

WoolProducers Australia

Submission into the 2018 AWI Performance Review

Executive Summary

WoolProducers Australia (WPA), as the peak woolgrower representative body in Australia acknowledges the work that Australian Wool Innovation (AWI) conducts on behalf of industry, however has serious concerns with the operations of the industry research, development and marketing body.

Whilst AWI is a public company, it is a semi-statutory body and as such needs to have higher levels of governance than other non-statutory public companies. Unlike shareholders in other public companies, shares held in AWI are compulsory through a levy and shareholders are unable to trade their shares if they are dissatisfied with the direction of the company.

In terms of directing AWI, growers have two main mechanisms:

1. The biennial director elections
2. The triennial vote in WoolPoll

The manner in which both of these processes are conducted, despite being managed in accordance with relevant requirements and regulations, means that they are heavily influenced and controlled by the AWI Board. This diminishes the genuine ability of shareholders to exercise influence on the company but also demonstrates that the current governance and regulatory frameworks that AWI operates in are deeply flawed.

The current governance arrangements employed by AWI are flawed demonstrated through the lack of transparency and accountability across a range of important activities that AWI engage in, from industry consultation through to levy expenditure decisions.

Whilst there are well documented governance frameworks, including the constitution, Statutory Funding Agreement, policies and procedures, these are rarely enforced internally or externally and are therefore to a large extent meaningless.

The Statutory Funding Agreement (SFA) broadly sets out the roles, responsibilities and management of levies of AWI. While the document is high-level, there has been very little enforcement of the requirements by the government, particularly in the areas of potential breaches of clauses covering agri-political activities and industry consultation.

The SFA has strict requirements for AWI not engaging in agri-political activities, however there are many examples of undertakings by AWI that could be argued to fit this criteria.

The industry consultation mechanisms are inadequate. Although consultation is a requirement under the SFA, there is an inability by AWI to distinguish between consultation, communication and engagement. This issue is further compounded by the lack of transparent processes to demonstrate how any consultations with shareholders are addressed by the AWI Board.

Although outside of the scope of the review, the current flawed industry structure cannot be decoupled from the issues raised in the Terms of Reference of this review. The lack of independent oversight over AWI has caused many issues with the operations of this organisation since its inception.

The present industry structure is reactive and inflexible and not appropriate for managing a compulsory levy and tax payer dollars. The power of the AWI Board is disproportionately large and there is inadequate accountability or transparency to monitor this control.

There have been a number of high-profile, unsavoury incidents over the past 12 months involving AWI

which reflect on the conduct and operations of the AWI Board. These incidents, and the subsequent lack of response from the Board, raise questions over the culture of the organisation.

The industry is currently receiving good prices, with producer sentiment at high levels. Now is the time to introduce structural reform, rather than waiting for the industry to be in crisis to bring in sweeping changes. History must not be repeated.

WPA's anticipates that this review will be the catalyst for change.

Recommendations

The following recommendations are being made in the context that there are not widespread industry structure reforms put in place.

In a broader context, WPA are calling for wide ranging structural reform within the wool industry, which would address a number of the issues raised in this submission.

TOR 1 Recommendations

- A. The current 2016-2020 SFA must be reviewed and rewritten to make it a meaningful document, including, but not limited to:
 - 1. The establishment of a formalised role between AWI and WPA, through a Memorandum of Understanding (MoU) or other like mechanism, as is currently the case with the red meat RDC, Meat and Livestock Australia, and its prescribed industry representative bodies
 - 2. More stringent criteria for agri-political activities and safeguards against AWI breaching these criteria
 - 3. More robust criteria around industry consultation
- B. The new SFA should be in-force by 1 July, 2019 to realign this document with the current AWI Business Cycle
- C. There must be strong enforcement by the government to ensure the relevance of the SFA
- D. There must be clear guidance as to what constitutes a breach of the SFA and what action/government intervention will occur in the event of a breach
- E. There must be clear and transparent monitoring and evaluation metrics and mechanisms used regarding the performance of AWI in meeting the targets and outcomes of their Strategic Plan
- F. An industry consultation plan developed and agreed to by industry
- G. Reform to the Industry Consultative Committee (ICC) to make it independent of AWI, with AWI being accountable to the ICC

TOR 2 Recommendations

- H. The methodology for future AWI Review of Performance to include:
 - a. The appointment by industry, of an independent Chair, who possesses the appropriate skill-set, to facilitate the Project Steering Committee
 - b. Seek submissions from the whole wool growing sector into the ROP

TOR 3 Recommendations

- I. AWI must be more transparent and accountable to shareholders
- J. There must be a strengthening of corporate governance practices by AWI to better reflect the semi-statutory nature of the organisation

- K. There must be a complete overhaul of AWI's corporate governance policies and procedures, including conflict of interest, business ethics, code of conduct, independence
- L. A transparent mechanism must be instituted that demonstrates adherence to these policies and procedures by AWI board and staff
- M. A transparent mechanism for shareholders to monitor the effectiveness of governance procedures must be implemented.

TOR 4 Recommendations

- N. The AWI Constitution must be reviewed to ensure that the company is as transparent and accountable to shareholders as possible
- O. Review of other relevant organisations' constitutions should be conducted in order to provide guidance on appropriate governance models
- P. A new process for board nominations must be implemented to ensure a truly skills-based board is in place

TOR 6 Recommendations

- Q. A new system for AWI director elections must be implemented, including but not limited to:
 - 1. An appropriate board nomination process, including provision for a truly independent committee to oversee the process, including the skills of the nominees and how they complement the existing board skill set
 - 2. Ability for the incumbent directors to face election on a higher rotation i.e. half the board to face renomination every two years
 - 3. Transparency in the Chairman's proxy allocation
- R. Depoliticising the election process, including the prohibition of sitting and renominating directors to engage in electioneering

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WoolProducers Australia Background

WoolProducers Australia (WPA) plays a critical role in working closely with companies and entities funded by woolgrower funds including compulsory levies or fees for service.

Our mission is to develop constructive and profitable outcomes for woolgrowers nationally.

The agency is responsible for appointing a director to each of the Australian Wool Exchange and the Australia Wool Testing Authority, promoting good corporate governance and ensuring that the interests of growers are met.

WPA has an informal relationship with Australian Wool Innovation as the voice of woolgrower shareholders. It aims to contribute to AWI's programs for the benefit of growers, promoting responsible use of levy funds and ensuring good corporate governance.

WPA is the sole wool industry member of Animal Health Australia, and as such, carries a significant responsibility for decision making on behalf of the industry in the event of an emergency animal disease outbreak.

WPA membership of Animal Health Australia also comes with the responsibility of representing all woolgrowers in the oversight of the levy collected for animal health, welfare and biosecurity activities.

As the only wool grower organisation with membership of the National Farmers' Federation, WPA is responsible for providing key policy advice on behalf of our members, and other wool growers, to Australia's peak farm body.

WPA also works closely with the Federal Department of Agriculture and Water Resources on key issues such as animal health and welfare, biosecurity, pest management control, natural resource management, drought preparedness, emergency animal disease outbreak preparedness and industry development, including research and trade.

WPA's charter, unlike other national wool representative organisations is to represent the interests of all woolgrowers. Other organisations claiming to represent the wool industry are sectorial in nature i.e. they do not represent all woolgrowers, only sections of industry.

WPA's membership is based on the membership of State Farm Organisations (SFO), with the additional provision for Independent Directors and members, outside of SFO network.

The SFO representative model employed by WPA is the same representative model that is employed by many other peak industry bodies, who are the prescribed bodies for their respective industries.

It is a fact that WPA represents the single largest body of wool growers in Australia and in terms of outcomes on behalf of growers, WPA provides the most benefit to wool growers across a range of issues. It is generally recognised that State Farm Organisations represent around 30% of all producers.

Issues with the current Wool Industry Structure

WPA has raised numerous issues with the current wool industry structure that need to be remedied in order for the industry and the industry Research and Development Corporation, AWI, to run more efficiently.

Whilst WPA acknowledges the good work that AWI conducts on behalf of the Australian wool industry, we strongly feel that there are serious issues within the industry structure.

There is not enough opportunity for shareholders to provide direction of their company and very little recourse for them to take action. There must be a greater level of industry oversight of AWI as the organisation is currently run at the sole discretion of the Board, which is not adequate for a body that collects a compulsory levy.

Unlike similar RDCs who operate under the *Primary Industries Research and Development Act 1989 (PIRD Act)* or the *Australian Meat and Livestock Industry Act 1997 (AMLI Act)*, AWI operate under the *Wool Services Privatisation Act 2000*, and is an industry owned company.

Additional to the *Wool Services Privatisations Act 2000* and other corporation and levy related legislation and regulation, AWI are governed by:

- AWI Constitution
- Statutory Funding Agreement (SFA) between AWI and the Australian Government

Like all SFAs, the AWI SFA is very high level and non-prescriptive. AWI determine the detail of how these functions are implemented, with the Department of Agriculture and Water Resources (DAWR), reluctant to enforce any areas of the agreement.

The AWI Constitution is the agreement between AWI and its shareholders and can be amended Subject to the Law, via a special resolution passed by at least 75% of votes cast by shareholders entitled to vote on the resolution.

The current wool industry structure is far too reactive and inflexible. Historically the wool industry must be in crisis in order for change to occur and we believe that unless there are significant changes to this structure that this will be the conclusion at some point in the future. WPA does not want to see the industry in that position, now or at any time in the future.

With the current good prices being received for wool, many growers will not be focussed on the industry structure or the operations of their industry RDC. WPA strongly believes that now is the time to initiate structural reform to the industry, as this will result in a far more satisfactory outcome for growers and the industry as a whole than to wait for the inevitable downward cycle to occur.

Australian Wool Innovation Review of Performance Terms of Reference

Performance Review

- 1. Consider AWI's performance in delivering research, development, extension and marketing services. This will include consideration of the performance of AWI in:**
 - a. meeting its obligations under its Statutory Funding Agreement 2016-20 with the Commonwealth and the *Wool Services Privatisation Act 2000***

Given the SFA is pitched at such a high-level, it is essentially meaningless because DAWR enforces very little under the SFA. It is therefore easy for AWI to argue that they are meeting their obligations as outlined under this agreement.

The SFA itself is failing in meeting a fundamental requirement of industry SFAs:

SFA BACKGROUND

- 1. The Agreement, and funding agreements in similar terms entered into with other RDCs, are intended to provide clarity, consistency and transparency across the management and accountability frameworks applicable to all RDCs.***

The current operations of AWI are far from consistent or transparent.

As outlined in WPA's 2016 submission into the DAWR consultation on the SFA, WPA strongly believed that the SFA document needed to be made more robust to ensure that it was meaningful. WPA provided a number of examples of how this could be done, but these were not included in the revised SFA.

Examples included:

Strengthening the requirements in relation to agri-political activities.

The current SFA (and previous iterations) has the following clauses:

- | | |
|-------------|---|
| 15.3 | <i>AWI must not use Funds to:</i> |
| (a) | <i>engage in Agri-Political Activity or activities that aim to influence public policy and resource allocation decisions; or</i> |
| (b) | <i>act as an Industry Representative Body or provide information or an opinion which states or implies to stakeholders that AWI is an Industry Representative Body; or</i> |
| (c) | <i>encourage or support a campaign for the election of a candidate, person or party for public office.</i> |

AWI continue to make statements, provide assurances and attend meetings, etc. in many areas, that are not necessarily agri-political in nature, but do have policy ramifications for industry.

WPA, as the peak producer advocacy and policy-setting body work across a range of policy setting areas and as the member of Animal Health Australia (AHA), dedicate a lot of time determining policy in the animal health, welfare and biosecurity areas.

The informal relationship between WPA and AWI can lead to duplication of woolgrower levy expenditure. See wild dog example in TOR 1.d

AWI have frequent meetings with animal welfare groups, such as the RSPCA to discuss relevant industry issues, in particular breech strike prevention. These meetings are conducted as a technical update by AWI. WPA have requested numerous times to attend these briefings due to the policy implications that they have. AWI have repeatedly refused our attendance, despite the role that WPA plays on behalf of industry in this area.

This blurring of lines regarding clauses (a) and (b) above, must be better clarified in the SFA or greater communication with AWI and industry representative bodies must be enforced to ensure improved outcomes for growers.

An example of a what WPA considers a breach of Clause 15.3 of the SFA, was outlined in a letter to the then Minister of Agriculture and Water Resources, the Hon Barnaby Joyce, dated 22 December, 2016 (Attachment A). The Minister's response can be found at Attachment B. WPA felt the Minister's response was completely inadequate as it did not address the issues at hand.

Again, outside of the scope of the Review, but relevant in consideration of AWI's performance, in the absence of a prescribed body in the wool industry, WPA would like to see a more robust and detailed section relating to "Industry Consultation" in the AWI SFA, including a definition of 'effective consultation'.

Given that the requirement for consultation with industry by AWI is so limited, AWI claim that they constantly consult with growers through attendance at sheep shows, field days and ram sales. While it is important for AWI to attend events with a grower focus there is no way to validate that any grower feedback provided on these occasions is considered by the Board – therefore these activities should not be considered as legitimate industry consultation, rather this is engagement with industry.

There needs to be a recognised, transparent process whereby AWI can demonstrate how consultation with industry influences the decisions made by the AWI Board.

Under the current consultation arrangements, the current SFA refers to the requirement of Industry Consultation as:

28.2 The RDC must meet with woolgrowers Industry Representative Bodies at not more than six-monthly intervals to:

(a) review industry priorities for Research and Development and Marketing investments, including any regional equity considerations; and

(b) report on the RDC's performance against the Strategic Plan and the Annual Operational Plan.

