



AWI Performance REVIEW 2018

4 May 2018

SUMMARY

AWI has become an industry Research body (RDC) that no longer serves the whole Australian wool industry. Control of the AWI Board, by a dominant faction, has used the existing Director Election process, including a flawed Board Nomination Committee (BNC) & open proxies used by the Chairman, to ensure control for a narrow agenda for some growers.

The Woolpoll process has been interfered with consistently by the AWI Board, despite grower & industry objections. The Levy split between Research & Marketing, which was changed unilaterally by the AWI Board, has never been voted on by wool levy payers

Research, Development & Extension programs have consistently worked against wider sheep industry outcomes. Collaboration with other industry service providers eg MLA & Sheep CRC has reduced. Duplication of Research & Extension programs has increased. Potential solutions for grower & industry problems have been delayed or curtailed.

To make the point very clear;

The existence of AWI in the research space has arguably made the situation worse for wool growers.

It may also be argued that the existence of AWI has slowed the development of mature supply chains & forward marketing opportunities for Australian wool.

Commodity prices are currently positive, in some cases record levels in nominal terms. However they are nowhere near record levels in real terms. There may be some evidence of growth in demand for some wool types, but **most gains appear as a result of lack of supply.** Thank goodness for the growth of demand (& supply) of lamb & sheep meat.

In terms of productivity gains, wool is lagging behind sheep meat, & is an expensive fibre to produce. Productivity gains are crucial for Australian farmers to continue to be viable. Wool cannot rely on the sheep meat industry to solve productivity problems.

Can Australian wool growers afford a wool levy if it does not work with the whole Australian sheep industry?

Can Australian wool growers afford a wool levy if it does not improve their marketing competitiveness & opportunities?



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Corporate Governance.

'AWI must not use Funds to Engage in Agri Political Activity'

Woolpoll

AWGA has evidence that the AWI Board has consistently interfered in the Wool Poll process, ignoring recommendations of the "independent" WoolPoll panel & grower groups in the past. This relates to the levy options put to growers as voting options. An option to vote for 1.5% has consistently been avoided by the AWI Board, favouring higher & less popular options 2.5% & 3%. It appears the aim of the AWI Board has been to maintain a 2% Levy.

Board Elections – Corporate model not working for growers

The AWI board interferes in the Director elections, by selecting their own friendly Directors, the members of the BNC and using the Chairman's open proxy votes.

EG In 2013, despite sitting Director George Falkiner receiving one of the highest woolgrower primary votes, the Chairman used his open proxies against Falkiner to remove him from the Board. It is understood that policy disagreements led to this situation. In 2017 a similar fate cost Director Paul Cocking his position.

Why have a democratic vote by shareholder growers for Directors, only to allow a faction of the Board to decide the outcome?

AWI is different to a corporate model because it has compulsory levies, enforced by the Government. There is no opt out, no ability to sell shares.

Clearly the AWI board has undertaken measures to ensure that directors are specifically chosen to suit the current board style and control. In the 2017 Director elections, much effort was made by AWI board members to openly campaign against a potential new independent director, Mr Don MacDonald, who managed to get onto the board despite all efforts and defy the Chairman's proxies.



The Board Nomination Committee has been corrupted.

The BNC was set up to ensure a “skills based” AWI Board, but has been corrupted & is used by the leadership faction to ensure control. It can be seen as a “pathway” for potential friendly Directors, with 2 former BNC members seeking Board positions. Even relatives of the Chairman have been included on the BNC. These are clear examples of AWI breaching its SFA obligations

Research V Marketing levy split: No vote for levy payers

AWI was set up under the Wool Services Privatisation Act 2000 as a research body. It is clear that it is no longer a research and development organisation, with at least 60% of levy funds now directed to “marketing” activities, which is distinctly opposite to the Act.

Wool growers were not given the opportunity to vote at WoolPoll, or at any time, on the ratio of levy spend between Research & Marketing.

This is an example of the independent action by the AWI board with little respect for wool levy payers.

