

**Submission to the Joint Standing Committee on Trade  
and Investment Growth's inquiry into Diversifying  
Australia's Trade and Investment Profile**

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WOOLPRODUCERS  
AUSTRALIA

24 June 2020

Mr George Christensen MP  
Chair  
Joint Standing Committee on Trade and Investment Growth  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Mr Christensen

**Inquiry into diversifying Australia's trade and investment profile**

WoolProducers Australia welcomes the opportunity to make a submission to the Joint Standing Committee on Trade and Investment Growth inquiry into diversifying Australia's trade and investment profile.

WoolProducers Australia is the peak industry council for the wool industry. Our membership is comprised of the industry's commercial, superfine and stud breeding sectors. WoolProducers is nationally representative through our State Farming Organisation members and three democratically elected Independent Directors. Our policy areas include animal health and welfare, biosecurity, sustainability, pest management control, natural resource management, drought policy, emergency animal disease outbreak preparedness, trade and market access, and industry development including research, development, and extension.

The Australian wool industry is export focussed with 98 per cent of our wool sold into overseas markets. Primary markets for Australian greasy wool are China (app. 78 per cent by volume, worth \$3162 million), the European Union (app. 7.9 per cent by volume, worth \$419 million) and India (app. 4.4 per cent by volume, worth \$225 million)(ABARES 2020).

Many take the view that the Australian wool industry is over-reliant on China. It is from this viewpoint we have approached this submission. What must be appreciated is that the Australian wool industry's relationship with the Chinese wool textile industry has been built and strengthened over several decades. The relationship should be viewed as a case study of how industry can form its own links to strengthen its trade connections without government intervention, but with government supporting through the negotiation of beneficial free trade agreements and other mechanisms, such as industry memorandums of understanding. The relationship between the two countries' wool industries is symbiotic; while we need China to continue to purchase our wool, China needs Australia as we are the largest exporting nation of wool by volume, and because of the high quality and other specifications of our wool that cannot be achieved in wool grown by other markets.

But this does not mean we should not consider diversification of our markets. In fact, the COVID-19 crisis has profiled the need for increased diversification. Diversification can be both increasing our export volume to nations that already purchase our greasy wool for processing and establishing new markets that can process our greasy wool. However, these markets must have the infrastructure required for processing and the ability to afford our wool and export it as processed wool, or products (e.g. apparel).

Consumers are the ultimate supporters of Australian wool through the purchase of apparel and other products made from wool. It is therefore essential that strong retail marketing campaigns are in place to sell our product. It is also important that education programmes, such as those conducted by the Woolmark Company with fashion designers, are conducted to introduce fashion designers to Australian wool and continue to encourage designers to use our wool in their garments. Marketing of wool products to build demand for our wool must continue as it holistically supports diversification, and in turn, the global wool industry.

Foreign investment that delivers positive benefit for Australians should be supported. Existing Commonwealth and State/Territory laws, and the Foreign Investment Review Board, provide sufficient protection against unlawful financial practices that may occur through foreign investment.

Should you wish to discuss our submission further, please contact WoolProducers Australia General Manager, Ashley Cooper on 0455 442 776 or via email ([acooper@woolproducers.com.au](mailto:acooper@woolproducers.com.au)).

Yours Sincerely,



Jo Hall  
*Chief Executive Officer*  
WoolProducers Australia

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## Executive summary

The Australian wool industry is viewed by many as over-reliant on China given around 80 per cent of our greasy wool is exported there for processing. But this certainly is not the case. Our industry's relationship with China is symbiotic because China needs Australian wool for their processing sector as it is the highest quality wool produced in the world, and as such is the best wool to use for fine quality garments and other apparel.

No longer is China only a processing hub for Australian wool; they are now the largest consumer of Australian wool. China's growing middle-class is becoming increasingly affluent and there is increasing domestic consumption of wool garments and products by the Chinese market. Therefore, as China grows, so does the opportunity to sell more wool. Chinese economic policy (preceding COVID-19) supports increasing economic growth domestically and greater opportunity to capture a growing consumer market for wool products. This is particularly the case given forecasts that China will become the world's largest luxury goods market by 2025.