The details of WPA's concerns with the previous and current SFA had been raised in previous briefing papers provided to the Department and Minister's office and is supported by the Australian Wool Growers' Association (AWGA). In summary WPA and AWGA would like to see a formalised arrangement (i.e. a Memorandum of Understanding) between AWI and WPA.

A formalised agreement will alleviate a number of issues including the adequate flow of information between the organisations to avoid issues such as avoiding duplication of spend of grower dollars and achieving more effective outcomes for the wool growing industry.

WPA has written to and had numerous meetings with, both the DAWR and the Minister's office regarding issues and potential breaches of the SFA over the past three years. Despite acknowledging these issues, there has been no meaningful action from the Department. This brings into question

the integrity and effectiveness of the SFA.

It is also worth noting that DAWR convened a review into the SFA in 2016 to inform the current SFA, inviting submissions from members of the Industry Consultative Committee members. This review, along with the calling of the federal election, saw a delay in signing of the current SFA until October of that year. The end date of this SFA was, for reasons unknown, then extended until 2020, rather than 2019. This has resulted in a misalignment of the SFA with the AWI business cycle, whereby the Review of Performance informed WoolPoll and the outcome of WoolPoll informed the development of the SFA in the following year. This must be rectified through the signing of a new SFA to be in force by 1 July, 2019.

b. implementing governance arrangements and practices that ensure proper use and management of funds

WPA has long held concerns regarding the governance arrangements within AWI. Whilst not suggesting that improper use or management of funds has occurred, the current governance arrangements do not enable adequate transparency around governance and operational arrangements.

AWI prides itself in its adherence to the following:

“BOARD GOVERNANCE

AWI’s Constitution was designed ‘fit for purpose’ to ensure accountability to all growers, not a few. The AWI Board achieves good corporate governance by operating in line with the following:

- ***Corporations Act 2001***
- ***Wool Services Privatisation Act 2000***
- ***Statutory Funding Agreement (SFA)***
- ***ASX Corporate Governance Principles and Recommendations***
- ***Wool Services Privatisation (Wool Levy Poll) Regulations 2003***
- ***AWI Constitution”¹***

Adherence to relevant legislation and the company constitution are basic corporate requirements and are not over and above the legal requirements for non-statutory public companies.

The introduction of this review’s Terms of Reference state that: *“While Australian Wool Innovation Ltd (AWI) is a registered Australian public company it is required to meet accountability and reporting requirements above those of an equivalent, medium-sized company operating in the open market due to the nature of its business and funding model.”*

The accountability for AWI is not above standard public companies and this must change.

Whilst Australian tax payers are contributing to AWI, and woolgrowers are paying a compulsory levy to AWI, their governance must be completely transparent.

A unique and critically important aspect of AWI as a company, is that shareholders of AWI cannot trade their shares in this company – they are compulsory shareholders. This fact alone must afford woolgrowers greater accountability and transparency from AWI - anything less is unacceptable. AWI cannot claim that this is their current method of operation.

Under Section 14, Corporate Governance, the following clauses apply:

14.1 *AWI must maintain, implement and regularly review a framework of good corporate*

¹ AWI Oversight Infographic

governance practice to ensure proper use and management of the Funds, which should draw on better practice guides, including guidelines provided by the Commonwealth and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Third Edition) (2014).

14.2 The framework under clause 14.1 must include a governance policy which includes a clear statement of AWI's commitment to effective governance and cover:

- (a) Board charter;
- (b) matters reserved for the Board;
- (c) Board delegations of authority;
- (d) charter of the Audit Committee and Nomination Committee;
- (e) Board appointments, composition (including requirements for diversity and a number of Independent Directors) renewal and succession planning; and
- (f) code of conduct for Directors and senior management.

Whilst AWI has developed these policies, which are publicly available, there is a problem with the way that they are enacted.

AWI has a *Code of Conduct and Business Ethics*, which is promoted as a document '*to ensure that high ethical standards and practices are adopted across its business, and that a strong culture of respect, integrity, and fair dealing is promoted within its organisation.*'

There are numerous examples where the culture of respect and fair dealing is questionable. This includes not returning phone calls, ignoring email requests, not providing relevant information, and on occasion belligerent behaviour. This does nothing for the cohesion of the industry or for woolgrowers.

In 2017 an internal review was conducted by members of the AWI Board following two high profile, unsavoury incidents. The first involved the Chair covertly spying on a group of woolgrowers and the second the Chair being recorded swearing at a journalist.

The results of this internal review were announced at the 2017 AGM with the other directors of the board finding that there was 'no material breach of the *Code of Conduct and Business Ethics*.'

Under questioning in the October, 2017 Senate Estimates the Chair himself admitted that he had breached the code of practice:

'Senator McKENZIE: Did you breach your own code of practice?

Mr Merriman: In that instance, by taking offence at a journalist, yes.'²

The findings from this 'internal review' contradicts the following clauses of the *Code of Conduct and Business Ethics*:

4.4 As part of the implementation of its guiding values, AWI expects AWI people to:

- (f) treat all other AWI People and other persons with whom they have dealings in performing work for or on behalf of AWI, with courtesy and respect;

² Official Committee Hansard SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE Estimates, 24 OCTOBER 2017, page 45

And;

12.1 'AWI People must not directly or indirectly, engage in any of the following conduct:

(e) act in a manner which in any way damages, or may damage, the standing of AWI'

If the Chairman's behaviour was deemed not to have breached the *Code of Conduct and Business Ethics*, the code is inadequate, or alternatively if the other directors of AWI who conducted the internal review and deemed that there was no breach, are clearly complicit in this behaviour, which reflects very poorly on the entire board and the culture in which it operates.

This issue is compounded by the fact that WPA has been advised by the DAWR that there is no role for the Department or Minister to enforce issues like these, further proving that the SFA is meaningless.

c. meeting the planned outcomes and targets of its strategic plan

It is hard for WPA to comment on AWI's performance in meeting the outcomes and targets of its strategic plan given that we are not privy to progress reports on their monitoring and evaluation activities. WPA usually relies on the triennial Review of Performance to monitor these activities.

The 'Measuring Performance' section of the AWI website³ only contains reviews on programs dated 2014 and earlier.

WPA expressed concerns on the findings of the 2015 AWI Review of Performance conducted by Deloitte and some of the metrics and methodologies used in concluding the findings. WPA's critique of the 2015 Review of Performance can be found at Attachment C.

Further to that, WPA made a number of recommendations during the development of the 2016-19 AWI Strategic Plan, however with the exception of acknowledging WPA's role as the signatory on behalf of the Australian wool industry to the Emergency Animal Disease Agreement (EADRA), these were not incorporated into the final plan. WPA's feedback into the development of the AWI 2016-19 Strategic Plan can be found at Attachment D.

What WPA can comment on is our perception of how AWI are tracking on their targets in an anecdotal manner in the following areas:

(i) 4.4 Sheep Production

Outcome:

- ***Widely utilising pre-operative pain relief for invasive procedures, or welfare enhanced alternative procedures.***

SHEEP HEALTH AND WELFARE TARGETS

1. Pre-operative pain relief available for routine surgical procedures.

2. Breech modification alternatives commercialised.

There is currently no way of identifying that any pain relief is used within the wool industry is pre-operative. WPA strongly believes that it is unhelpful for the industry RDC to be distinguishing at this point in time, pre or post-operative pain relief.

³ <https://www.wool.com/about-awi/how-we-consult/measuring-performance/?id=5100>

There have also been no breech modification alternatives commercialised.

(ii) **4.5 Woolgrower Services**

Outcomes:

- **More highly trained shearers and wool handlers.**
- **AWI is recognised as an organisation that has effective consultation processes with woolgrowers and stakeholders.**

WOOL HARVESTING & QUALITY PREPARATION TARGET

1. Increase shed productivity by, on average, four sheep per day by 2019 across the whole industry.

WPA sought that quantifiable targets for retention of people that undertake AWI shearer and shedhand training, as there were queries raised from the figures reported in the 2015 Review of Performance.

WPA could not understand how in the 2013/14-15/16 AWI Strategic Plan, Target 2 under the Wool harvesting and Quality Preparation Strategy aimed to:

'Increase shed productivity by, on average, four sheep per run by 2017 across shearing contractors',

But the 2012-15 AWI Review of Performance, under the Quantifiable Benefits Section stated:

Benefits are realised from the increase in productivity (increase of 1 sheep per shearer per day) (without sacrificing shorn wool quality), resulting in a reduced number of runs per property and consequent reduction in shed costs.'

The different metrics used in the ROP analysis makes it extremely hard to measure actual performance, and WPA believed that the benefits extolled by Deloitte regarding this issue are not justified.

There is also much evidence to suggest that the wool industry is currently critically short of shearers.

WOOLGROWER CONSULTATION TARGETS

1. Provide multiple channels for shareholders to access and consult AWI directly, in person at specific and industry events or digitally.

2. A greater awareness amongst shareholders of the ongoing research, development and marketing projects conducted by AWI for the wool industry.

3. Provide a more customised flow of information to and from shareholders, delivered regularly and digitally through Beyond the Bale quarterly and newsletters monthly.

4. Create the most valued market intelligence in the wool industry.

5. Continue to provide strong and recognised support for more than 50 wool industry events nationwide.

These targets described are extension and communication activities – not consultation. There continues to be a lack of genuine consultation activities conducted by AWI.

d. delivering benefits to woolgrowers and, where appropriate, the community in general (including the achieved value for money and return on investment and the contribution of its investments to increasing farm-gate returns)

WPA acknowledges that AWI delivers benefits to woolgrowers in a range of areas.

The annual call for proposals by AWI is a welcomed initiative, as it should enable consideration of projects from across all sectors of the industry on a range of issues.

However, this process lacks any type of transparency in terms of what is ultimately funded versus what is not. Many industry organisations and applicants express frustration over this process.

An example of this is the WPA initiative of the National Wild Dog Action Plan (NWDAP) which commenced in 2012. The NWDAP was developed in recognition of the need for a coordinated national perspective to replace the piecemeal approach to wild dog mitigation across various livestock industries and researchers. . The NWDAP was supported by all levels of government and all affected livestock bodies – except AWI.

This makes no sense given that wild dogs are a key priority of the wool industry and AWI contribute to many wild dog mitigation activities and programs. No relevant explanation was ever provided by AWI other than a statement that explained their level of financial commitment to the wild dog issue.

Whilst Meat and Livestock Australia (MLA) supported the NWDAP, concern was expressed by them over the missed opportunity for leveraged R&D due to AWI's lack of support.⁴

e. engaging, consulting, and communicating with stakeholders, including the opportunities for levy payers and industry representative bodies regarding the investment of levies

Currently, the relationship between growers and AWI is completely informal and there is no obligation of the industry RDC to act on advice from industry.

A new feature of the current SFA is the development of a Consultation Plan.

30.5 The consultation plan must be discussed with woolgrower Industry Representative Bodies and agreed by the Commonwealth before consultation on development or variation of the Strategic Plan commences.

During the development of the current Strategic Plan, AWI acknowledged that they communicate and engage with industry adequately but needed to improve their consultation. A consultation plan was developed under the 2016 SFA, however WPA does not believe that there has been a discernible improvement in meaningful consultation since.

WPA sought a copy of the Consultation Plan from the Department in 2017, however this was never received.

Under the SFA:

28.2 AWI must meet with woolgrowers Industry Representative Bodies at not more than six-monthly intervals to:

(a) review industry priorities for Research and Development and Marketing investments, including any regional equity considerations; and

⁴ Email to WoolProducers - 13 May, 2014

(b) report on A WI's performance against the Strategic Plan and the Annual Operational Plan

The Industry Consultative Committee (ICC) is highlighted as a chief point of consultation with industry groups. While the premise of the ICC aims to enhance industry consultation, the conduct of these meetings does not necessarily mean that it is the most conducive forum for effective consultation.

ICC meetings consist of the leaders of grower groups and other representatives by invitation of AWI, attending a forum three times per year to discuss current industry issues. This is viewed by AWI the main ways grower representative bodies have an opportunity to feed into the decisions AWI make on RDE&M. It is an informal meeting where presentations are made and opinions put forward.

In reality all decisions on how AWI spend grower levies are ultimately made by the AWI Board. There is no process or mechanism to enable any grower or industry representative body to decisively and transparently influence AWI on levy spend or ask AWI to account for levy-related decisions until after these decisions have been announced.

While the call for agenda items is welcomed and utilised by WPA, it does not mean that the answers to queries are always adequate.

There have been examples in the past where the ICC has been used as a forum to attack WPA by other members, allowed by the Chair – clearly this is outside of the Terms of Reference of the ICC.

The provision of a Record of Meeting (ROM) from the ICC meetings reinstituted in 2015 is an improvement, however the ROMs are vague and often does not accurately reflect discussions within the meeting.

AWI must be far more accountable and public regarding Board decisions on significant levy expenditure, including the cessation of funding of certain programs. There are numerous examples where large amounts of grower and tax payer dollars are expended or alternately ceased without any timely explanation by the AWI board. These examples include: The Wool Exchange Portal (now WoolQ), when there was no market failure, the SheepCRC, footrot research and Sheep Genetics Australia.

There appears to be a strong culture amongst the AWI board, that the money they are expending is 'theirs'. This is clearly not the case, and there must be better justification of board decisions back to shareholders.

f. monitoring and evaluation of investments (including whether its current framework is adequate and links to its current strategic plan)

See TOR 1c response.

g. cross-RDC collaboration.

Again, it is hard for WPA to comment on this given that we are not privy to this type of information from AWI.