In this regard, we believe that the Act has been clearly breached by the board of AWI, as such marketing activities have failed to deliver significant new commercial market products for the benefit of woolgrowers. It is impossible to measure how the marketing spend at AWI has contributed to higher prices, especially when real demand appears static. Current market prices are mostly a result of ongoing decline in supply of Australian wool.

Under the Statutory Funding Agreement 2016 -20, “The Australian Govt and Australia’s primary producers recognise the need to invest in rural research and development “.

The current AWI board has breached its SFA obligations by no longer being a majority Research organisation as prescribed under the SFA.

AWI has now become a primary “Marketing” organisation, even though it has no product to take to market.

It may also be argued that the existence of AWI has slowed the development of mature supply chains & forward marketing opportunities for Australian wool.

Competitors to Australian wool growers are well ahead in the development of supply chains & forward markets. EG NZ Merino has established branding & contracts for wool & lamb, with the latest contracts for supply up to 10 years. (these are unheard of in Australia, while we are still arguing about animal welfare...) Mostly these contracts are dealing with the same buyers as we deal with.



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AWI appears to have had an unofficial mantra in recent years of “Disruption”.

This is evidenced by less collaboration with other sheep industry service providers plus a willingness to compete where possible, even with privately funded programs. Duplication of services, extension programs, research flocks etc. The old test of “Market Failure” appears to be repeatedly ignored.

EG Stopped funding/Collaboration with MLA; Sheep Genetics/Merinoselect
Stopped funding/Collaboration with Sheep CRC Resource Flock & Genomics
(Note that since 2012 wool traits have not been measured in the CRC Genomics resource flock when AWI withdrew funding. Meat traits have been funded by MLA)
Started Merino Lifetime Productivity trials, potentially duplicating the CRC Resource Flocks, but then fighting with MLA over rights to use Sheep Genetics software & Sheep CRC with genomic testing.
Stopped funding Bred Well Fed Well extension & created a new alternate program.
Started WoolQ portal, competing with AWEX, AWTA, Auctionsplus etc
Competing with on farm Wifi providers.
Competing with novel pedigree/performance tag commercial providers.

The result for levy paying wool growers & industry is confusion, delays and in some cases progress curtailed.

Conflict of interest

‘AWI warrants that, at the agreement date, no conflict of interest exists or is likely to arise in the performance of its obligations under this agreement’

AWGA notes, that as reported in Australian media, AWI board members have clearly breached this obligation under the SFA by interfering in research areas where they are clearly conflicted. **The “Mirrorgate” incident highlights the extent of the flagrant breaches that continue under the current board. The fact that no change to the Chair has happened, only demonstrates the entrenched culture of secrecy and abuse of the levy.**



The current Chairman has admitted that he has always voted as a Director on key Genetic research & extension programs, despite being a major Genetics provider to the Australian industry. He has voted for or against programs that impact on his own business. How is that allowed to happen?

The Chair interfered in a research program (Mirrorgate) & no action followed?

20. Reduction, Suspension or termination of this agreement.

20.1. The Commonwealth may terminate this agreement effective immediately, by giving notice to AWI if:

- a. there has been a material breach by AWI or its officers or its Directors of this Agreement, the Corporations Act, or the Act.**

As reported in Australian media, clear breaches of the SFA have occurred. As no action to clear the reputation of the board or its shareholders or solve the real evidence of conflicts within AWI, then terminating the SFA must now be serious option for The Minister. To not take any action would only promote further material breaches of levy fund misuse.

30. Strategic Plan.

30.3 In developing the Strategic Plan, AWI must develop a consultation plan including,

- a. Levy Payers**
- b. The Commonwealth**
- c. Woolgrower industry representative bodies.**

It is a difficult process to develop any such plan, when this organisation produces very little tactile results anyone can measure by normal commercial terms.

- a. There is no profit
- b. There are no shares to buy or sell
- c. There are no dividends for shareholders.

As such, AWGA recommends the following for consideration;

- 1. AWI be terminated as prescribed under the SFA.**
- 2. It becomes a fully functional company as seen under the NZ Merino model, allowing a normal commercial business environment to happen, growers voluntarily able to support it if AWI delivers profit, dividends or benefit.**
- 3. Compulsory Levies cease.**