However, Australian wool needs market diversification as evidenced by the COVID-19 pandemic. We do not need to move away from China completely. We need to develop existing and new markets to process our wool, and to grow consumer demand for Australian wool through strategic marketing. Factors affecting our ability to diversify our markets include being able to supply enough wool of the micron that buyers demanding, particularly with the declining national sheep flock because of drought and competition from other commodities, including sheepmeat.

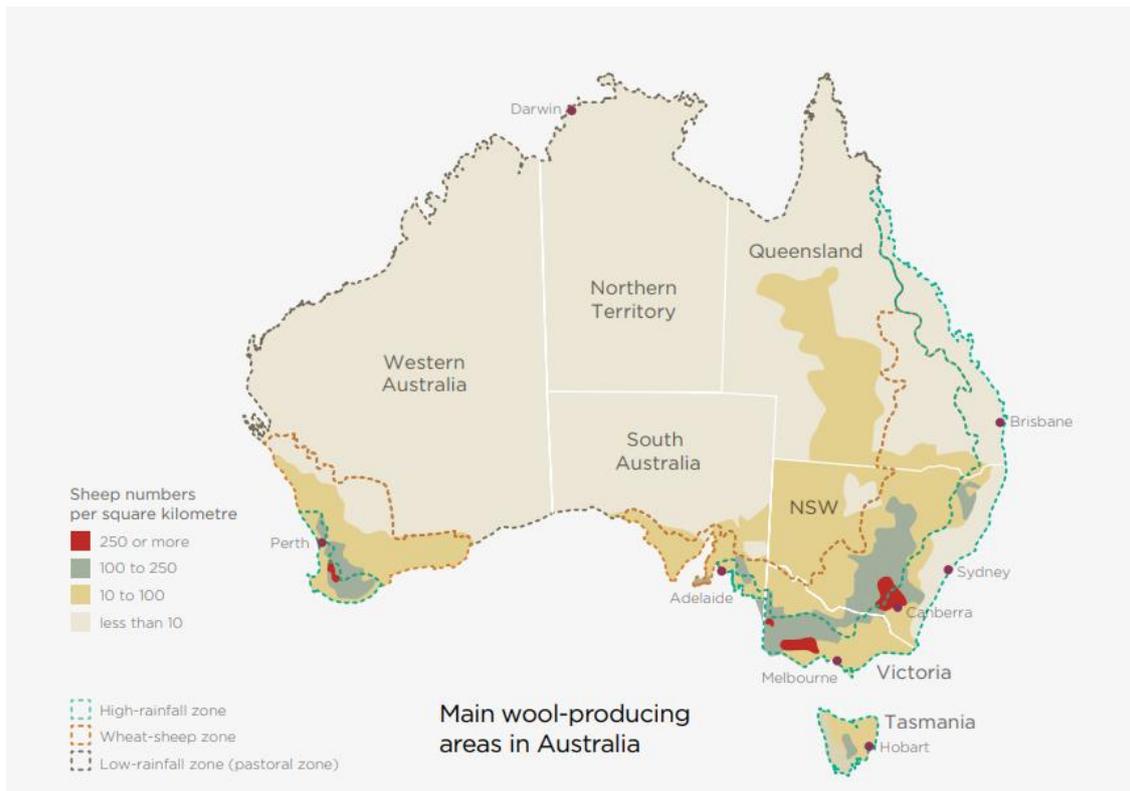
Australian Wool Innovation (the grower-owned research, development, and marketing corporation) undertakes a range of work across marketing to develop existing markets and explore new market opportunities. It is now more important than ever to diversify our markets, and assistance can be provided to industry by the Australian Government through use of the Agriculture Counsellors network (in both existing and potential markets), and through free trade agreements that facilitate trade through favourable tariffs and tariff quotas.

Support is also able to be provided by the Australian Government through the negotiation of free trade agreements with our existing markets, such as the Australia-European Union Free Trade Agreement and the China-Australia Free Trade Agreement. When looking to develop new markets, it is important to ensure they can afford to purchase our wool. Other market opportunities include Indonesia, Vietnam, Thailand and Taiwan. Some of these countries already purchase our wool.