However, Meat and Livestock Australia (MLA) were quite vocal in their frustration with dealing with AWI in 2017.⁵

⁵ <https://www.queenslandcountrylife.com.au/story/4801925/awi-chair-fails-knock-out-blow-of-mla->

TOR 1 Recommendations

- A. The current 2016-2020 SFA must be reviewed and rewritten to make it a meaningful document, including, but not limited to:
 - 1. The establishment of a formalised role between AWI and WPA, through a Memorandum of Understanding (MoU) or other like mechanism, as is currently the case with the red meat RDC, Meat and Livestock Australia, and its prescribed industry representative bodies
 - 2. More stringent criteria for agri-political activities and safeguards against AWI breaching these criteria
 - 3. More robust criteria around industry consultation
- B. The new SFA should be in-force by 1 July, 2019 to realign this document with the current AWI Business Cycle
- C. There must be strong enforcement by the government to ensure the relevance of the SFA
- D. There must be clear guidance as to what constitutes a breach of the SFA and what action/government intervention will occur in the event of a breach
- E. There must be clear and transparent monitoring and evaluation metrics and mechanisms used regarding the performance of AWI in meeting the targets and outcomes of their Strategic Plan
- F. An industry consultation plan developed and agreed to by industry
- G. Reform to the Industry Consultative Committee (ICC) to make it independent of AWI, with AWI being accountable to the ICC

2. Consider AWI's effectiveness in addressing and implementing the recommendations from the 2012-2015 performance review.

	Recommendations	WPAs Response
Strategic benefits	<ol style="list-style-type: none"> 1. A strategic benefits framework should be developed and applied to fully demonstrate and capture the value add and synergies that are being achieved for woolgrowers across Programs and from investments made by others as a result of AWI's efforts. 2. Communication of strategic benefits should be included in future consultation plans (such as for the development of the Strategic Plan) and in extension sessions so as to help all woolgrowers fully understand AWI's efforts on their behalf. 	<ol style="list-style-type: none"> 1. WPA is unaware if there has been a strategic benefits framework developed 2. WPA has not seen a consultation plan. This was requested from DARW in 2017 and not received
Governance	<ol style="list-style-type: none"> 3. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to evolve to a full skills matrix which be instilled in the Board Charter, reviewed annually, and used in the Nominations Process. This would Matrix would evolve and improve the current documentation in time to inform the 2017 Director elections process. 4. The AWI Board should work with the AWI Independent Governance Advisor over the course of the next Review period to formalise a revised Governance Policy. The Policy will specifically address how the Board intends to manage any Conflicts of Interest. The Policy should incorporate, as Appendices, the AWI Board Charter and all other documentation relating to governance and Board procedure. This will create one single source of governance documentation, and support and amplify the Constitution. 5. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to formalise succession planning for the Board and key executive functions. 	<ol style="list-style-type: none"> 3. WPA is unsure if an Independent Governance Advisor was engaged. It was announced at the 2017 AGM that directors and senior staff would undertake governance training after the internal review conducted on the Chair, however no further details have been made available 4. The Corporate Governance Policy was updated on 22 June 2017, however the policy does not incorporate the Conflicts of Interest policy – this is found in the Code of Conduct and Business Ethics. There is not a single document that collates all of the governance documentation and Board procedures. 5. WPA is unaware if this has occurred

Operations	<p>6. The role of the CEO should be supplemented by a COO or CoS to enable the CEO to optimise their focus on impact and benefit for woolgrowers.</p> <p>7. The AWI Board should work with the Independent Governance Advisor to formalise within 12 months an all-encompassing Deed of Delegation to the CEO (using the Carver model or similar) and supported by formalised role specific Deeds of Delegation to all Executives.</p> <p>8. To ensure the process for measurement and evaluation is sustainably embedded into the organisation, the AWI CEO should formalise a single policy document within 12 months which documents:</p> <ul style="list-style-type: none"> • whole of business requirements, • processes, • standards, • criterion for implementing and reviewing of the program, and • project measurement and evaluation, including the three year cycle for CBAs. 	<p>6. WPA is unaware of such a position being developed</p> <p>7. WPA is unaware if this has occurred</p> <p>8. The only publicly available document relating to measurement and evaluation is a framework document developed in 2011.</p>
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Outside of the recommendations from the 2015 Review of Performance, WPA would like to make comment on the methodology of the Review of Performance.

The Terms of Reference and proposed methodology agreed to for the 2015 review provided an adequate scope. However further refinement of the conduct of this review would have provided a more robust approach, particularly in the area of woolgrower consultation given that they are the major provider of income for AWI, at the time contributing just over 65% of the companies' revenue.

There were just 48 stakeholders interviewed for this Review with less than half of these being actual wool growers. This is quite a low figure given that at May 2015 there were 23,786 registered AWI shareholders.

Of the woolgrowers/levy payers, 13 of these were nominated by AWI to take part in this Review (6 of these being Stud Merino Breeders), with the remaining 12 woolgrowers being representatives on the Industry Consultative Committee and the WoolPoll Panel.

Whilst acknowledging that there has to be a process by which to select woolgrowers to participate in the Review, a more transparent process would be to seek submissions from the whole wool growing sector.

The development of the Review was managed through a Project Steering Committee (PSC), which comprised of representatives from AWI and Deloitte. The PSC met on a weekly basis to ensure that the Review was tracking to plan, the information needed was provided and to also provide Deloitte with a better understanding of information and environmental complexities.

The addition of an independent Chair would provide more confidence in this process and the Review outcomes.

TOR 2 Recommendations

H. The methodology for future AWI Review of Performance to include:

1. The appointment by industry, of an independent Chair, who possesses the appropriate skill-set, to facilitate the Project Steering Committee
2. Seek submissions from the whole wool growing sector into the ROP

Additional Matters

3. Consider whether AWI's corporate governance framework (including the Board Charter and the charters, codes of conduct and policies approved by the Board under its charter):

a. is appropriate for a company of its type

Whilst AWI may have a number of corporate governance documents, policies and procedures, as outlined in TOR 1.b there are problems with the execution and enforcement of AWI's corporate governance framework.

Further to the example provided in TOR 1.b, another incident whereby the governance of AWI was found to be lacking, was the board's response to the Chairman being caught covertly watching a genetics focus group.

The details of this unfortunate event were well documented at the time, and while the Chair's response was severely inadequate for such an unethical act, the conduct of the remaining directors was never brought into question.

The silence from the other directors at the time, followed by the results of the farcical internal review demonstrate at best, a tolerance for objectionable behaviour from the Chair, and at worst a failure of a key director duty of '*acting in good faith and in the best interests of the company*'. Again, this behaviour indicates a less than adequate culture.

b. is effective, transparent and accountable

Senate Estimates is quite often the only forum whereby AWI reveals company information that would otherwise not be available to woolgrowers or woolgrower representative bodies, even if requested. As shareholders that cannot sell their shares if they are unhappy with the direction of the company and who also have virtually no say in the direction as individuals – this is not good enough.

WPA at times, questions the accuracy of some of the information provided in these Senate Committee hearings, as evidenced in Attachment E. This document was sent to Senators on 20 March, 2017 raising our concerns with the statements made by AWI. AWI sent a 'letter of correction to evidence'⁶ to the Senate Rural & Regional Affairs and Transport Legislation Committee on 23 March, 2017.

c. has appropriately drawn upon the ASX Governance Principles (or other relevant better practice guides) when applicable to AWI

⁶ https://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/rtratctte/estimates/add1617/ag/index

WPA believes that AWI could improve on the following ASX Governance Principles, as outlined throughout this submission:

- Principle 3: Act ethically and responsibly – see TORs 1.b, 3.a, 3.e
 - Principle 5: Make timely and balanced disclosure – see TOR 3.b
 - Principle 6: Respect the rights of security holders – see TORs 6, 3.a, 3.e
 - Principle 8: Remunerate fairly and responsibly – see TOR 7
- d. is appropriately documented and provides adequate guidance for company officers to effectively implement governance requirements (such as in avoiding and managing conflicts of interest and addressing potential breaches of the code of conduct)**

Again, AWI has documented their procedures and policies, however is clearly let down in the lack of implementation.

e. has been appropriately implemented

No, see TORs 1.b and 3.a.

Further to the examples detailed in TOR 1.b and 3.a, another example regards AWI's Conflict of Interests Policy, which is as follows:

4. Conflicts Rule under Corporations Act and this Policy

3.1 A Director must not place himself or herself in a position where there is an actual, perceived or potential conflict between his or her personal or business interests, the interests of any related entity or person or duties to any other company on the one hand, and the interests of AWI or his or her duties to AWI, on the other hand.

Or the Conflict of Interest Policy reinforced in the Code of Conduct and Business Ethics:

10. Conflicts of interest

10.1 AWI People are expected to act at all times in AWI's best interests and to exercise sound judgment unclouded by personal interests or divided loyalties.

It was reported that in 2011, the Chair used his casting vote in a split board to cease AWI funding significant industry genetic research,⁷ namely the Information Nucleus Flock.

Mr Merriman is on record as saying '*science couldn't teach Australian growers much new about breeding better Merino sheep, in fact he believed too much reliance on genetic tools such as ASBVs (Australian Sheep Breeding Values) to achieve objectives such as developing bigger, plainer and quicker maturing finewool Merinos to cash in on wool and sheepmeat markets had the potential to backfire.*'⁸

The perception at the time, and which has continued to persist, is that Mr Merriman favours subjective appraisal rather than objective measurement due to him being Managing Director of Merryville Stud – a traditional, finewool stud.

⁷ <http://www.theaustralian.com.au/news/nation/woolgrowers-accused-of-fleeing-gene-research/news-story/f99ad1f89ac4bf65cbbf6e073e0e3a1c>

⁸ <http://www.farmonline.com.au/story/3607588/focus-wool-dollars-on-china-merriman/>

From the Questions on Notice responses from the October, 2017 during Senate Estimates hearing, it was revealed that Mr Merriman has absented himself only once to avoid a conflict or perceived conflict during his term as an AWI Director.⁹

f. provides for an appropriate definition of independent director and has effective procedures for determining the independence of directors

Clause 3.2.2 of the AWI Board Charter provides criteria for the definition of an independent director.

The current definition could be further enhanced with the addition of guidance regarding the independence or otherwise of nominees seeking election to the AWI Board.

During the 2017 Director elections, Will Wilson, was successful in meeting the criteria to run as a candidate for the Board. At the time of nomination, Mr Wilson was contracted to AWI as the Wool Exchange Portal (WEP) Working Group Chair. Mr Wilson was also able to gather 100 woolgrower signatures to run for the AWI Board Elections. Mr Wilson seeking election was not declared to the entire AWI Board or the Wool Exchange Working Group.

Mr Wilson is quoted as saying that he will run as independent director:

‘Board nominees have questioned whether Mr Wilson was campaigning for the required 100 shareholder signatures to be eligible to stand while working as the WEP chair, as well as whether a conflict, or potential conflict, was declared when working with the AWI board.

“I will be running as an independent director,” Mr Wilson said.¹⁰

This was in clear breach of the AWI Board Charter, Clause 3.2.2:

(c) considered by the Board to be independent by reference to the following criteria:

(iii) has not, within the immediately preceding three years:

- (A) Been employed in an executive capacity by the Company or a member of the Company group;*
- (B) Been a principal of a material professional advisor or a material consultant to the Company or a member of the company group, or an employee of such an advisor or consultant and materially associated with the service provided*

TOR 3 Recommendations

- I. AWI must be more transparent and accountable to shareholders
- J. There must be a strengthening of corporate governance practices by AWI to better reflect the semi-statutory nature of the organisation
- K. There must be a complete overhaul of AWI’s corporate governance policies and procedures, including conflict of interest, business ethics, code of conduct, independence

⁹ QoN no. 34, SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE Estimates, 24 OCTOBER 2017

¹⁰ <http://www.theland.com.au/story/4974160/wilsons-bid-for-awi-board-under-cloud/?cs=4941>

- L. A transparent mechanism must be instituted that demonstrates adherence to these policies and procedures by AWI board and staff
- M. A transparent mechanism for shareholders to monitor the effectiveness of governance procedures must be implemented.

4. In considering AWI Corporate Governance Framework, (term of reference 3), specifically consider whether AWI's Constitution:

a. is appropriate for a company of its type

There must be provision within the AWI Constitution to enable levy payers/shareholders more opportunity to direct the company.

Whilst the current constitution may well be similar to other public company constitutions, it does not reflect the fact that shareholders of AWI are in that position due to the compulsory nature of the levy. Unlike other public companies, shareholders of AWI cannot trade their shares if they are unhappy with the direction of the company. There is not enough recognition of the semi-statutory nature of AWI.

The structure of the wool industry provides the AWI board with too much power of a compulsory tax, with inadequate checks and balances in place. Whilst acknowledging that the AWI board is directly voted by shareholders, the director election process is far from accountable and transparent, as detailed in TORs 4.c and 6.

In order for shareholders to direct the company, AWI state that there are two main mechanisms:

1. The biennial Director elections
2. The triennial vote on WoolPoll

Again, this is simply not enough input for compulsory shareholders to have in directing AWI, particularly when these two processes are heavily influenced by the board. Whilst understanding that registered levy payers are the ones that vote for the directors to represent them, the reality is there are currently seven directors that have far too much control over the expenditure of the levy.

The current process of director elections, occurring every two years as stated under Clause 13.3:

Retirement and Election of Directors

(a) At every annual general meeting held in a Rotation Year, one-third of the Directors (other than a Managing Director under Rule 14.2), or if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third, must retire from office.

(b) Despite any other provision of this Constitution, a Director (other than a Managing Director under Rule 14.2) must retire from office at the conclusion of the annual general meeting held in the third Rotation Year after the Director was elected or re-elected. Any Director who retires at a meeting (whether under this Rule or otherwise) and seeks re-election at the meeting retains office until the earliest to occur of re-election and the conclusion of the meeting.

