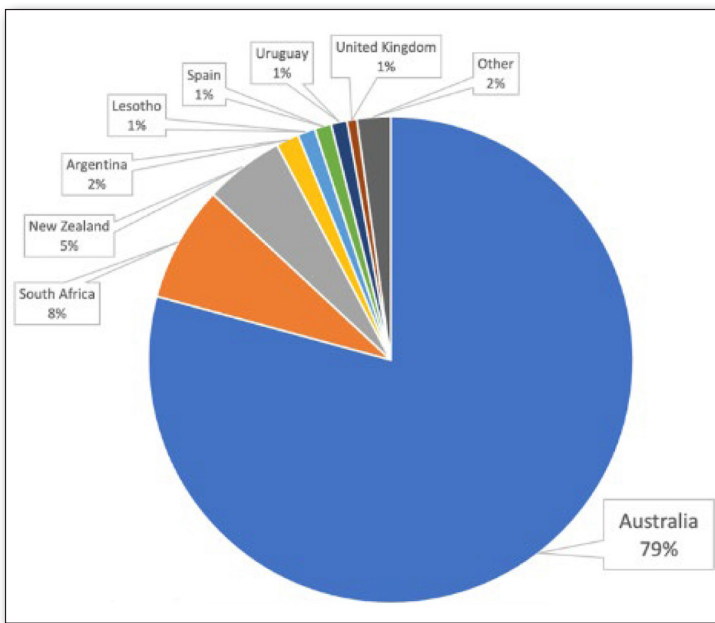
The simple maths is, that if China is to continue processing wool like it has done, it simply cannot source the quantity of wool from other countries. Added to this is the fact that wool is a great value add for them and a significant employer. The commodities hardest hit are those that offer little value adding in China. Wine is the best example of this. It is grown in many other countries and all they have to do is remove the cap!



Australian Wool Export Destinations (2020-21)

The strong points for this argument are that China has become a massive consumer for wool at retail level, around half of our greasy exports there are consumed there. The export value to China's economy provides huge input to their economy. Wool has been a major commodity import for them ever since China reopened to the outside world and the relationships built over that time are very strong both with commercial traders and with AWI through their office in Shanghai.

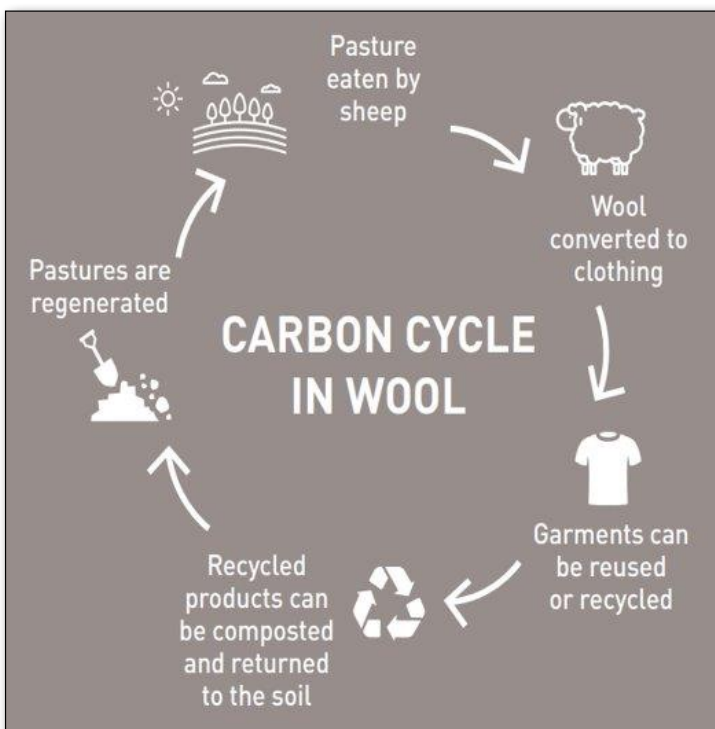
There is a constant ear to the ground and we hold our breath every time some sideline commentator (or politician) makes a statement. In the commercial world long held relations are being maintained and are very strong which is the way we intend to keep it.