Existing Commonwealth and State laws, and the Foreign investment Review Board, provide protection against unlawful financial practices that may occur through foreign investment. We believe that, as should be the case for any investment, outcomes of foreign investment that bring positive benefit for Australians should be supported.

## The Australian wool industry

The wool industry is a significant commodity in Australian agriculture and makes a substantial contribution to the national economy. The industry employs approximately 200,000 workers<sup>1</sup> and contributes more than \$3.82 billion to Australian exports each year<sup>2</sup>. The map below indicates the main wool production areas in Australia, many of which are in regional and remote areas<sup>3</sup>.



**Figure 1:** Main wool-producing areas in Australia

Australia has a rich history built on wool. The first wool export was shipped in 1807 and by the mid-1800s, Australia had become the world’s largest wool producer. At the beginning of the 1950s, Australia’s gross value of wool production had increased to 56 per cent of the total value of all Australian agricultural commodities. There was concurrent growth in the nation’s sheep flock, which rose to a staggering 113 million head in 1950. From this comes the saying, “Australia was built on the sheep’s back”.

## Australian wool in world textile markets

Australian wool is a niche product in world textile markets. Australia is the world’s biggest producer of raw wool, which makes up 1.2 per cent of the global apparel market by volume but 8 per cent by value<sup>1</sup>. It is also because there are relatively few, if any substitute textiles for wool that it is sensitive to small changes in supply and demand<sup>4</sup>. Figure 2 displays exports of Australian wool (by value) to our five largest importers.

<sup>1</sup> WoolPoll, 2018

<sup>2</sup> National Council of Wool Selling Brokers and Agents, 2020

<sup>3</sup> Adapted from [www.learnaboutwool.com](http://www.learnaboutwool.com)

<sup>4</sup> ABARES, 2020, *Natural fibres: March quarter 2020*, [www.agriculture.gov.au](http://www.agriculture.gov.au)



**Figure 2:** Top 5 Australian wool exports by value (\$US) in 2018 (adapted from [www.resource.trade.earth](http://www.resource.trade.earth))

### The Australia – China wool trade

The Australian wool industry has forged a valuable trading partnership with the Chinese wool textile industry since the 1950s. China was a major growth market for Australian wool following World War II, and the Agrarian reforms of the late 1970s saw the beginning of the development of the Chinese wool textile industry. The Australia-China Wool Initiative of the late 1980s increased cooperation and technical exchanges, and with the increasing presence of Australian Wool Corporation staff in China trade was bolstered. This was particularly evident in 1981 and 1982 when, under tight restrictions imposed by the Chinese Government, imports of Australian wool lifted<sup>5</sup>.

Economic liberalisation during 1984 and 1988 in China encouraged growth in rural enterprises, with wool textile mills established throughout China. This led to the ‘Wool Wars’ (1985-1988) which saw provinces fighting to secure wool for their newly established early stage processing capacity<sup>5</sup>. Government controls on wool imports were diminished, Chinese wool importing businesses grew in number, and Australia’s wool exports to China significantly increased, including a quadrupling in 1985 and further increases in 1986 and 1987<sup>5</sup>.

During the 1980s, Australia exported 21 million kilograms of greasy wool worth \$64 million per year<sup>5</sup>. China has increasingly purchased more fine and superfine wool from Australia, with 47 per cent of Australia’s wool exports to China in 2017 being 19 micron wool or finer<sup>4</sup>. This compares with 3 per cent in 1990 and 10 per cent in the year 2000<sup>4,5</sup>.

During the late 1980s, economic downturns in Europe and China saw Australian wool exports decline, and wool stockpile in China. The Chinese Government reverted to centralised control over wool imports in 1989 and subsequently Australia’s wool exports to China dropped by 60 per cent in 1989 and an additional 24 per cent in 1990<sup>5</sup>. Global economic downturn in the early 1990s further reduced demand for Australian raw wool, and this was compounded by the collapse of the Soviet Union (another major purchaser of raw Australian wool).