This means that a director can sit on the Board and not face election for a period of up to six years. Six years is far too long for a director to remain with no recourse from shareholders and is completely inconsistent with modern governance trends.

There is also no provision for the length of time a director or Chair can remain on the board. This needs to be addressed within the constitution and the introduction of capped terms, in line with good

governance principles.

Further to that AWI state that woolgrowers set the ultimate direction of the company by voting in WoolPoll. AWI have in the past been quoted as saying that if growers don't like the direction of the company, they can vote 0%. This is reflective of the arrogance amongst the board of AWI, in putting growers in the position of using the levy as a key performance indicator for the board's conduct – which are two very distinct issues.

Whilst very supportive of the process that allows wool growers to vote on such an important decision, WPA questions the transparency and legitimacy of the process.

For example, WoolPoll 2015, was conducted in accordance with *Wool Services Privatisation (Wool Levy Poll) Regulations 2003 (Poll regulations)*. The WoolPoll Panel was claimed by AWI as being independent from AWI and selected from representative groups across the industry, who were charged with oversighting the operations of the Poll, as per the regulations.

WPA now views this process as a waste of time and grower dollars given that the AWI board can veto the Panel's recommendation and retains ultimate control of the levy options put to woolgrowers. This was demonstrated in 2015 by the omission of 1.5% levy option, which was agreed to by the Panel only to have it ruled out by the AWI board – who again went with the same five options as the previous three WoolPolls.

These two processes demonstrate the absolute power of the board whilst also highlighting the lack of ability woolgrowers have in setting the direction of their levy funded body, which is far from acceptable.

Further to that, in order to demand a poll, at the company's AGM, shareholders are provided the same entitlements as any other public company under Clause 11.7(e). (S250L of the Corporations Act, 2001). Provision needs to be made to make it easier for shareholders to call for a poll.

b. appropriately covers the company's current activities

WPA believes the AWI constitution must be amended in order to ensure the operations of the company are as transparent and accountable to shareholders as possible. See above TOR.

c. in conjunction with the SFA - supports the selection of a skills-based board with skills relevant to undertaking its roles and functions for the benefit of woolgrowers.

The AWI constitution makes no reference for the provision of a skills-based board.

Whilst there is a requirement under the SFA (clause 14.3) for the AWI Board to demonstrate expertise in a number of areas, the current framework for the nomination process does not ensure that nominees possess these skills as there are not explicit criteria.

Whilst the Board Nomination Committee (BNC) report states whether candidates meet the criteria, it offers no insight into what the candidates skills are and how they meet the criteria.

Given AWI has been unable to provide evidence of a transparent process for appointing candidates to the BNC, the whole nominations process can justifiably be regarded as an exercise in cronyism.

TOR 4 Recommendations

- N. The AWI constitution must be reviewed to ensure that the company is as transparent and accountable to shareholders as possible

- O. Review of other relevant organisations' constitutions should be conducted in order to provide guidance on appropriate governance models
- P. A new process for board nominations must be implemented to ensure a truly skills-based board is in place

5. Consider whether the replaceable rules in the Corporations Act 2001 should apply under the AWI Constitution

Given the nature of the company and the fact that shareholdings are of a compulsory nature, AWI must operate in the most transparent and accountable manner possible and engage governance standards higher than a 'normal' public company.

Replaceable rules should not apply if they diminish the transparency and accountability to shareholders.

6. Consider whether AWI's handling of proxies and reporting of proxies, and the manner in which board nomination committee members are selected is appropriate for a company of its type (as outlined above) and sufficiently transparent.

The Chairman of the board receives enormous amounts of proxy votes at AGMs. While it is not unusual for other public companies it is common practice that the Chair states in advance where they will be casting undirected proxies.

The requirement to do so is a 'replaceable rule' within the *Corporations Act* and AWI have chosen to replace this rule to remove this obligation.

The 2011 AGM was the last time that the Chairman informed shareholders how those proxies would be cast. From 2011 Notice of AGM:

'Chairman's intentions for voting undirected proxies

In the interests of transparency and to provide eligible voting shareholders with all the information they may require to make an informed decision, the Chairman announces that it is his intention to vote undirected proxies in the following manner:

*"FOR" the election of Ms Colette Garnsey and Messrs Brian van Rooyen and David Webster."*¹¹

The Chairman has not declared how he has cast undirected proxies since.

This is despite during the highly political 2017 AWI director election process, the Chairman personally writing to shareholders suggesting who they should vote for. This was an extraordinary step, in what can only be perceived as lobbying shareholders on how to vote. WPA believes this is an inappropriate course of action for the Chair to take, as this clearly shows a lack of independence to the entire board election process.

The entire conduct of the 2017 election reflected poorly on the board of AWI and the organisation as a whole. Despite processes and policies in place, the AWI director elections are nothing more than a popularity contest and as currently executed, does not adequately fulfil the requirements for convening a skills-based board.

¹¹ <https://www.wool.com/globalassets/start/about-awi/shareholder-information/annual-general-meetings/aggm-2011/awi-nom-2011-final-web.pdf>

As a company charged with expenditure of a compulsory levy, it is incumbent on AWI to be as transparent as possible.

AWI's repeated statements that they comply with the *Corporations Act*, ASX Good Governance Principles, their Constitution and the SFA, to demonstrate their governance credentials, is not really a valid argument as these should be viewed a 'bare minimum' requirements.

Under the terms of the Statutory Funding Agreement, AWI established the BNC in 2011. It is required to convene a BNC in each director election year. The nominations committee require two current directors and three independent members.

Regarding the board nomination process, under the SFA;

14.4 *The Nomination Committee and the Audit Committee must each comprise a majority of Independent Directors.*

The Charter for the Board Nomination Committee (BNC) states that:

2.2 *The Board Nomination Committee is to consist of five (5) persons appointed by the Board fulfilling the following criteria:*

(a) *Two (2) independent non-executive Directors of the Company; and*

(b) *Three (3) persons who are not Directors of the Company.*

There are no set criteria for the selection of the three persons who are not Directors of the Company, but there is a requirement that these three are independent of the company, however this independence is not explicit or defined.

Under questioning at the October, 2017 Senate Estimates, AWI were unable to satisfactorily answer how the composition of BNCs have been determined previously. This has still not been clarified.

There is a clear theme, starting from the initiation of the requirement to convene a BNC in 2011, whereby the non-directors of the BNC, often seek nomination for the AWI Board at a later date, or in the case of one Committee member who was previously a director of AWI that stood down from the Board two years prior.

For example, the composition for the BNCs since they have been a requirement are as follows:

Year	Committee Members
2011	Mr Jock Laurie* (President of the National Farmers' Federation and Committee Chairman), Colin Bell (Executive Chairman of Bell Financial Group Limited) and William Wilson** (General Manager Sales & Marketing, Australian Securities Exchange).
2013	Mr Jock Laurie (former President of the National Farmers' Federation), Committee Chairman Mr Ian Armstrong (former Deputy Premier of NSW & former leader National Party in NSW) Mr William Wilson (Independent investor relations adviser)
2015	Mr Ian Armstrong (former Deputy Premier of NSW & former leader National Party in NSW), Committee Chairman Mr Rob Ashby (past President of the World Federation of Merino Breeders) Mr William Wilson (past General Manager Sales & Marketing, ASX)

2017	Mr Brian van Rooyen*** (former AWI director) Committee Chairman Mr Rob Ashby (past President of the World Federation of Merino Breeders) The Hon. Katrina Hodgkinson (MLA NSW 1999 – 2017; former Primary Industries minister)
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* Current board member

** AWI contractor and 2017 AWI director candidate

*** Former AWI Director, stood down in 2015

This process lacks integrity and leaves itself open to accusations of cronyism.

TOR 6 Recommendations

Q. A new system for AWI director elections must be implemented, including but not limited to:

1. An appropriate board nomination process, including provision for a truly independent committee to oversee the process, including the skills of the nominees and how they complement the existing board skill set
2. Ability for the incumbent directors to face election on a higher rotation i.e. half the board to face renomination every two years
3. Transparency in the Chairman's proxy allocation

R. Depoliticising the election process, including the prohibition of sitting and renominating directors to engage in electioneering

7. Consider whether AWI's employment practices are appropriate, including whether the:

a. engagement of former staff as contractors is undertaken appropriately for a company of its type

WPA are not sure how contractors are engaged, however believes that when contractors need to be engaged to conduct work on behalf of the company, due process should be followed to ensure that the best person with the appropriate skill set is engaged.

In terms of former staff being contracted, it would be expected that expressions of interest or tenders would be sought from a range of consultants and a fully transparent and robust process followed, to avoid accusations of favouritism or preferential treatment to any one consultant.

b. redundancy benefits and policies are appropriate for a company of its type

In the February 2017 Senate Estimates, AWI reported that ex gratia payments made to former staff were well above both the National Employment Standards and the Australian Public Service. These payments were additional to the obligatory accrued leave and notice periods required.

It was further revealed that a total of \$170,874.13 was paid between two former employees as ex gratia payments.

The reasons provided by AWI for these extreme additional payments were:

'...Several factors were considered including:

a. Ability to get another job

b. Age

c. Personal circumstances

d. Time served with the company – Employee A - 11 years, Employee B - 5 years as employee and 6 years as a consultant

e. Contribution to the company and thereby to woolgrowers

*f. Avoidance of litigation*¹²

This is an outrageous expenditure of woolgrower and tax payer money. The company's reporting did not make these figures apparent and would have remained hidden from shareholders if they were not revealed in Senate Estimates.

AWI Company Redundancy Policy:

AWI's redundancy policy is 4 weeks' pay per year of continuous service, and pro rata calculated on partial years of service, with a minimum severance payment of 4 weeks' pay.

The total of NES and AWI company severance payments are capped at 20 weeks. For employees who are retrenched AWI provides;

- *Redundancy severance – four weeks' salary for each completed year of service, prorata calculated on partial years of service up to a maximum of 20 weeks (excluding grand-fathered agreements for long term staff)*
- *Payment in lieu of notice – 3 months for senior staff*
- *Other entitlements (including statutory requirements) also include; untaken annual leave, accrued long service leave and ex gratia payment on a case-by-case basis.*

c. executive level remuneration is appropriate for a company of its type

Obviously WPA supports fair remuneration for all employees and board directors of AWI and cannot comment on the appropriateness or otherwise of what the Executives of AWI are being paid.

However, there was a recent comparison of RDC remuneration which revealed:

'The top board wages reported were paid to seven Australian Wool Innovation (AWI) board members, who split a combined \$672,298 in committee fees across seven directors.

AWI disclosed its 10 executives average a reportable salary of \$220,000, although was buoyed by the inclusion of chief executive Stuart McCullough's salary.

*In a Senate estimates hearing in October, it was revealed Mr McCullough was paid \$423,000 for managing the industry group's annual revenue, which was nearly \$75 million in 2016-17.'*¹³

¹² QoN 28, SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE Estimates, 24 OCTOBER 2017

https://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/rratctte/estimates/add1617/ag/index

¹³ <https://www.farmonline.com.au/story/5138397/whats-an-rdc-boss-earning/>

ENDS

Attachment A

WoolProducers letter to Minister Joyce, 22 December, 2016

The Hon. Barnaby Joyce
PO Box 6022
Parliament House
Canberra ACT 2600

Via email: minister@maff.gov.au

Thursday, 22 December, 2016

Dear Minister Joyce

RE: Australian Wool Innovation

The International Wool Textile Organisation (IWTO) recently held a Round Table in Biella, Italy that included a number of Working Groups which are convened to determine and oversight global wool industry standards across various facets of the supply chain.

There were a number of Australian wool industry groups in attendance including WoolProducers, the Federation of Australian Wool Organisations (FAWO), the Australian Wool Exchange (AWEX), Australian Wool Testing Authority (AWTA) and AWI.

WoolProducers Australia's sole reason for attending this Round Table was to participate in discussions surrounding animal welfare through the development of the IWTO Wool Specifications, due to increased unease from the global supply chain regarding the practice of mulesing.

Whilst in Biella, AWI CEO Stuart McCullough had a prearranged meeting with major Italian wool industry clients. No other Australian industry representatives were invited to this meeting.

It is believed that this meeting was convened solely to discuss mulesing and the Italians growing concern over this issue. It is known that that the use of pain relief was considered and that this resulted in a delegation of the Italian Wool Trade Association requesting to meet with Mark Grave (AWEX) to discuss this issue. Mark Grave and Richard Halliday spoke with the Italians the following day regarding the assumption that the Australian industry would be in a position to declare pain relief as either pre or post-operative.

As you would be aware any declaration made regarding mulesing for wool being sold is made via the National Wool Declaration (NWD), of which AWEX is the custodian as well as the audit system, the NWD Integrity Program. The NWD is currently nearing the end of a lengthy review including the future of Ceased Mulesing status.

While we are not clear of the exact discussions that took place, the inference made by Mr McCullough to the Italians that the addition of a pre or post operation pain relief declaration without

genuine and considered industry consultation is misleading and has placed the Australian industry in a difficult position.

Given that AWI failed to inform any other Australian wool industry representative either before or after this meeting of any discussions or expected outcomes, this places the entire Australian wool industry in an untenable position of having the industry Research and Development Corporation making unilateral decisions and commitments on behalf of the industry, which have ramifications for both policy determination and industry integrity systems – neither which are within AWI's remit.

