Ensuring a sustainable Australian Wool Industry through market diversification and risk mitigation
A Project Overview

Purpose

The purpose of this project is to identify opportunities mitigate and reduce the current risks faced by the Australian wool industry through its reliance a limited number of export markets.

Background

The Australian wool industry generates an average $3.5 billion in wool exports each year and provides 200,000 jobs. Further to this the Australian lamb and sheep meat sector is heavily reliant on a viable wool sector, with the Merino ewe being the foundation of the prime lamb sector through supply of first cross ewes. The wool industry is crucial to enabling the Australian agricultural sector to become a $100 billion sector by 2030. Australian wool is heavily exposed to international export market forces with approximately 93% of the national clip exported in a greasy (unprocessed) state, most of which is exported to a single market. The wool industry underpins rural, regional and remote economies across Australia.

The wool industry is one of the most exposed and threatened sectors in Australian agriculture due to its heavy reliance on a small number of early-stage processing destinations. If the feasibility study demonstrates that diversified early-stage processing (either domestic or diversified offshore opportunities) is viable, the market diversification opportunities for Australian wool will increase exponentially with the ability to export scoured and carbonised wool and wool tops to a diversified range of spinners.

The current choke point in the long wool supply chain is at the early-stage. This is apparent considering that globally there are approximately 100 early-stage processors, 5,000 spinners and dyers and around 50,000 knitters and weavers. For the purposes of the proposed study, early-stage wool processing includes scouring (washing), carbonising and top making- which are processes specific to animal fibres. In contrast subsequent processing activities, such as dyeing, spinning, weaving and garment making are common to all textile supply chains.

Unlike other Australian agricultural commodities which are able to adjust to market disruptions, there is not sufficient diversification in the location of early-stage processing capacity should a major trade disruption or exotic animal disease outbreak event involve wool. Enhancing diversification of early-stage processing capacity (including domestic) would be a sensible risk management measure to provide increased trade stability to Australian wool growers and those involved in the trade and export of Australian wool.

Scope

The work will be evidence based and national in scope, although the applications and solutions within the analysis may, by their nature be regionally focused.

The project will not assess specific locations for domestic processing, though outcomes of this project may inform subsequent location-specific analysis.

In undertaking this research, the consultant(s) shall focus on the Key Objectives and elements as outlined in Attachment 1.

Project Deliverables

The project will deliver a report that ensures a sustainable Australian Wool Industry through market diversification and risk mitigation through completion of the following activities:

1. **Economic analysis of early-stage wool processing in Australia**
    a. A report that provides a clear economic analysis of early-stage wool processing in Australia having undertaken, but not limited to, the prescribed "activities".
    b. Should the report conclude that domestic early-stage processing is not viable it shall clearly specify why this is the case and outline factors would need to change, and the quantum of change required to render it a viable prospect.
2. **Assess opportunities to develop / enhance early-stage processing capacity in diversified onshore and offshore locations**
    a. A report that provides a clear guidance on opportunities to diversify offshore early-stage processing of Australian wool having undertaken, but not limited to, the prescribed "activities".
    b. The report shall quantify the feasibility of each location with respect to the others (and domestic processing opportunities) in terms of both economic feasibility and trade risk management.

A final report will be delivered to the Department of Agriculture, Water and Environment at the end of September 2022. The report will subsequently be publicly released.

Project governance

The appointed consultant(s) will regularly report to WoolProducers.

The appointed consultants will also report to and consult with the project steering committee throughout the course of the project. Steering committee membership comprises of the following:

Austrade (observer)

Australian Council of Wool Exporters and Processors

Australian Wool Exchange

Australian Wool Innovation

Australian Wool Testing Authority

National Council Wool Selling Brokers

WoolProducers Austral

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Attachment 1 – Key Objectives and Activities

1.	**Economic analysis of early-stage wool processing in Australia**
A.	High level economic analysis of establishing and undertaking early-stage wool processing in Australia - including economies of scale that would be required to be feasible.
B.	The opportunity to adopt innovation in equipment, technology, energy, water efficiency and alternative chemicals to enhance the competitiveness of Australian processing.
C.	Wider economic benefits of re-establishing early-stage processing including direct and indirect job creation and associated supporting infrastructure.
D.	Analysis of the value of trade risk management through improved access to a wider range of trading partners and reduced exposure through sanitary and phytosanitary regulatory requirements in the case of an EAD outbreak.
E.	Analysis of how differing scales of early-stage processing would interact with existing industry structures and service providers.
F.	Assessment of opportunities to split early-stage “wet” processing (i.e. scouring / carbonising) and early-stage “dry” processing (i.e. carding and combing) between domestic and / or offshore locations
G.	Assessment of opportunities to achieve improvements in traceability and sustainability e.g. through in country / company supply chain integration.
2.	**Assess opportunities to develop / enhance early-stage processing capacity in diversified onshore and offshore locations.**
A.	Identification and prioritisation of locations that present opportunities for development and / or enhancement of early-stage processing capacity.
B.	Each “priority” country for which development and / or enhancement of early-stage processing capacity is feasible (following 2.1) should undergo a high level economic assessment
C.	Benchmarking
D.	Demand modelling