<sup>5</sup> The Woolmark Company, [www.woolmark.com](http://www.woolmark.com) (accessed April 2020)

Economic reforms to the Chinese economy in 1992 and an increased demand saw wool stockpiles in China clear, the restrictions to wool imports removed, and ultimately sales to China increase with significant rises in the period to 1994. From the late 1990s to 2005 Chinese economic developments saw the rise of China as Australia's main wool trading partner.

In 2001, China joined the World Trade Organisation (WTO) and as a result, quotas on textiles and apparel imports by the United States and Europe from China were eliminated. This led to a surge in demand and flow-on increases in Australia's wool exports to China. Chinese business invested in wool textile mills throughout the processing supply chain<sup>5</sup>. Trading arrangements were clearer on China's joining of the World Trade Organisation as tariff rate quotas were introduced on raw wool and wool top imports.

Today, China's economy has shifted focus to domestic consumption rather than importing of raw product for manufacture<sup>5</sup>. China is now the world's largest wool consuming country and has potential for even further growth. This growth is facilitated by the rising middle-income demographic and growing urban population. The Chinese government is also encouraging a transition to services and consumption<sup>6</sup>.

Australian woolgrowers invest in marketing through levies collected on the sale of their wool. This marketing focus in China is now diversified to include working with designers and others involved in China's wool textile industry to grow demand for Australian wool and in turn, support not only the processing sector in China but Australia's woolgrowers in this important market<sup>5</sup>.

The China-Australia Free Trade Agreement (ChAFTA) supports the export of Australian wool to China through the provision of wool tariffs at 1 per cent under the WTO tariff rate quota of 287,000 tonnes. A 38 per cent tariff can be applied outside this quota, however China traditionally has not imposed this. In addition to the existing WTO quota, Australian clean wool receives an annual volume increase of 5 per cent (up to 44,324 tonnes clean) by 2024 at duty-free rates. The Australian Government Department of Foreign Affairs and Trade website states, "this is the best outcome China has provided in any of its FTAs to date"<sup>7</sup>.

## Is Australian wool too reliant on China?

China is Australia's largest wool customer, taking close to 80 per cent of our domestic clip in 2018-19 worth \$3,162 million<sup>8</sup>. Many would view this as an 'over reliance' on China; however there is a belief in the Australian wool industry that it is a symbiotic relationship which delivers mutual benefit for stakeholders throughout the domestic wool supply chain, much in the way it delivers for those involved in the China wool textile industry.

China is Australia's primary, general export market. It is the largest source of direct foreign investment and our largest agricultural goods market<sup>6</sup>. Australia's top five commodity exports to China in 2018 by value (\$US) were metals and minerals (\$58.7 billion), fossil fuels (\$22.8 billion), agricultural products (\$8.1 billion), forestry products (\$1.4 billion) and pearls and gemstones (\$10.4 million)<sup>9</sup>.

The previous section of this submission gave an overview of how the Chinese wool textile industry has grown since the 1950s and the subsequent increase in wool Australian wool exports to China. China is the largest wool processor in the world and can process wool more cheaply than Australia can

<sup>6</sup> Australian Trade and Investment Commission, 2020, *Export markets – China*, [www.austrade.gov.au](http://www.austrade.gov.au)

<sup>7</sup> Department of Foreign Affairs and Trade, 2018, *China-Australia Free Trade Agreement Factsheet: Agriculture and Processed Food*, [www.dfat.gov.au](http://www.dfat.gov.au)

<sup>8</sup> ABARES

<sup>9</sup> Chatam House, 2020, [www.resourcetrade.earth](http://www.resourcetrade.earth)

domestically. This has led to the demise of the Australian wool processing industry, much in the way that China's ability to process and manufacture from raw materials has affected other domestic processing industries. Australia can now only process approximately 5 per cent of our annual wool clip. We therefore rely on international processing.

The development of China's processing sector and the increased wool trade to China therefore is not through reliance of Australia's wool industry on one market, but instead situational. It has developed somewhat organically and there are marketing and service delivery outcomes through Australian Wool Innovation that demonstrate the industry's efforts to maintain other major markets, such as Europe, and to grow new markets such as Vietnam and Taiwan.