This is a clear breach of AWI's Statutory Funding Agreement under the following clause:

13.1 AWI must not use Funds to:

(b) *act as an Industry Representative Body or provide information or an opinion which states or implies to stakeholders that AWI is an Industry Representative Body;*

This is not an isolated occurrence, in fact it is common practice for AWI to make representations on behalf of the Australian wool industry and as you are aware, was one of the major issues that WoolProducers sought to be rectified in the new Statutory Funding Agreement.

With the industry facing sustained pressure from our customers and reported loss of market share over the mulesing issue, we cannot afford to have AWI continue to act in isolation with no consultation with other key stakeholders, as this is not working in the best interests of Australian woolgrowers.

We urge you to intervene and ensure that AWI cooperates, consults and informs the rest of the Australian wool industry on all relevant issues to guarantee that the interests of growers and the wider industry are met.

Please do not hesitate to contact myself or the WoolProducers CEO, Jo Hall to discuss this issue further.

Yours sincerely



Richard Halliday

PRESIDENT

Attachment B

Minister Joyce response to WoolProducers



The Hon. Barnaby Joyce MP

**Deputy Prime Minister
Minister for Agriculture and Water Resources
Leader of The Nationals
Federal Member for New England**

Ref: MC17-000626

Mr Richard Halliday
President
WoolProducers Australia
Locked Bag 9
KINGSTON ACT 2604

21 MAR 2017

Via email: jhall@woolproducers.com.au

Dear Mr Halliday *Richard*

Thank you for your letter of 22 December 2016 regarding the International Wool Textile Organisation (IWTO) Wool Round Table in Biella, Italy. I regret the delay in responding.

It is pleasing to hear that a number of wool industry groups attended this round table and participated in discussions in a collegiate manner, constructive to the Australian wool industry. The IWTO Guidelines for Wool Sheep Welfare is a valuable document and I acknowledge the Australian industry contribution to developing its principles.

I well know that Europe is an important market for high quality Australian fine wool and I recognise that ensuring strong animal welfare practices is important for our wool producers and for the reputation of their product.

I note that AWI invests a considerable sum of wool grower levies into research and development to address breech flystrike and mulesing options for the benefit of wool growers. It is important the wool industry presents a united approach to animal welfare issues in making representations to our key markets on wool production practices. I encourage WoolProducers Australia to work with AWI and the broader industry on these important matters, and ensure that AWI, as the wool industry services organisation, is aware of the views of producers. The Government expects industry organisations to work together on matters such as these effectively and professionally to better the industry as a whole.

Thank you for bringing this matter to my attention.

Yours sincerely

Barnaby Joyce MP

Attachment C

WoolProducers AWI Review of Performance Submission - 2016

1. Background

WoolProducers Australia (WPA) agrees that Australian Wool Innovation (AWI) has performed well in many areas over the Review period of 2013 – 15, as outlined in the Review of Performance conducted by Deloitte.

The 2012-15 ROP provides a very complimentary report on AWI activities during this time. Eight recommendations were made by Deloitte, which fell into three categories of: Strategic benefits, Governance and Operations.

There are a number of areas that we would like to draw attention to, either to address anomalies or gain clarification.

WPA has provided this feedback at the request of the Deputy Prime Minister, through the Department of Agriculture and Water Resources, to help inform his consideration of the new AWI Statutory Funding Agreement.

2. Introduction

The Terms of Reference and proposed methodology agreed to for this review provide an adequate scope for this review, however further refinement of the conduct of this review would have provided a more robust approach, particularly in the area of wool grower consultation given that they are the major provider of income for AWI contributing to just over 65% of the companies' revenue.

2.2.1 Review Methodology

There were 48 stakeholders interviewed for this Review with less than half of these being actual wool growers.

This is quite a low figure given that at May 2015 there were 23,786 registered AWI shareholders.

Of the woolgrowers/levy payers 13 of these were nominated by AWI to take part in this Review (6 of these being Stud Merino Breeders), with the remaining 12 woolgrowers being representatives on the Industry Consultative Committee and the WoolPoll Panel.

Whilst acknowledging that there has to be a process by which to select woolgrowers to participate in the Review, a more transparent process would be to seek Expressions of Interests from the whole wool growing sector.

2.2.2 Project Governance

The development of the Review was managed through a Project Steering Committee, which comprised of representatives from AWI and Deloitte. The PSC met on a weekly basis to ensure that the Review was tracking to plan, the information needed was provided and to also provide Deloitte with a better understanding of information and environmental complexities.

Additional transparency would have been gained if representatives from other stakeholder groups i.e. the Department of Agriculture, an independent grower representative/s (having vast knowledge of industry or a representative from an industry representative body, also sat on the PSC.

It is not suggested that these additional representatives would had to have been involved on a weekly basis or for planning or provision of information but to provide alternative input and interpretation on information provided and the environmental complexities.

3. Operating context

Key Findings

One of the key finding in this area was:

‘There is a clear indirect link between AWI activities and an increase in wool prices. More specifically, AWI marketing and off-farm programs contribute to raising market demand for wool products, and therefore contribute to growing wool prices. The development and implementation of the AWI Strategic Plan, which outlines AWI’s commitment towards marketing and R&D programs, supports this growth.

While not suggesting that AWI activities are not aiming to assist in increasing wool prices, it is a grandiose statement to suggest that all increase returns to producers over the Review period is solely attributable to AWI activities.

3.1.4 Production and prices

The volume of shorn wool over the review period has decreased¹, while this decline in production has slowed, it is on-trend for the past two decades.

There is no acknowledgement in the Review that a reduction in supply has had any effect on price, while during a Strategic Plan Presentation provided by AWI to the WoolProducers Australia Board on 1 March, 2016, the following statement was made:

‘GVP (Gross Value Production) and EMI (Eastern Market Indicator) remain driven by volume supplied’.

Figure 7: The domestic price of wool as measured by the EMI price for clean wool measured in cents per kilogram Source: Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES)

The report makes the following statement, and refers to Figure 7 to support this claim:

‘There is a clear trend highlighted during the Review period within the Eastern Market Indicator (EMI) – the key wool price indicator – illustrating the increase in the price of wool from 800c to 1100c / kg over the period from 2010 to 2015 despite significant currency fluctuations.’

The reference to the time period between 2010 and 2015 is irrelevant, given that the Review period is 2013-15 this would have been the relevant time period to reference, however when

¹ Australian Wool Production Forecast Report, August 2013, 2014, 2015
<http://www.wool.com/market-intelligence/wool-production-forecasts/>

looking at Figure 7 between 2013-15, there is minimal increase in the price.

This inconsistent approach is further applied when the report then references the period of 'sustained growth in wool prices' coinciding with the growth of manufacturing and designers partnering in programs between 2012/13 to 2014/15.

The above Key Finding regarding the correlation between AWI activities and increased returns to growers is much less obvious when the actual Review timeframe is applied, i.e. the 2013 EMI in Figure 7 is over 1000c / kg.

3.2 Specific Challenges faced by AWI during the Review period

1. Meet the expectations and requirements of all woolgrowers

Acknowledging that this is a huge task given the diverse nature of production systems and individual enterprises where wool is produced, this sub-section of the report does not actually address how AWI are meeting the expectations and requirements of all woolgrowers.

While it could be argued that the continuation of the 2% levy in WoolPoll 2015 demonstrates that AWI are meeting grower expectations, it should be taken in the context that just over half (50.68%) of registered woolgrowers voted in the Poll – well down on the previous Poll in 2012 and of these 32% of returns wanted a levy of 2% or less.

4. Mitigate the growing impact of animal activist groups

AWI work effectively behind the scenes with the retail sector, however this is seldom explained to growers. The report emphasises '*the proactive approach to the downstream supply-chain*' – the same cannot be said for the 'upstream' supply-chain.

While understanding that this is a sensitive issue that often involves commercial-in-confidence information, there needs to be far greater information from AWI around the actual perceptions of retailers regarding animal welfare issues communicated back to woolgrowers.

An ongoing frustration of WPA's is that as the oversight body for the compulsory health and welfare levy administered by Animal Health Australia, we are often left to explain to growers and the general public how industry is handling an adverse animal welfare issue. The frustration comes from the fact that AWI have the resources and capability to deal with these issues, but will often use the fact that they cannot represent industry in these issues despite having knowledge which is not shared with WPA.

This frustration is further compounded when AWI continue to make statements, provide assurances and attend meetings, etc. in this area, that are not necessarily agri-political in nature, but do have policy ramifications for industry. WPA are not provided with any background information or offered any assistance by AWI, and are left to deal with the fallout.

Despite numerous approaches to work cohesively on this issue and determine an industry wide approach/strategy, AWI continue to act unilaterally. This is not working in the best

interests of industry, least of all wool growers. It also certainly fails the Code of Conduct and ‘woolgrower test’, detailed further in Section 6.1.

The ongoing industry issue regarding mulesing is a prime example of AWI not collaborating and working with the ‘upstream’ supply chain. While a useful message matrix has been developed by AWI outlining key messages on this issue, unfortunately it does not apply to every situation. Mulesing is one of the biggest threats to wool growing sustainability in terms of public perception and confidence, yet AWI have told WPA that we are the only people talking about this and making this an issue². The approach taken by AWI on this issue is confounding to say the least.

Meat and Livestock Australia (MLA) are able to, and do, provide support to their relevant peak industry bodies when adverse animal welfare issues arise. Teleconferences, provision of key messages, information exchange, nomination and agreement of single spokespeople, are all provided between that RDC and peak industry bodies in a proactive and collaborative approach. This is a common sense, industry focused approach that contrasts sharply with AWI’s stance in this area, although both RDCs would be bound by the same advocacy requirements.

WPA is quite often told by AWI to ‘say nothing’ when advice is sought on these issues. Again this approach does not assist wool growers, who want to know who is protecting their interests when their industry is attacked by animal rights campaigns.

Conversely an example of how things can (and should) work between AWI and WPA is the recent collaboration, along with shearing contractor representative groups, to develop the shared responsibilities poster regarding safety and animal welfare in shearing sheds. This collegiate approach saw outcomes delivered for industry.

The poster was the culmination of the four groups working together after identifying an issue at the WPA convened ‘Wool Industry Animal Welfare Workshop’ held in 2015, which was attended by all grower representative groups, contractor associations and AWI.

5. Wild dogs

AWI contributes greatly in the area of wild dogs to assist industry.

However another example of AWI acting unilaterally is the WPA initiative of the National Wild Dog Action Plan (NWDAP) which commenced in 2012. The NWDAP was developed in recognition of the piecemeal approach to wild dog mitigation across various livestock industries and researchers that needed to be addressed from a coordinated national perspective. The NWDAP was supported by all levels of Government and all affected livestock bodies – except AWI.

This makes no sense given that wild dogs are a key priority of the wool industry. No relevant explanation was ever provided by AWI other than a statement that explained their level of financial commitment to the wild dog issue.

Whilst MLA supported the NWDAP, concern was expressed by them over the missed opportunity for leveraged R&D due to AWI’s lack of support.³

Again AWI’s approach to NWDAP failed both the Code of Conduct and ‘woolgrower test’ that

² WPA Board teleconference with Stuart McCullough, 14 April, 2016

³ Email to WoolProducers - 13 May, 2014

is emphasised as being integral to AWI's general conduct in the Review report.

6. Manage growth in the number of superfine merino sheep

In the report it is stated that the increase of production in superfine wool has provided a number of challenges to superfine woolgrowers, particularly the decrease in price due to an increase in volume.

During the 2012 – 15 period the average proportion of the Australian clip under 19 micron was 43.97%⁴, therefore this appears to contradict the strongly argued rational provided throughout the report (particularly in Key Findings in Section 3) that AWI activities have achieved higher returns to producers' as nearly half of the wool produced during the Review period is categorised as superfine.

4. Overall performance and benefits achieved

Key Findings

One of the key findings in this section was:

'Across those 12 programs with benefits quantified, the present value of the quantified benefits to industry if targets are met is \$198 million. This compares to an aggregate present value of costs of those 12 programs of \$69 million. These benefits could be realised directly on farm, based on the assumption of woolgrowers adopting recommended practices. In this case, a BCR so high indicates that the returns from AWI to the industry are high, as long as recommendations are adopted and targets met.'

The quantified benefits are stated as \$198 million – but this is only if targets are met.

The BCR for AWI's programs are also based on the assumption that woolgrowers will adopt the recommended practices, however no quantification is provided of a realistic adoption rate by woolgrowers.

No adoption targets could be found on AWI's website, but MLA 2011-12 Performance found that 52% of *targeted* producers change management practices as a result of their engagement.⁵

This raises the question that if the BCR is as stated, does that mean that it is assumed that 100% of woolgrowers have/will adopt the recommended practices? If so, the BCR would be considered skewed, as adoption rates are generally low (well below 50%) unless there is sustained and targeted extension.

4.4 Contribution to increasing farm gate returns

A statement from this section reads:

'...with all other factors remaining constant, the higher farm gate revenues (per kg of wool) can be attributed to higher wool prices (due to marketing and increased demand) or decreased farm operating costs (through outcomes for RD&E activities). In response to rising wool prices some woolgrowers may increase wool production to maximise profit – increasing

⁴ Australian Wool Production Forecast Report, August 2015 http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/wool_production_forecast_aug15.pdf

⁵ MLA Performance 2011-12, 5.1 Increasing the adoption of innovation <http://www.mla.com.au/About-MLA/Planning-and-reporting/Annual-reporting/Annual-report-2011-12/Increasing-industry-and-people-capability>

supply. This has a downward effect on price. However, there is sufficient evidence to suggest that increased supply volumes generate increased revenue resulting in a farm gate return which is higher than the starting point.'

Again this seems to be another ambitious statement made by Deloitte regarding AWI in terms of their impact on pricing signals due to their research, development and marketing activities. There is no acknowledgement of other external factors that impact on price.