China Greasy Shorn Wool Import Partners (2019)

THE FIGHT AGAINST GREENWASHING AND TRUTH IN LABELLING.

One of the most important issues for our industry in front of us presently is the issue of the Product Environmental Footprint (PEF). The diagram, below, looks fairly simple...“of course wool has a low carbon footprint and should be seen as such!”. Sadly, that isn't the case, at least not officially by the Europeans and North Americans. PEF labelling is coming at us just like health food ratings and energy ratings on white goods and the place where all this starts and grows from is Europe.



The Man Made Fibre (MMF) industry is huge and has some very large, influential players throughout the pipeline from production to retail. Unfortunately they have been a step ahead of us and have, through an American-based organ-

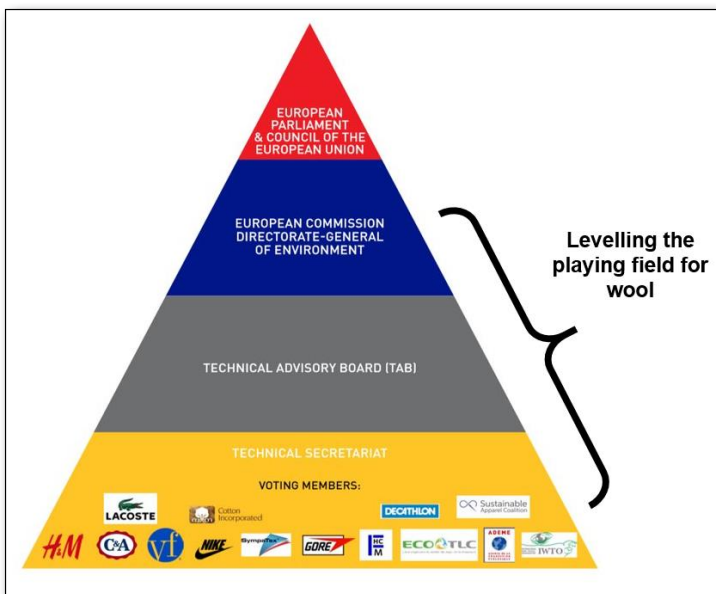
isation called The Sustainable Apparel Coalition (SAC), devised systems and benchmarks to give credibility to the apparel industry which is largely made up of polyester and acrylic and fast fashion brands. The recent science that has been mounting around micro fibre pollution in waterways and oceans and thousands and thousands of tonnes of landfill accumulating non-biodegradable clothing has been steam-rolled by greenwashing by the MMF industry.

The latest example is the fastest sector of apparel and that's "recycled polyester" made from plastic drink bottles. Early science shows that microfibre pollution is actually accelerated by using second-hand bottles. The social license to pollute is granted by recognition of the SAC's Higg Index which claims to be the yardstick for the Product Environmental Footprint which is about to be adopted by the EU under their proposed new labelling laws. The trouble with the Higg Index is that its carbon footprint measurement ends conveniently at the cash register, not from "cradle to grave" as it should be. So wool with its on farm methane contribution which accounts for around half of the CO2 equivalents for a garment is severely disadvantaged if we don't set the record straight.

So if you look at the pyramid (over the page) at the bottom is the Technical Secretariat to the EU Parliament. A closer look at the voting members shows that it is populated by some very large fast fashion brands like H & M, Nike, C & A, Decathlon etc. Over in the bottom right-hand corner is the IWTO (International Wool Textile Organisation) who have limited resources and funding. By the way, the chair of this committee is from the American based SAC who own the flawed Higg Index.

So earlier this year the AWI Board decided to back good science and take up the fight to the MMF industry and try and right the wrongs. We have done trials of biodegradability in Australia and, in collaboration with the Campaign For Wool of which Prince Charles is patron, (actually, two garments of polyester and wool were buried in the gardens of the Royal residence to prove the science) and enlisted Eco warriors like the journal ECO AGE. The next step was to add weight to IWTO on the Technical Secretariat and work on levelling the playing field. Interestingly other natural fibres like cotton have jumped on board and are now applying pressure. The new EU PEF laws were to come into force this year but it has been stalled whilst further deliberations take place. The goal is for the Higg Index to be dumped and a full lifecycle analysis measure in place which takes into account 'cradle to grave' not 'cradle to cash register'.