## Advantages and disadvantages of Australian wool's trading relationship with China

There are advantages and disadvantages to the wool industry's current trading relationship with China. The advantages will hopefully remain as strong post-COVID as they have been pre-COVID over recent years. As for the disadvantages, these can be addressed through maintenance of our current trading relationship with China with the addition of additional processing markets being developed and maintained, and a continued marketing focus to drive consumption of woollen products globally.

### Advantages

There are several advantages of the Australian wool industry trade with China:

- The relationship between the Australian and Chinese wool industries is developed, strong and symbiotic. China needs Australian wool the way in which we need China to buy it. Through the Australia-China Joint Wool Working Group, industry from both countries hold frank conversations that formalise concerns and seek to derive solutions to any problems that may be encountered. We also value the openness of direct communication between stakeholders throughout both supply chains.
- China's growing middle-class is becoming increasingly affluent. With wool being viewed as a niche product, so are the items produced from it. We have witnessed increasing domestic consumption of wool garments and products within China and as this grows, so does the opportunity to sell more wool.
- Chinese economic policy (preceding COVID-19) supports increasing economic growth domestically and greater opportunity to capture a growing consumer market for wool products. This is particularly the case given forecasts that China will become the world's largest luxury goods market by 2025. No longer is China seen as only a processing hub for Australian wool; they are now the largest consumer of Australian wool.
- Australia's proximity to China is beneficial as wool is transported by sea. It therefore is in relatively short distance compared to other major markets, such as India and Europe.

### Disadvantages

The disadvantages of the current trade relationship for Australian wool with China are:

- Concentration of wool into one market leaves the Australian wool industry vulnerable to market disruption. Several factors as outlined in this submission can lead to this disruption, ultimately leading to either decreased demand or extreme price volatility.
- Increasing production costs in China are leading to increased prices for woollen products, therefore pushing these items into price brackets that are not affordable for many consumers. If the price of woollen products continues to rise and wool becomes unaffordable, demand will decline, negatively affecting the price received by our woolgrowers. Diversification into additional processing markets may overcome this issue, however these markets need to be

able to afford to purchase Australian wool and have the capacity to process the wool, and/or manufacture products from it, more cheaply than can be done in competing markets.

## The impacts of crises, economic factors, and trade and political disputes for Australian wool exports to China

### Crises

COVID-19 is a contemporary example of how global crises affect the Australia-China wool trade. Australia and China worked collegiately throughout the initial closure of China's processing industry in early 2020 to minimise disruption to trade and processing as much as possible. This was most difficult when wool processors were required to close or convert their activities to the production of personal protection equipment. However, it is important to note that while trade activity slowed during this time, for example movement of wool from port to the factory, the trade continued.

The effects of COVID-19 are becoming more apparent now that China's processors are operating again; but they are yet to be fully quantified. Currently:

- There have been continual falls in the Eastern Market Indicator (EMI; an economic expression relating to current and previous levels of the wool market supported by Regional Market Indicators: RMIS-North, South and West<sup>10</sup>). This has led to increases in the withdrawal rates of bales prior to sales, and pass-in rates<sup>11</sup>.
- New Zealand and South Africa COVID-19 lockdowns have seen their wool industries suspend sales<sup>12</sup> reducing global market competition. It can be assumed that this has led to the fall in the EMI and reduced prices paid for Australian wool that has continued being offered for sale during the pandemic.
- Italy and India are in lockdown due to their domestic regulations, so China has dominated wool sale purchasing and this can be assumed as a contributing factor to the fall in the EMI through reduced competition at wool auctions.
- There is concern about the glut that may arise should restricted trade see withdrawal and pass-in rates continue, as well as wool not be offered for sale by growers.
- As of 24 April, there were reports that global textile demand had fallen 60 per cent at retail.

Another example of the impact of pandemics on Australian wool exports includes the 2002-2004 SARS outbreak in China. This resulted in significant reductions in exports of wool to China, partly due to Chinese Government restrictions on people movements and imports of raw animal products<sup>5</sup>. Australian wool exports to China fell by 20 per cent in 2002 and by 32 per cent in 2003, before rising significantly in 2004 by 63 per cent once restrictions were lifted<sup>5</sup>.