4.5.1 Non-quantified benefits to programs

A statement from this section reads:

'A broader effect of AWI programs is that it increases the overall size of the industry through stimulating increased production (from higher prices and higher productivity).'

By applying the logic that the increase in the EMI over the Review period (although questioned in Section 3.1.4) that there would be an increase in wool production due to maximised returns, the reality is that shorn wool volumes has fallen during the review period.⁶

While it could be argued that without AWI activities the drop in production could have been more dramatic during the Review period, the above statement is invalid when the actual production figures in 2012-15 are examined.

4.6 Strategic benefits

In this section Figure 10 provides a snapshot highlighting the strategic benefits from AWI activities gained by the wool industry but not captured in the Cost Benefit Analysis (CBA) process.

Figure 10. Examples of AWI strategic benefits achieved for woolgrowers 2012 – 15

Activity	Estimated \$ value	Strategic benefits
AWI targeted engagement and management of animal welfare groups.	Not applicable	Retention of key brands using wool Positioning wool as sustainable Grower confidence

The above, is one activity listed in the snapshot of strategic benefits gained by AWI. However the RSPCA issued a press release on 28 April, 2016, regarding mulesing, stating that⁷:

"We estimate that over 5 million Merino lambs undergo this brutal procedure..."

"Wool growers need to do more to end mulesing once and for all."

"If growers don't understand the need to end mulesing, or respond to community revulsion at the painful practice, they should listen to the buyers of their product."

⁶ Australian Wool Production Forecast Report, August 2013, 2014, 2015

<http://www.wool.com/market-intelligence/wool-production-forecasts/>

⁷ RSPCA, media release The Painful Silence of the Lambs, 28 April, 2016

Marks and Spencers stopped using mulesed wool in 2010. Country Road, Hugo Boss, ADIDAS, GAP, H&M and Abercrombie and Fitch also source non-mulesed wool.”

While this media release was issued after this Review period, it is still relevant given that the RSPCA is one of those animal welfare groups that has had ongoing targeted engagement with AWI over a number of years.

This media release contradicts the claimed strategic benefits that AWI has achieved with animal welfare groups.

5. Statutory Obligations

The report state that AWI have met their statutory obligations as detailed in the SFA.

WPA would like to highlight two area of the SFA that needs specific attention:

6.4 *The RDC must not engage in Agri-Political Activity. For example, the RDC must not apply the Funds to:*

(a) act as an Industry Representative Body or to reference or provide information which implies to stakeholders that the RDC is an Industry Representative Body if it is not; or

(b) actively advocate a particular industry policy position; or

(c) encourage or support a campaign for the election of a candidate, person or party for public office.

As mentioned previously AWI continue to make statements, provide assurances and attend meetings, etc. in many areas, that are not necessarily agri-political in nature, but do have policy ramifications for industry.

This blurring of lines regarding the clauses (a) and (b) above, must be better clarified in the SFA or greater communication with AWI and industry representative bodies must be enforced to ensure better outcomes for growers.

Again outside of the scope of the Review, but relevant in considering a new AWI SFA, in the absence of a prescribed body in the wool industry, WPA would like to see a more robust and detailed section relating to Industry Consultation in the new AWI SFA, including a definition of ‘effective consultation’.

Given that the requirement for consultation with industry by AWI is so limited, AWI claim that they constantly consult with growers through attendance at sheep shows, field days and ram sales. While it is important for AWI to attend events with a grower focus there is no way to validate that any grower feedback provided on these occasions is considered by the Board – therefore should not be counted as legitimate industry consultation.

There needs to be a recognised, transparent process whereby AWI can demonstrate how these ‘consultations’ with industry influences the decisions made by the AWI Board.

Under the current consultation arrangements AWI the current SFA refers to the requirement of Industry Consultation as:

15.3 *The RDC must meet with woolgrowers Industry Representative Bodies at not more than six-monthly intervals to:*

(a) review industry priorities for Research and Development and Marketing investments, including any regional equity considerations; and

(b) report on the RDC's performance against the Strategic Plan and the Annual Operational Plan.

This has been detailed in previous briefing papers provided to the Department and Minister's office and is supported by the Australian Wool Growers' Association (AWGA). In summary WPA and AWGA would like to see a formalised arrangement (i.e. a Memorandum of Understanding) between AWI and WPA around the area of animal health and welfare, given that both AWI and WPA are responsible for the oversight of compulsory grower levies in this area.

A formalised agreement will alleviate a number of issues including the adequate flow of information between the organisations to avoid issues such as those detailed in the 'Mitigating the growing impact of animal activist groups' and 'Wild dog' sections in this submission and avoiding duplication of spend of grower dollars.

6. Governance, operations and planning of AWI

Key Findings

One of the Key Findings in this section was:

'AWI are proactive in engaging and collaborating with stakeholders, and encourage involvement in the development of its Strategic Plan, evident through the number of available forums for collaboration such as AWI's Woolgrower Industry Consultative Committee (ICC), annual "Call for Projects" and WoolPoll.'

While there is a defined consultation structure around the development of the AWI Strategic Plan, the effectiveness of the collaboration forums of the ICC and WoolPoll are questionable, as will be detailed in Section 7.

6.1 Code of Conduct and Business Ethics

The report highlights both the AWI Code of Conduct and Business Ethics and the 'Woolgrower test' as being key to how AWI conducts its business.

The Code of Conduct is promoted as a document *'to ensure that high ethical standards and practices are adopted across its business, and that a strong culture of respect, integrity, and fair dealing is promoted within its organisation.'*

While the woolgrower test is a statement apparently applied to the conduct and actions of AWI people and considers *'would this action be acceptable to woolgrowers?'*

It is stated that these are both embedded in the culture of AWI staff and Board.

Regarding the Code, while there is no suggestion that high ethical standards are not upheld at AWI, there are numerous examples where the culture of respect and fair dealing is questionable. This includes not returning phone calls, ignoring email requests, not providing relevant information, and on occasion belligerent behavior. This does nothing for the cohesion of the industry or for wool growers.

In terms of the 'woolgrower test', again there are numerous examples where this has clearly

not been applied by AWI some of which have been detailed previously in this report.

7. Stakeholder engagement

Deloitte cites numerous times in this section that there needs to be better feedback to woolgrowers and grower representative bodies from AWI around their activities. It was a missed opportunity that this was not made a formal recommendation of the Review.

7.2 Stakeholders

Woolgrowers, levy payers and AWI shareholders

A statement in this section reads:

‘Anecdotal evidence highlights that woolgrowers expect to realise benefits, or see that the opportunities for their particular business are advanced, sometimes without fully understanding the competition for funding for R&D between AWI and other RDCs. Further, some woolgrowers do not fully understand the role of AWI in the context of the Department and the SFA, and the constraints on R&DE and marketing activities.’

WPA agrees with this statement, however does not think that it is unreasonable that woolgrowers would expect to realise benefits or opportunities for their particular business to be advanced, given that they pay a compulsory levy for those specific reasons.

WPA also agrees that there is a lack of understanding by woolgrowers around the environment that AWI operates in. There are two solutions to address this problem:

- a) more effective communication by AWI to growers and grower representative bodies
- b) clarity in the SFA around AWI’s ability to impact policy issues

7.2.1 Stakeholders expectations and requirements

This section explains that AWI has improved its efforts of understanding needs and expectations of stakeholders and uses Figure 16 to illustrate the needs of different stakeholders.

Figure 16. Stakeholder expectations and requirements

	Woolgrowers, levy payers and shareholders	The Department	Other RDCs
Perspective	<p>Transparency has improved however communication and feedback mechanisms could be improved.</p> <p>Accessibility of AWI is strong however location of some woolgrowers can impede connectivity between AWI and woolgrowers.</p>	<p>Reduction and turnover of staff within the Department has impacted the communication with AWI in the last 6 months.</p> <p>The Department has confidence in its ability to access the requisite information or people from AWI</p>	<p>Due to competing stakeholder expectations, priorities between RDCs are not consistently aligned.</p> <p>As a larger RDC, AWI would benefit from collaborating with other larger RDCs and supporting the smaller RDCs in their relevant</p>

		when necessary, however the optimal use of the single access point with AWI has some challenges.	actions and activities.
Expectations of AWI	<p>Clarity and communication regarding allocation of funds, and rationale behind business decisions.</p> <p>Improved connection with “grass roots” woolgrowers.</p> <p>Improvement of youth services, as well as training and development opportunities.</p>	<p>Clarity and transparency relating to the allocation of funding of R&D activities.</p> <p>A collaborative approach to engaging the Department.</p> <p>Ability to access information when required.</p>	<p>Sharing of information and learnings.</p> <p>Best practice development.</p>

However while this figure states that improvement has been made it also further reinforces that communications and feedback to woolgrowers could be improved.

Improved communications back to woolgrowers seems to be a theme throughout Section 7 so WPA questions why it wasn’t made a recommendation by Deloitte.

7.2.2 Stakeholder engagement activities

AWI’s Woolgrower Industry Consultative Committee (ICC)

While the premise of ICC aims to enhance industry consultation, the conduct of these meetings does not necessarily mean that it is the most conducive forum for effective consultation.

While the call for agenda items is welcomed and utilised by WPA, it does not mean that the answers to queries are always adequate.

There have been examples in the past where the ICC has been used as a forum to attack WPA by other members, allowed by the Chair – clearly this is outside of the Terms of Reference of the ICC.

The provision of a Record of Meeting (ROM) has in past 12 months been reinstated, however it can take up to two months for members to receive these. If AWI sees ICC representatives as the conduit between AWI and grower representative bodies, it is incumbent on them to provide a ROM in a more timely fashion.

Once again the report notes that ICC could be enhanced by *‘improved focus and better feedback loop.’*

7.2.3 Effectiveness of stakeholder engagement and consultation

Woolgrower views

In this section woolgrowers interviewed as part of the Review acknowledged that AWI had improved communications with growers. Given that the growers that participated were selected by AWI this would be an obvious response.

The comments made by WPA in the Methodology section of this report would ensure that an accurate response was provided. Noting that feedback received may not be any different to what was provided by these Review participants but an increase in sample size and transparency of woolgrower selection would make this section more valid.

Again Deloitte highlighted that one of the themes from this section was:

- *Communication and feedback could be improved. Woolgrowers commented that the “feedback loop” between AWI and woolgrowers could be enhanced moving forward. Some woolgrowers felt that although the provision of communication materials and collateral is strong, a two-way communication loop would assist them in voicing their views and issues. The “Beyond the Bale” publication is enjoyed by the woolgrowers, who find it a useful publication;*

Opportunities for levy payers to influence investment activities

WoolPoll

Although the Review focuses on the 2012 WoolPoll, it is worth noting some issues with the 2015 WoolPoll, although it was conducted in accordance with *Wool Services Privatisation (Wool Levy Poll) Regulations 2003 (Poll regulations)*.

The WoolPoll Panel is claimed by AWI as being independent from AWI⁸ and selected from representative groups across the industry, who were charged with overseeing the operations of the Poll, this was done through a number of face-to-face meetings.

Whilst very supportive of the process that allows wool growers to vote on such an important decision, the questions around transparency of the process need to be asked – particularly when, according to AWI the cost to growers to conduct the WoolPoll is \$1.4 million⁹.

WPA now views this process as a waste of time and grower dollars given that the AWI Board can veto the Panel’s recommendation. This was demonstrated by the omission of 1.5% levy option, which was unanimously agreed to by the Panel only to have it ruled out by the AWI Board – who again went with the same five options as the previous three WoolPolls.

If the WoolPoll Panel is to be convened again, it should have the final say in the options put forward to growers. The entire process, including selection of Panel members must be done independently of the AWI Board.

⁸Submission 123, AWI

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Agriculture_levies/Submissions

⁹Cth. Marketing and research and development levies in the agricultural sector, Senate, 5 February, 2015

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Fcommsen%2Fde0c4559-afae-4033-a963-e4b6cd9e1c32%2F0006%22>

Another aspect regarding WoolPoll and AWI's approach, was that it was heard on numerous occasions by both the AWI Chair, the WoolPoll Panel Chair and presented in AWI's submission into the 2015 *'Industry structures and systems governing the imposition and disbursement of marketing and research and development (R&D) levies in the agriculture sector'* that if growers weren't happy with AWI's performance, they could vote zero in WoolPoll¹⁰. This is an extremely short sighted view taken by AWI and clearly confuses two very distinct issues, those being AWI's performance being linked to future investment into the Australian wool industry. It is statements like this that cause confusion amongst woolgrowers.

This section also makes this statement:

'Wool levy payers are also able to influence the split of investment across On-farm R&D, Off-farm R&D and marketing activities.'

It is unclear how this is correct when the investment split is an AWI Board decision.

The low voter turnout in WoolPoll 2015 was also concerning, as described in Section 3.2.

7.3.1 AWI efforts in cross RDC collaboration

There are a number of significant examples of AWI not leveraging compulsory grower levies with MLA over the Review period additional to the wild dog example provided previously that could have been beneficial for woolgrowers, these include:

- Sheep Husbandry Best Practice Guide in 2012, despite significant resources and grower dollars being invested by both AWI, MLA, WPA and the Sheepmeat Council of Australia (SCA), AWI refused to sign off on the final version. MLA, at considerable expense had to edit the document in order to produce this tool. The wool industry now does not have a best practice husbandry guide.
- Sheep CRC Rebid in 2013, AWI refused to participate or contribute in the rebid for a five year extension of the Sheep CRC. After heavy criticism from growers at this decision AWI eventually provided an explanation citing concerns with administrative arrangements at the Sheep CRC as the reason for not being involved with the rebid, but this was provided well after the decision was made by the AWI Board. The concerns raised by AWI were subsequently rebuffed by the Sheep CRC referring to the excellent report received from the then Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education¹¹ regarding the Sheep CRC's performance.
- Sheep Genetics Australia (SGA), 2015, after seeking grower input via an options paper for the future investment in SGA in early 2014, where a clear mandate was provided by growers to continue investing in the program in the interim with a move to commercialisation in a number of years. The issue was not raised again publicly until the release of an economic report in 2015 highlighting that the Return on Investment was not high with this program and it was justifiable to cease investing in this project.

