

Wools of New Zealand Shareholder Communication No. 39
5 September 2014

Proposed Wool Levy – the Wools of New Zealand Position

The Wool Producers Referendum closing on October 10th will provide all eligible sheep farmers the opportunity to vote on a statutory levy of between 2-5 cents/kg of greasy wool. Issues like this inevitably attract wide ranging debate and Wools of New Zealand (WNZ) has been canvassed on our views.

WNZ commends the effort of the Wool Levy Group for raising the issues and opening up the opportunity for growers to have a say. We respect the views of our shareholders and supporters and maintain that each grower must exercise their independent, democratic vote. **Irrespective of your views, for or against the levy, you should vote to ensure your opinion counts.**

At the same time it is important that growers are armed with the facts relating to the Commodity Levy including costs, benefits and possible alternatives before they vote.

Where we do fundamentally agree with the levy group is:

- **Collection and distribution of accurate wool industry statistics. Beef and Lamb currently collect this information funded by residual levies**
- **Training and tech transfer both inside the farm gate and beyond – Tectra, AgITO and other organisations funded by government and others can provide this function along with the research institutes and commercial players.**

While research “behind the farm gate” is important, it needs to be attached to the work already undertaken in the sheep industry.

The Wool Industry Research Organisation (WRONZ) fund sits at approximately \$35 million as a legacy of the Wool Board. This fund is growing in size as a result of prudent fiscal management. Utilising returns from this fund alongside public and private funding, the Wool industry research consortium (WIRL) focuses on investment in R & D which helps increase the value and competitiveness of New Zealand wool through innovation and new uses for wool.

It is unclear why more research funding is needed as the current fund – plus matching grants from other sources – should be more than ample to cover reasonable research needs for the foreseeable future. As a supporter of WIRL, WNZ would go as far as recommending that WIRL, as an established agency, manage the collection and distribution of public private money investment into R&D and broaden its mandate to provide the functions and outcomes viewed as necessary to the industry, including leadership.

Utilising an existing wool industry structure such as WIRL which represents the whole of industry including growers, has the ear of government and can leverage grower funds against public and private funding, should be seriously considered. In our view this is superior to creating yet another structure in an already cluttered industry. Additionally, WIRL has a well-represented governance structure and administration function.

Funding is also available from the MPI's Primary Growth Partnership, which already supports the NZ Sheep Industry Transformation Project, undertaken with NZ Merino, as an example. The expansion of WIRL capability and a review of the remit of WRONZ might be the best option to meet the Wool Levy Group's aspirations.

In our view, the key issues for growers are:

- **What extra returns will a levy provide in the short or long term**
- **Do we need another structure in place at all (as WIRL is already established and funded)**
- **Why the current levy on sheep can't be expanded to cover wool.**

What actually drives supply and demand and how do farmers capture value and increase returns?

This can only come from commercial sales and marketing initiatives reaching right through the value chain to the consumer. Levy spend will not achieve this.

New Zealand has three wool sales and marketing companies, all substantially or wholly grower owned; New Zealand Merino, Elders Primary Wool and Wools of New Zealand. Wools of New Zealand continues to make substantial investment in:

- The WNZ brand – important, valued and well recognised globally
- Promoting its Laneve brand, the world's leading traceable coarse wool brand, into the European, US and emerging markets where it is gaining traction
- Joint marketing programmes with Brand Partners in the UK, EU, USA and China
- Adaptation of new technologies and investment in their commercialisation (eg. Noble Bond)
- Design and styling at WNZ's Wool Centre of Excellence in Ilkley
- Professional development programmes for the design communities in the UK and USA
- Corporate Social Responsibility programmes around sustainability
- Social media awareness campaigns
- New ways to market such as Direct-to-Scour (D2S) and Stable Pricing Mechanism (SPM)

- Building direct linkages between growers and consumers, at all points in the value chain.

These marketing and sales initiatives are currently funded by growing commercial income, from Shareholders' capital and Wool Market Development Commitment (and Wool Market Development Fee for supporters).

Before growers vote they should satisfy themselves that a generic industry-good model will provide any direct commercial benefits. We are unable to point to any examples where generic marketing has yielded the kind of benefits the Wool Levy Group are looking to achieve.

It is noteworthy also that since the wool levy was rejected in 2009, growers have enjoyed improving commercial returns on the strength of market penetration, improving industry collaboration, grower commitment and investment, leadership and government support. This during a period of rationalisation and a declining wool clip nationally.

What a levy should not be, is a crutch to abandon this new found sense of purpose for our industry.

Mark Shadbolt, Chairman
Ross Townshend, Chief Executive

Market Report

Comparable North Island Wool Sale prices were generally unchanged relative to the South Island sale on 28 August, though were generally stronger in comparison to the last North Island sale on the 14 August.

On a limited offering of Fine Crossbred Fleece prices were generally unchanged. Fine Crossbred Early Shorn and Second Shear 33 micron 3-5 inch and 3-4 inch remained firm whilst 34-36 micron 3-5 inch and 3-4 inch were generally 1% cheaper with 35 and 36 micron 2-4 inch 2% dearer.

Coarse Crossbred Fleece on a limited offering were 1% cheaper. Coarse Crossbred Early Shorn and Second Shear 37 micron and coarser 3-5 inch were 1.5% cheaper, 3-4 inch were up to 1% dearer, 2-4 inch declined by 3% whilst 2-3 inch rose fully 2%.

Combing Oddments remained firm and Clothing Oddments 2-4 inch were 3.5% dearer and 2-3 inch were 3.5% cheaper.

The next sale on 11 September comprises approximately 12,500 bales from the South Island.



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