The domestic production situation influences Chinese buyer confidence in our ability to meet demand. While not specifically a 'crisis', the effect of the current drought has seen a decline in Australia's wool production because of the declining numbers of our national sheep flock. Communications from China have expressed concern about ongoing ability to supply particularly finer wool that cannot be sourced from other countries, but also due to the effect of drought nutrition on wool (it becomes finer, meaning we supply less medium micron wool) they are concerned about our ability to produce mid-micron range wool. While we talk about expanding market opportunities and increasing wool exports, we simply cannot do so without an increase in production achieved through increased flock size.

<sup>10</sup> AWEX, 2019, *AWEX Wool Market Indicators*, [www.awex.com.au](http://www.awex.com.au) (accessed April 2020)

<sup>11</sup> National Council of Wool Selling Brokers, 24 April 2020, *AWIS Wool Market Review 24 April 2020*.

<sup>12</sup> Sales in South Africa resumed in the week ending 24 April 2020 after being suspended since 19 March 2020. New Zealand sales are expected to commence the week beginning 27 April 2020.

## Trade and political disputes

The United States is the largest importer of woollen textiles and apparel in the world, importing 40 per cent from China in 2018 (down 10.6 per cent year-on-year). The US-China Trade War saw the imposition of an additional 15 per cent tariff on US imports of woollen apparel from China in September 2019; unfortunately, the Phase One Agreement has not removed or altered this tariff so a total import duty of 31 per cent continues the reduction in demand for woollen apparel imports by the US from China. The flow on effect of this is an impact on the prices received by Australian growers, reduced purchasing confidence among Chinese buyers, and volatility in our wool market.

While not a dispute as such, technical market access issues surrounding animal welfare, product environmental footprint, environmental and sustainability issues can negatively affect wool product sales at processing and retail stages. These issues may be due to reasons including importing country's legislative or regulatory requirements and must be addressed without trade-off of Australian wool industry (or agricultural) standards in trade agreements.

Sales of Australian raw wool are also affected by customer (textile industry) and consumer (the purchasing public) concerns regarding animal welfare, namely the practice of mulesing which is essential in many Australian production systems to ensure the long-term health and welfare of our sheep. Demand for non-mulesed wool by consumers is growing, particularly in Europe, and this has a flow-on affect to the types of wool the China textile industry purchases. Consumers can also influence policy and decision makers and are sometimes the root-cause of technical market access issues.

Price premiums are being received for non-mulesed wool, with a 108 cent premium being the highest recorded for 16 micron wool at auction in the period of July to September 2019. **Error! Bookmark not defined.** Some Australian retailers (including Country Road, David Jones, and Kmart) have declared they will phase out the use of mulesed wool in their garments by 2025. Due to differences in the definition of mulesing between Australia and other wool growing nations, it is expected that Australian mulesed wool will be discounted against prices for non-mulesed wool from South Africa, New Zealand, Uruguay, and Argentina.

## Economic factors

Economic events such as the Global Financial Crisis of 2008 and 2009 affected global sales of Australian wool due to the severe recession. The rise of the Australian dollar to US\$1.10 in July 2011 saw wool become expensive for Chinese mills.

China is a major consumer of woollen products with 50 to 60 per cent of China's total raw wool imports estimated to be accounted for by domestic consumption<sup>4</sup>. Declining income growth in China saw woollen garment and apparel sales fall by 8 per cent in 2018 and an additional 4 per cent in 2019. This led to a stockpile of wool by the Chinese textile industry in 2019, reducing demand for Australian raw wool and a total decrease of 33.5 per cent in the unit value of Australian wool exports to China from September 2018 to September 2019; greasy wool exports were down 8.4 per cent in 2019 following a year-on-year decline of 11.5 per cent in 2018<sup>4</sup>.

China and wealthy OECD countries drive demand for Australian wool through consumer demand for woollen products (textiles and apparel)<sup>4</sup>. Price and export volumes are significantly impacted by fashion trends and consumer sentiment in China and OECD countries<sup>4</sup>.