These are further examples of AWI failing both the Code of Conduct and 'woolgrower test' that is emphasised as being integral to AWI's conduct in the Review report.

¹⁰ Submission 123, AWI

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Agriculture_levies/Submissions

¹¹ Sheep CRC media release, 12 April, 2013

http://www.sheepcrc.org.au/files/pages/information/news/tick-of-excellence-for-sheep-crc-governance-15-04-2013/Tick_of_excellence_for_Sheep_CRC_Governance_120413.pdf

8. Recommendations and Implementation

Key Findings

One of the key findings in this section is:

'Of the four recommendations presented in the 2012 Review, AWI agreed to three. AWI has effectively implemented and integrated those recommended changes into the organisation.'

8.1 Recommendations and outcomes of the previous Review

WPA questions why the AWI Board decided to only implement three of the four recommendations from the previous three year Review of Performance.

If the Board has this power to accept and reject the recommendations then the validity of the whole process is compromised.

Figure 19. AWI Response and Implementation Plan (2009 – 2012 Review of Performance)

This figure outlines the response to the recommendation from the previous ROP.

Recommendation	AWI response	AWI implementation plan
AWI should review the role and composition of the Science and Welfare Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multidisciplinary advisory group that is entirely separate from the Board.	AWI did not agree with this recommendation and no further action was taken.	

There is no explanation why the Board did not agree to this recommendation and if any clarification was sought from AWI at the time for not adopting all recommendations.

8.2 Recommendations from this Review

AWI's Response and Implementation Plan ¹² indicates that AWI have agreed to all recommendations provided by Deloitte in the 2015 Review of Performance.

¹² AWI Response and Implementation Plan
http://www.wool.com/globalassets/start/about-awi/publications/gd1729_awi_response_implementation_plan_2015.pdf

Table 3. AWI Independent Review of Performance 2015 Recommendations

	Recommendations
Strategic benefits	<ol style="list-style-type: none"> 1. A strategic benefits framework should be developed and applied to fully demonstrate and capture the value add and synergies that are being achieved for woolgrowers across Programs and from investments made by others as a result of AWI's efforts. 2. Communication of strategic benefits should be included in future consultation plans (such as for the development of the Strategic Plan) and in extension sessions so as to help all woolgrowers fully understand AWI's efforts on their behalf.
Governance	<ol style="list-style-type: none"> 3. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to evolve to a full skills matrix which be instilled in the Board Charter, reviewed annually, and used in the Nominations Process. This would Matrix would evolve and improve the current documentation in time to inform the 2017 Director elections process. 4. The AWI Board should work with the AWI Independent Governance Advisor over the course of the next Review period to formalise a revised Governance Policy. The Policy will specifically address how the Board intends to manage any Conflicts of Interest. The Policy should incorporate, as Appendices, the AWI Board Charter and all other documentation relating to governance and Board procedure. This will create one single source of governance documentation, and support and amplify the Constitution. 5. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to formalise succession planning for the Board and key executive functions.
Operations	<ol style="list-style-type: none"> 6. The role of the CEO should be supplemented by a COO or CoS to enable the CEO to optimise their focus on impact and benefit for woolgrowers. 7. The AWI Board should work with the Independent Governance Advisor to formalise within 12 months an all-encompassing Deed of Delegation to the CEO (using the Carver model or similar) and supported by formalised role specific Deeds of Delegation to all Executives. 8. To ensure the process for measurement and evaluation is sustainably embedded into the organisation, the AWI CEO should formalise a single policy document within 12 months which documents: <ul style="list-style-type: none"> • whole of business requirements, • processes, • standards, • criterion for implementing and reviewing of the program, and • project measurement and evaluation, including the three year cycle for CBAs.

WPA agrees with the recommendations provided by Deloitte, but would like to see Recommendation 5 expanded to consider the best practice governance principles applied to the length of time served by Board Directors, this will assist in the formalisation of succession planning for the Board.

WPA is disappointed that, given it was noted by Deloitte on four occasions in the Stakeholder Engagement section that improvements could be made to communications and feedback to woolgrowers, that this was not made a formal recommendation in this report.

Attachment D

WoolProducers AWI 2016-19 Strategic Plan Feedback - 2016

WoolProducers Australia Introduction

WoolProducers Australia welcomes the opportunity to provide comment on the draft 2016-19 AWI Strategic Plan.

WoolProducers Australia is the national Peak Industry Body (PIB) representing and promoting the needs of Australia's wool growers. Our membership covers the industry's commercial, superfine and stud breeding sectors.

WoolProducers is nationally representative through our State Farming Organisation (SFO) members and three democratically elected Independent Directors. Through the engagement of Independent Directors, WoolProducers is able to ascertain the needs of growers both within, and external to the SFO system. This sets WoolProducers apart from other wool grower representative groups and gives it the mantle of the only true democratic and representative voice of the Australian wool industry.

WoolProducers is the only wool growing member of Animal Health Australia (AHA), and as such, carries a significant responsibility for decision making on behalf of the industry. This role includes the oversight of the wool industry health and welfare levy collected and administered by AHA.

In 2014 WoolProducers established the WPA Health and Welfare Board Committee and expanded the representation of this Committee by extending an invitation to other wool representative bodies, including Australian Wool Growers Association, Australian Association of Stud Merino Breeders, Australian Superfine Wool Growers Association to ensure that there was representation and input across the entire wool industry in the expenditure of this levy. The Australian Veterinarian Association – Sheep Special Interest Group also has observer status on this Committee to provide technical advice regarding this levy administered by AHA.

AHA is empowered under the *Australian Animal Health Council (Livestock Industries) Funding Act 1996* and is an essential component of sheep health and welfare in Australia.

WoolProducers responsibilities also includes the provision of advice to AHA, State and Federal Governments on behalf of the wool industry on a day to day basis through representation on national animal health and welfare committees.

WoolProducers is the wool industry signatory of the Emergency Animal Diseases Response Agreement (EADRA), and as such plays a critical role in the preparedness activities working across industries and State and Federal Governments.

As the only wool grower organisation with membership of the National Farmers' Federation, WoolProducers is responsible for providing key policy advice on behalf of our members, and other wool growers, to Australia's peak farm body.

WoolProducers also works closely with the Federal Department of Agriculture on key issues such as animal health and welfare, biosecurity, pest management control, natural resource management, drought preparedness, emergency animal disease outbreak preparedness and industry development, including research and trade.

Background

Acknowledging that progress documents are being updated based on feedback on a weekly basis during the consultation process, for clarity (and page number references) WoolProducers Australia is basing the below comments on the 6 May draft of the 2016-19 AWI Strategic Plan.

WPA notes the five key Portfolios that AWI will focus their investment over the coming three years, being:

- Business Services
- Processing Innovation and Education and Extension
- Marketing
- Sheep Production
- Woolgrower Services

WoolProducers agree that these five key areas, if executed effectively will enable the Australian wool industry to improve and start increasing production.

In order to clearly explain to stakeholders how this Strategic Plan will work towards AWI's overarching mission of investing in research, development, marketing and promotion to:

- *enhance the profitability, international competitiveness and sustainability of the Australian wool industry; and*
- *increase demand and market access for Australian wool.*

We would like to see a succinct explanation (one page) or schematic of how individual Strategies under Portfolio Programs link back to the stated mission. This will also assist in ensuring that every investment made by AWI on behalf of woolgrowers is working in an effective manner.

WPA's comments will refer to some Strategies under the Portfolios of Sheep Production, Woolgrower Services, Processing Innovation and Education and Extension and Business Services as we see these as the most pertinent to WoolProducers' and its constituent's expertise. Therefore we have not attempted to cover every activity of AWI in this response, however a lack of reference to a particular Portfolio or Strategy does not imply that there is a lack of support or otherwise or that it is not considered as a priority.

WPA also has some general questions around how the figures in some of the Program targets are derived, including but not limited to why there is a target figure of only 100 people (or 10 skills training events) per year and why the figure of \$700 net cost saving to participating woolgrowers in the Sheep and Wool Management Skills Program, an increase of an average of 4 sheep/day in shed productivity under the Wool Harvesting and Quality Preparation Program and maintaining Woolmark Licence numbers at 2015 levels under the Licensing Program.

These are not necessarily critical observations but rather an enquiry to clarify how these numbers are calculated and how/where the performance of these targets in the Strategic Plan are actually measured across all AWI Programs.

For example it is not understood how in the 2013/14-15/16 AWI Strategic Plan, Target 2 under the Wool harvesting and Quality Preparation Strategy aims to '*Increase shed productivity by, on average, four sheep per run by 2017 across shearing contractors*', but the 2012-15 AWI Review of Performance

(ROP) conducted by Deloitte, under the Quantifiable Benefits for this Section states: *Benefits are realised from the increase in productivity (increase of 1 sheep per shearer per day) (without sacrificing shorn wool quality), resulting in a reduced number of runs per property and consequent reduction in shed costs.* The different metrics used in the ROP analysis makes it extremely hard to measure actual performance.

3.1 Global Business Environment

3.1 Production – page 16

This section outlines a number of challenges currently facing the production sector of the Australian industry. AWI will aim to assist these challenges by:

- Development of preoperative pain relief for invasive procedures
- Welfare enhanced alternatives
- Supporting the reporting and communications of welfare practices employed by growers
- Lifting weaning rates in Merino-Merino joining
- Improving labour efficiencies through mobility devices

Generally speaking WPA are supportive of these aims however we also identify a number of issues that may impede the practical adoption and application of these targets that don't appear to be considered in the execution of this plan.

These impediments include: lack of adoption benchmarks; lack of detail around adoption strategy to encourage uptake, poor to no internet connectivity by a large number of woolgrowers for digital communications and tools and lack of a clear plan for collaboration with other Research and Development Corporations (RDCs).

WPA notes the establishment of the Woolgrower Services portfolio to '*consolidate and manage our consultation and industry extension*'. WPA welcomes the development of this portfolio as we have deep concerns over the level of effective engagement and transparent consultation that AWI conducts with wool growers and other relevant stakeholders.

WoolProducers would like to see a clear and transparent model of consultation conducted by AWI as currently industry consultation is measured by the number of industry events and forums, including the ICC, which AWI participate in. While it is important that AWI engages with woolgrowers and wool growing representative bodies at industry events, there is currently no way of understanding how this 'consultation' influences decisions that made by the AWI Board.

WPA also agrees that there should be an increased focus on extension and adoption as it imperative that woolgrowers are utilising the services that they are paying for.

4.2. Sheep Production Strategies and Programs

Strategy: Healthy Productive Sheep

Program: Sheep Health and Welfare – page 36

WoolProducers agrees that investment in the area of sheep health and welfare is essential to ensuring the longevity and sustainability of the wool industry.

Investment in this area has a two-fold effect – by first ensuring that productivity gains are

achieved for producers and by providing confidence to consumers that wool is ethically produced.

While this is acknowledged in the introduction of this Program, the investment focus and targets detailed in this section only address the on-farm productivity area.

AWI must ensure that there is adequate retailer/consumer education that emphasises the excellent practices that are conducted on-farm and the continuous improvement that industry undertakes in this area. This does not feature in this Program, nor the Consumer Education section of the Strategic Plan.

WPA strongly believes that there needs to be a concerted effort by AWI, working with grower representative bodies to develop and enact an industry wide strategy that places the wool industry in a proactive space rather than the disjointed, ad hoc approach that is currently occurring.

The 2015 AWI Review of Performance conducted by Deloitte explained that AWI work effectively behind the scenes with the retail sector, however this is seldom explained to growers.

While understanding that this is a sensitive issue that often involves commercial-in-confidence information, there needs to be far greater information from AWI around the actual perceptions of retailers regarding animal welfare issues communicated back to woolgrowers.

The report also emphasises *'the proactive approach to the downstream supply-chain'* – the same cannot be said for the 'upstream' supply-chain. An ongoing frustration of WPA's is that as the oversight body for the compulsory health and welfare levy administered by Animal Health Australia, we are often left to explain to growers and the general public how industry is handling an adverse animal welfare issue. The frustration comes from the fact that AWI have the resources and capability to deal with these issues, but will often use the fact that they cannot represent industry in these issues despite having knowledge which is not shared with WPA.

This frustration is further compounded when AWI continue to make statements, provide commitments and attend meetings, etc. in this area, that are not necessarily agri-political in nature, but do have policy ramifications for industry. WPA are not provided with any background information or offered any assistance by AWI, and are left to deal with the fallout.

Despite numerous approaches to work cohesively on this issue and determine an industry wide approach/strategy, AWI continue to act unilaterally. This is not working in the best interests of industry, least of all wool growers.

The ongoing industry issue of mulesing is a prime example of AWI not collaborating and working with the 'upstream' supply chain. While a useful message matrix has been developed by AWI outlining key messages on this issue, unfortunately it does not apply to every situation. Mulesing is one of the biggest threats to wool growing sustainability in terms of public perception and confidence, yet AWI have told WPA that we are the only people talking about this and making this an issue. The approach taken by AWI on this issue is confounding to say the least.