The worst outcome is that we are unable to convince the EU parliament of these flaws and garments carry a colour coded label say from Green to Red where wool gets Red. Obviously, if successful, the labelling will show wool for what it is - renewable, recyclable and fully biodegradable. The latest buzz idea in Europe is called The Circular Economy and wool fits into this better than any other fibre.



Footnote: I could write a lot more about this pet subject of mine but we have limited space but the issue of on-farm methane is lurking there for us to contend with in the future. This has big impacts for ruminant based agriculture. This is where good R & D is vital and where funds are being directed at present. More on this later.

THE RESPONSIBLE WOOL STANDARD AND NON MULESED WOOL

What does the future look like for wool off mulesed or non mulesed sheep? There is no simple answer to this very complex issue, without the need for many other questions. Firstly, though we should look at what the market place is saying and showing through price signals.

The strong signals for non mulesed wool is concentrated from Europe, UK and North America. Europe on its own accounts for approximately 30% of our wool production. Brands and retailers in the key markets of Europe, UK and North America have en masse joined together to declare through labelling and website statements that their products come from animals that have not been mulesed. The activities of animal rights groups like Four Paws, Humane Society and PETA have been very effective in their campaigns of fear from protestors.

For years now there have been integrity systems that growers can join to amplify their on-farm practices, all of them starting at the farm gate and being pushed up the pipeline, most of them have been ineffective. A North American organisation called The Textile Exchange saw an opportunity to start at the retail end and convince those organisations that the best way to quell the activist groups was to adopt (and pay) for their Responsible Wool Standard (RWS). It has been a spectacular success for them with brand after brand lining up requesting their supply chain to deliver to the RWS standards. It is passed down the pipeline from brand to garment maker to weaver or knitter, to spinner then top maker and back to greasy wool purchases. The key element to RWS is non mulesed, so it is only available to growers who have ceased mulesing.

Over the last 12 months we have joined the Schneider Groups RWS scheme to offer RWS to a group of around a dozen growers. These clips have sold over the past season with premiums ranging from 5-6% to 10-12%. There is no doubt for those growers they have been rewarded for their efforts. Outside of RWS it is sometimes difficult to see genuine consistent premiums for non mulesed wool. On a market that is either flat or falling generally non mulesed wool will attract greater support. This was particularly evident at the first sale after the July recess. Conversely on a rising market it may be difficult to see any extra premium.

The availability of non mulesed wool in Australia has increased to around 15% which is comparative to the total South African production which is all non mulesed. Half of the South African clip is RWS accredited.

The question often asked is *what about China? Are they asking for non mulesed?* China obviously exports a lot of product to Europe/ North America for brands requesting non mulesed wool. The large top makers in China like Tianyu are strong bidders for non mulesed particularly RWS. But around half of our wool that goes to China is consumed there and the Chinese don't have animal welfare at the front of their agenda. Green credentials and eco-sustainability are emerging as the top requirements going forward which will be good for wool.

To summarise, growers who continue to mules must weigh up firstly if their flock is ready to cease should they want to take that step. Going cold turkey is generally not the best way to attack it and there is plenty of advice and information to assist in the transition. There has been debate for years that AWI should do more in this area. My position is that growers need to see whatever the market is saying and be aware of price signals that may exist. It is not the role of AWI to tell growers what they should or should not do with their flocks. Mulesing is still legal up to the age of 12 months and it is widely known that use of pain relief products is best practice.

I see price signals as the best way to see change and there hasn't been enough consistency in this area to send strong messages. There is no doubt that Australia has lost some market share to South Africa and South America in the medium micron sectors where these suppliers formally were seen as inferior on quality.

The RWS scheme comes at a cost to growers and below 50-60 bales of annual production it may not be worth the extra effort. Above that it certainly adds good insurance cover when selling your clip.

For 18 months now our catalogues have been 100% NWD declared, and it has been great to see the co-operation from clients to satisfy this criteria. I believe it has built an even stronger sense of goodwill and respect from our buyers.

If you are non mulesed and want to know more about RWS please don't hesitate to contact us.