Broader micron, medium Australian wool (i.e. wool in the 20 to 24 micron range) that is used to make woollen products other than fine apparel, continues to compete with synthetic fibres. With the cost of production of apparel and products from synthetic fibres relatively cheaper than wool, particularly due to the low crude oil prices currently being experienced, this is a risk to Australian wool.

Domestically, competing agricultural commodities are a factor that should be recognised when considering production to meet demand. With sheepmeat prices at record highs and the current continued fall in the EMI, wool growers may opt to move from producing wool to instead entering the red meat market. This results in reduced flock numbers, with resultant declines in wool production. Other agricultural commodities that offer steadier prices are attractive to any farmer during volatile price situations and should also be considered as potential competing economic interests to wool production, again resulting in declines in wool production.

Other trade, economic and political impacts have been exemplified previously in the [Australia – China Wool Trade](#) section of this submission.

## The impact of trade agreements on Australian wool exports

Australian wool and wool products fare well in bilateral and multilateral Free Trade Agreements (FTAs) between Australia and trading partners. This is not necessarily due to improved outcomes for Australian wool as in fact, countries such as Korea, Japan and Thailand did not impose a tariff on Australian wool prior to the FTAs being implemented. Also, some countries impose only low tariffs on Australian wool compared to tariffs applied on other agricultural commodities. We also receive generous quotas where applicable, for example ChAFTA. Therefore, there were no specific benefits achieved, nor were there any disadvantages encountered for wool arising from these FTAs – but importantly, the FTAs do provide security for future trading.

It should be noted that current exports of Australian wool to countries included in some of these FTAs are relatively low; but this is where WoolProducers believes that:

- The cause is due to a decline in the textile processing capacity for wool in that country, for example the United States of America, or
- There is opportunity for market diversification through investment in service delivery (e.g. education and training, investment in manufacturing machinery) to grow imports of Australian wool in these countries, for example Vietnam. These countries need to be able to afford Australian wool for these opportunities to be realised.

With Europe a significant importer of Australian wool products, WoolProducers has advocated strongly for tariffs and tariff rate quotas on Australian wool (raw and processed) to be zero, if not equivalent or reduced from existing tariffs and tariff rate quotas. Of great concern to WoolProducers has been the inclusion of animal welfare and antimicrobial resistance sanitary and phytosanitary measures in some FTAs. It is essential that any FTA does not impose restrictions, equivalency requirements or increased regulation on the production practices and systems of Australian woolgrowers.

WoolProducers is supportive of the Australian Government's efforts to negotiate the Regional Comprehensive Economic Partnership Agreement (RCEP), with the inclusion of India. India is Australian wool's second-largest single-country export destination. The difficulty for any agreement with India pertaining to agriculture is the self-sufficiency paradigm and the Indian Government's protectionist approach to trade agreements. However, fibre operates outside of the food self-sufficiency paradigm and Australian wool does not compete with India's cotton industry. This is reflected through the low tariffs applied to Australian wool compared to the statutory rates (as of October 2019).

Therefore, WoolProducers also believes that the Australian Government should forge ahead with ratification of RCEP with or without India and that if India is not a party to RCEP, that negotiation of an Australia-India bilateral trade agreement commences. In early 2020, WoolProducers supported and agreed to partake in the development of a textile Memorandum of Understanding with India, facilitated by the Australian Government Department of Agriculture, Water and the Environment, to

build our trading partnership with India with the objective of export growth to this important processing market, noting that this has been put on hold due to COVID-19.

## The impacts of trade agreements on Australian domestic wool markets

With 98 per cent of Australian wool exported and our low capacity to process wool domestically, the impacts of trade agreements on Australian domestic wool markets are minimal as, we do not have a domestic market as such. Apparel and interior products, including those made from Australian wool that are manufactured overseas, should be allowed to enter Australia without the imposition of tariffs.

## Industry and government preparations to diversify Australia wool markets

When considering market diversification for wool, it is important to realise the challenges for opening and expanding existing processing markets given the labour, technology, and machinery requirements. It is important to not shy away from this challenge as the livelihoods of Australian woolgrowers depend on continued market access which, as evidence through COVID-19, requires diversification.