Meat and Livestock Australia (MLA) are able to, and do, provide support to their relevant peak industry bodies when adverse animal welfare issues arise. Teleconferences, provision of key messages, information exchange, nomination and agreement of single spokespeople, are all provided between that RDC and peak industry bodies in a proactive and collaborative approach. This is a common sense, industry focused approach that contrasts sharply with AWI's stance in this area, although both RDCs would be bound by the same advocacy requirements.

WPA is quite often told by AWI to 'say nothing' when advice is sought on these issues. Again this approach does not assist wool growers, who want to know who is protecting their interests when their industry is attacked by animal rights campaigns.

Strategy: Feedbase and Fibre Advocacy

Program: Fibre Advocacy – page 42

While WoolProducers' do not question that this program sounds beneficial, questions why this is coming out of the comparatively small on-farm R&D budget, when it seems that this would be better suited to off-farm and market portfolios.

4.3. Woolgrower Services Strategies and Programs

Strategy: Training and Technology Uptake

Program: Wool Harvesting and Quality Preparation – page 47

WoolProducers' would like to raise if there should be a quantifiable target for the retention of trainees who undertake shearer and shed hand training?

Whilst fully supportive of ongoing significant investment in this area to ensure appropriate levels of fully trained and professional wool harvesting staff, we are asking how return-on-investment for this Program can be measured.

Strategy: Consultation

Program: Woolgrower – page 48

WoolProducers agrees that consultation is vital to AWI's operation, but this needs to be significantly enhanced and far more transparent than what has occurred in the past.

As mentioned previously WPA notes the establishment of the Woolgrower Services portfolio. WPA welcomes the development of this portfolio as we have deep concerns over the level of effective engagement and transparent consultation that AWI conducts with wool growers.

WoolProducers would like to see a clear and transparent model of consultation conducted by AWI as currently industry consultation is measured by the number of industry events and forums which AWI participate in. While it is important that AWI engages with woolgrowers and wool growing representative bodies at industry events, there is currently no way of understanding how this 'consultation' influences decisions that made by the AWI Board.

Program: Stakeholders – page 49

WoolProducers notes the emphasis on consultation with Woolgrower Representative Bodies in this Program. WPA believes that these bodies should be named specifically in this section at both a State and National level as a way of clearly identifying to wool growers the roles and responsibilities of each wool industry organisation.

There is quite often confusion amongst wool growers (and other stakeholders) regarding which industry organisation is responsible for what area, given that quite often activities conducted by AWI, while not political in nature due have policy ramifications, as detailed in the Sheep Health and Welfare Program section above.

There would also be benefit for the entire industry if AWI gave consideration into investing in capacity building to industry representative groups, as is provided by other industry RDCs. There are various ways that this could be achieved that would enhance overall industry unity and cohesion that would ultimately benefit woolgrowers.

The Industry Consultative Committee

The Industry Consultative Committee is highlighted as a chief point of consultation with industry groups. While the premise of ICC aims to enhance industry consultation, the conduct of these meetings does not necessarily mean that it is the most conducive forum for effective consultation.

While the call for agenda items is welcomed and utilised by WPA, it does not mean that the answers to queries are always adequate.

There have been examples in the past where the ICC has been used as a forum to attack WPA by other members, allowed by the Chair – clearly this is outside of the Terms of Reference of the ICC. This type of conduct is unacceptable and if the ICC is to be considered an effective consultation mechanism it must first be conducted in a professional manner.

Market Intelligence

WoolProducers believes that the results from stakeholder surveys should be published so that wool growers themselves can analyse information that is garnered from these activities, and consider how it may impact on their individual wool growing business.

Although it's unclear if this is the relevant section to state this, WoolProducers feels that the results from the tri-annual Wool and Sheep Meat Producer Surveys should be made publicly available in its entirety, so that on farm practices can be viewed freely and verified, such as mulesing percentages and the use of pain relief. This is even more pertinent if AWI uses the results from these surveys to form key messages that industry are expected to state publicly. As at May, 2016 the summary from the June 2014 survey can be found on the AWI website.

WoolProducers would also like to see more quantifiable targets for both the Woolgrower and Stakeholder Programs under the Consultation Strategy. Consultation must be transparent and accountable to be deemed effective.

4.4. Processing Innovation and Education and Extension Strategies and Programs

Strategy: Education and Extension

Program: All – pages 53 - 55

WoolProducers would like to see that as part of the Student Education, Trade Extension and Consumer Education Programs that material around ethical production is available. The recent public interest around mulesing and pain relief demonstrates that many downstream supply chain partners are not aware of the excellent on-farm welfare practices that are employed by Australian wool growers.

4.5. Business Service Strategies

Strategy: Corporate Services

Program: Finance Services – page 58

WoolProducers would like it clarified in the Strategic Plan that the \$5 million held in emergency Reserve to meet the Emergency Animal Disease Response Agreement (EADRA) obligations is held on behalf of WoolProducers Australia, as the wool industry signatory. This is consistent with the wording in the EADRA.

Strategy: Woolmark

Program: Evaluation Services - page 61

While having monitoring and evaluation processes across all programs is essential, however for them to be effective in gauging progress against Strategic Plan targets, these targets must first be quantifiable as raised in Background section of this submission.

Noting that there is an AWI Framework for Monitoring and Evaluation, it is stated in the Strategic Plan that M&E activities will be reported to the AWI Board quarterly, we also question if there will be predetermined and objective benchmarks for individual programs that will ensure the continuation or otherwise of the programs.

Strategy: Woolmark

Program: Licensing - page 63

WoolProducers queries why the target for this program is to maintain Woolmark licenses at the 2015 level and why the target isn't to increase this number, particularly when in the Business Development Program the investment focus state that there will be efforts to raise awareness through engagement and communications to designers, architects and retailers around the Woolmark.

If the value of the Woolmark is enough to continue providing resources to raise further awareness, we would assume that the logical target would be an increase in licence numbers.

Attachment E

AWI Senate Estimate Claims

WPA Responses to AWI Responses from 28 February, 2017 Senate Estimates Hearing

1. **Senator CAROL BROWN:** Has the minister or his office, in those discussions, approached Australian Wool Innovation Limited about relocating out of Sydney?
Mr Merriman: Some eight or nine months ago the minister and I had a discussion about that.
Senator CAROL BROWN: And?
Mr Merriman: My advice to him was that the shareholders of AWI have voted for a 60/40 split in the way we spend our money. Sixty per cent is on marketing and 40 per cent is on research. We do not think that if we move to Burke somewhere we can conduct our marketing activities as well as we can in Sydney.

WPA RESPONSE – shareholders did not vote on this – this split was never put to a grower vote. This change in R&D and Marketing split was advocated by AWI during the 2012 WoolPoll along with the 2% levy option. There has never been a grower vote on this split, it was determined by the AWI Board.

2. **Mr McCullough:** There are 55,000 woolgrowers who pay a levy to the company. Of that 55,000, 43,000 of them are eligible levy payers. The eligible levy payers get to vote at WoolPoll. Of the 43,000, 27,000 of those elect to be shareholders and they get to vote not only at the WoolPoll but also at an AGM on the directors of the board.
Senator LEYONHJELM: There are 43,000 people eligible to vote. Presumably you communicate with them at the time of the WoolPoll in order to encourage them to vote. Voting is voluntary?
Mr McCullough: Yes.
Senator LEYONHJELM: So \$660,000 divided by 43,000 is about \$14 per vote. Do you think that that is high, low or acceptable?

WPA RESPONSE - WoolPoll 2015 - \$660,000. 43,000 eligible levy payers = \$14.04/vote; 27,000 eligible shareholders = \$24.40/vote. 50.68% of eligible voters voted = 13,684 = \$48.23/vote

As of 31 December, 2016 there were 24,743 shareholders of AWI.

It is unclear if the figure of \$660,000 is for the project costs of WoolPoll. In the ‘The industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector’ hearing held on the 5 February, 2015, Mr McCullough stated that WoolPoll project costs amounted to \$718,000, but in costs to the company it was ‘more in the order of \$1.4 million’.

3. **Mr Merriman:** It is a function of the things we have to do. Stuart and I and a couple of others get in a car and will drive 500 miles to meet 20 people. It is just ridiculous.
Senator LEYONHJELM: Is that in the legislation that you have to drive 500 kilometres?
Mr McCullough: No, it is not. Two thirds of those costs are probably regulatory requirements and one third of that is things we choose to do. Those driving those WoolPoll forums that we do we think we can do a lot better. Is it a reasonable figure? When you put it like that it sounds modest but it is a hell of an expense—\$700,000 to \$800,000 every three or four years is a big number.

WPA RESPONSE – There is no regulatory requirement for AWI to conduct a Roadshow. The costs associated with this are huge particularly when considered in context of the number of growers who attend these roadshows. In 2015 there were 27 Roadshows held around Australia and had attendance rates between 5 and 30 growers, e.g. Katanning, WA – 6 growers; Deniliquin, NSW – 12 growers

4. **Mr McCullough:** There are a number of things that happened with WoolPoll. The panel is put together, which is a regulatory requirement. There is a group of woolgrowers and independent bodies to come together. They prepare a voter information kit and all the documentation around that is published and goes out to all the woolgrowers. There is a certain amount of advertising that happens in that period. We can, on notice, provide you a ledger of precisely all of those costs if you wish. What I will say is that the cost now is about two thirds of what we inherited when we came into the job.

WPA RESPONSE – yes, the appointment of a Panel is a regulatory requirement under the Wool Services Privatisation (Wool Levy Poll) Regulations Error! Reference source not found., but it is a waste of time and money when the Panel can be, and was overruled in 2015, by the AWI Board. The Panel made a recommendation that 1.5% be put to levy payers, however the AWI Board rejected this and put forward 0% (regulatory requirement), 1%, 2%, 2.5% and 3% to growers. These are the same levy options that have been put to growers since 2006.

The official justification that appeared in the media at this time from Stuart McCullough was:

“Offering 1.5 per cent was considered but the board believed it was a fiscal cliff,” Mr McCullough said. “We have offered two levy amounts below the current levy (2 per cent) and two above.”

The independent Chair of the Panel is appointed by AWI.

The WoolPoll Panel must have independence from the AWI Board to be effective or is otherwise meaningless.

5. **Mr Merriman:** Can I add to that? We have a group called the Industry Consultative Committee. The cost of WoolPoll has been discussed there for the last 12 months or so. We would like to have all of the industry groups come to a consensus. That has not happened.

WPA RESPONSE – On reviewing the minutes from 2016 ICC minutes, including 24 March, 9 June and 27 October, there were zero discussions around the frequency or cost of WoolPoll. There is also no recollection from our representative who has attended these meetings.

The ICC is claimed by AWI as one of the main ways growers have an opportunity to feed into the decisions AWI make on RDE&M. Although this forum is said to be the key industry consultative mechanism, it is chaired by AWI, removing any possible chance for it to consider items objectively. The ICC is not a decision-making body and the AWI Board have single authority of acting (or not) on anything raised in these meetings.

6. **Senator RICE:** In terms of your engagement with woolgrowers, why is it that you do not have a representative organisation like the other RDCs do?

Mr McCullough: That is largely a function of history. We have a number of woolgrower organisations around Australia. We do not necessarily deem any one of them in particular the representative of Australian woolgrowers because they have varying databases of shareholders and members. With some of those organisations, it is very hard to understand what size membership they have. We have WoolProducers Australia, the Australian Wool Growers Association, the Australian Superfine Wool Growers’ Association, the Australian Association of Stud Merino Breeders, the broad wool sheep group and a number of very innovative smaller regional woolgrower representative groups that are popping up around Australia. What we do is get them together three times a year in a group called the industry consultative committee. We treat them equally.

WPA RESPONSE – WoolProducers Australia’s charter, unlike every other representative organisation listed here (with the exception of Australian Wool Growers Association, AWGA), is to represent the interests of all woolgrowers. The other organisations are sectorial in nature i.e. they do not represent all woolgrowers only sections of industry.

AWGA’s membership and Constitution is unknown.

7. **Senator RICE:** How much of the industry do WoolProducers Australia represent compared with the other organisations?

Mr McCullough: It is hard to understand.

WPA RESPONSE – It is not hard to understand. WoolProducers membership is based on the membership of State Farm Organisations (SFO), with the additional provision for Independent Directors and members, outside of SFO network.

The SFO representative model is the same representative model that is employed by the Sheepmeat Council of Australia and the Cattle Council of Australia, who are both the prescribed bodies for their respective industries.

8. **Mr Merriman:** It is a good question. At an inquiry here before they said that they represent two-thirds of the wool industry. They do not represent me. I would beg to differ.

WPA RESPONSE – WoolProducers has never claimed to represent two-thirds of industry. The only other inquiry that Mr Merriman could be referring to is the hearing into ‘*The industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector*’, on 5 February, 2015, whereby it is recorded in Hansard that WoolProducers stated the following:

‘Throughout our state farming organisation networks typically SFOs represent about a third of growers in their states.’

These figures were recently provided to AWI on 7 February, 2017 in preparation for the upcoming ICC meeting on 24 March, 2017.

9. **Senator RICE:** Your answer, in short, is that they are not an organisation that is representative of the full industry.

Mr Merriman: They are deemed by government to be the peak body. But out there in grower land I think there are people who contest that.

WPA RESPONSE – Regardless of individual thoughts on this issue, there is simply no denying the fact that WoolProducers represents the single biggest group of woolgrowers in Australia.

The precedence for this representative model is already in place within other agricultural industries.

10. **Senator RICE:** Will you be having any consultations with the industry on how those extra funds are allocated?

Mr Merriman: We do. That is what the ICC does.

WPA RESPONSE – The ICC is in essence a rubber-stamping body, the AWI Board retains full control on decision making, regardless of what the ICC may suggest.