Through Australian Wool Innovation (AWI), the research, development and marketing body funded through grower levies and matched Australian Government contributions, marketing and processing innovation activities have centred on market maintenance and expansion into emerging markets. The company objectives for these portfolios are<sup>13</sup>:

- *Processing innovation and education extension*: Increase the profitability and sustainability of the wool processing and manufacturing supply chain and educate students, trade and retailers about the benefits of wool.
- *Marketing*: To continue to build demand for Australian wool by reinforcing its position in the market and solidifying a strong price to ensure a sustainable future for Australian woolgrowers.

Further information on the strategies being employed to achieve these objectives are available in the AWI Strategic Plan<sup>13</sup>.

As aforementioned in the [Impact of Trade Agreements](#) section of this submission, there are some FTAs that provide opportunity for market diversification given only low volumes of Australian wool are exported to participating nations. WoolProducers encourages investment in expansion of these markets and the development of new market opportunities to support market diversification, but the ability of these markets to afford to purchase Australian wool must exist so that any trade can be sustained.

WoolProducers also encourages the Australian Government to seek a FTA with India either within RCEP or through a bilateral agreement, and we have shown our support for and willingness to participate in, the development of a Memorandum of Understanding for textiles with India facilitated by the Australian Government Department of Agriculture, Water and Environment.

Indonesia is touted as a potential market opportunity for Australian wool. Opportunity does exist to grow wool exports to Indonesia, from the US\$353,000 total export in 2018 which was for yarn, wool tops and combed wool (i.e. either semi-processed or processed)<sup>9</sup>. What needs to be determined is whether increasing exports of these types of wool would be of value to the industry, or whether the industry needs to look at the ability of Indonesia to become a processor of raw wool, which would

<sup>13</sup> AWI, 2019, *Strategic Plan 2019/20 to 2021/22*, [www.wool.com](http://www.wool.com)

potentially require investment in establishing a processing industry and understanding of the ability of Indonesian processors to be able to afford to purchase Australian wool. Ability to ship processed product from Indonesia would also need to be explored, including to which markets and how competitive this would be with other suppliers, such as China. Comparatively, in 2018 Australia exported US\$68.2 million of cotton, not carded or combed, which identifies there is value in exploring opportunities for processing wool in Indonesia.

Noting the difficulties in expanding processing markets for the wool industry, WoolProducers would strongly support Australian Government efforts to grow other market opportunities and increase market share in existing markets. This would include the use of Department of Agriculture, Water and Environment's Agriculture Counsellor network, to explore these options in-country. Facilitation of industry expertise and networks through trade delegations would be of assistance as well.

## Foreign investment in Australian agriculture

WoolProducers believes that foreign investment in agriculture should be supported where it provides benefit to the national interest. We note that of the 13.4 per cent of total agricultural land with a level of foreign interest in 2017-2018<sup>14</sup>, the United Kingdom was the largest landholder (2.6 per cent) followed by China (2.3 per cent) and the United States of America (0.7 per cent). The existing regulatory framework and oversight of foreign investment through Commonwealth and State/Territory laws, and the Foreign Investment Review Board provides sufficient protection against unlawful financial practices that could occur through foreign investment. These mechanisms must remain in place.

## Conclusion

Australia needs diversification of markets for Australian wool. This does not mean that we need to withdraw from China altogether, but instead look to grow exports to existing markets such as Europe and India and develop new market opportunities for processing in countries such as Indonesia. In concert the grower-owned research, development, and marketing corporation, AWI must continue its marketing efforts to continue to grow consumer demand for products made from Australian wool and to encourage fashion designers to use wool in their garments.

All of these efforts can be supported by the Australian Government through the negotiation of FTAs in existing and future markets, as well as through use of Agriculture Counsellors to investigate, network and grow relationships on behalf of the wool industry in these markets to enable diversification.

Existing Commonwealth and State/Territory laws, and the Foreign investment Review Board, provide protection against unlawful financial practices that may occur through foreign investment. We also believe that, as should be the case for any investment, outcomes of foreign investment that bring positive benefit for Australians should be supported.

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<sup>14</sup> ATO, 2018, *Register of foreign ownership of Agricultural land: report of registrations as at 30 June 2018*, [www.firb.gov.au](http://www.firb.gov.au)

