

*Response to the Productivity
Commission's Draft Report*

Australian Wool Innovation

November 2010

Contents

- 1 *Executive Summary*
- 2 *Summary of AWI position*
- 3 *Organisational Performance*
- 4 *Statutory Funding Agreement*
- 5 *Governance - Board Processes & Nominations Committee*
- 6 *Consultation Processes*
- 7 *Sanctions*
- 8 *2012 Review of Performance*
- 9 *AWI's presentation to the Productivity Commission*
- 10 *Conclusion*

Appendices

- | | |
|-------------------|--|
| <i>Appendix A</i> | <i>Deliverables against 2009/10 KPIs</i> |
| <i>Appendix B</i> | <i>2010/11-2012/13 Strategic Plan</i> |
| <i>Appendix C</i> | <i>2009-2010 Review of Performance</i> |
| <i>Appendix D</i> | <i>Statutory Funding Agreement 2010-2013</i> |
| <i>Appendix E</i> | <i>DAFF changes to IOC SFA's</i> |
| <i>Appendix F</i> | <i>AWI Corporate Governance Framework</i> |

1 Executive Summary

AWI's response to the Productivity Commission's draft report relates specifically to those areas of the report that mention AWI.

AWI believes some of the statements made in the Productivity Commission's draft report are not accurate. The timing of the initial submissions (25 June 2010) did not allow for the inclusion in the initial submission of information concerning a number of key matters regarding the operations of AWI. Consequently AWI's response focuses specifically on the following matters;

- Organisational performance,
- Statutory Funding Agreement,
- Governance – Board policies and processes,
- Consultation Processes,
- Sanctions, and
- 2012 Review of Performance.

AWI's hope is that the information provided in this subsequent submission provides sufficient detail to alter the views of the Commission presented in the draft report. We are disappointed that that Productivity Commission did not raise any of these issues during the regular informal discussions between the 25 June and the release of the draft report. AWI encourages the Productivity Commission to seek further information or clarification on these or any other issues, it believes are specific to AWI.

In particular, since the initial submission AWI has undergone an independent one year review of performance. The final report is provided as an appendix, however AWI would strongly encourage the Productivity Commission to read this report in its entirety as a key adjunct to this response.

As noted in AWI's initial submission (Figure 9), the wool industry's history is characterised by significant organisational change. This legacy has not assisted the industry, particularly the various iterations of its RDC, to develop and maintain longstanding business practices, policies and procedures.

Even since the establishment of AWI in 2002, there has been further significant change; the integration of The Woolmark Company in 2007, and several subsequent restructures and changes to business strategy since integration.

The AWI of 2010 has learnt from the past and is more committed than ever to avoid past mistakes, and using them to build a stronger, more responsive and transparent business.

AWI is resolute to deliver returns to shareholders and meet the expectations of the government and levy payers.

AWI recognises that perception takes time to change. In the meantime AWI is committed to getting on with business and continuing to improve business practice.

2 Summary of AWI Position

This section provides a summary of AWI's position outlined in the initial submission and this subsequent submission.

AWI's has now made two submissions to the Productivity Commission's review of the rural research and development corporations. As noted in both, AWI's submissions relate only to industry specific issues falling within the scope of the PC's review. Issues relevant to all RDCs are addressed in the Council of Rural Research & Development Corporations two PC submissions which AWI has contributed.

AWI position on key issues can be summarised as follows;

AWI believes that the RDC model is fundamentally sound:

- the model is a proven mechanism for delivering R&D that is responsive to industry and government needs;
- the model enhances woolgrower awareness and adoption of the important relationship between R&D and on-farm productivity and off-farm retail success; and
- the model ensures that the costs of generating industry and wider benefits are equitably shared across woolgrowers and government.

Supports initiatives to improve the efficiency of the RDC model however notes there is currently significant collaboration and cooperation between the RDC. There is scope for further improvements through the CRRDC and AWI supports these initiatives.

AWI notes the considerable public or spillover benefits generated by the investment of the RDCs, and in particular notes the beneficiaries of AWI's investment include:

- the Australian community;
- rural and regional Australia;
- other participants in the wool supply chain;
- consumers of woollen products; and
- sheep meat and other livestock industries.

AWI notes that the current Government funding arrangement, where the level of Government funding is capped against a falling GVP of wool, means that the level of research and development funding is not efficient.

Therefore, while there is a strong rationale for continued government funding support, there is scope to adjust the underlying mechanism by which the level of government funding support is determined.

AWI believes that the current model of housing wool R&D and marketing in one organisation has demonstrated benefits and synergies.

AWI does not support the PC draft recommendation to reduce funding for the RDCs from 0.5% GVP to 0.25% GVP over ten years.

Further AWI does not agree with the PC's view that the reduction in government funding in rural R&D will be replaced by additional private investment.

AWI does not support the recommendation to establishment of a new RDC – RRA. Due consideration needs to be provided firstly to more critical strategic issues such as how government will better define and determine its priorities for public good R&D in addition to land, water and energy issues.

3 Organisational Performance

This section provides details of improvements in organisational performance since July 2009. It also provides further information which serves to correct some of the perceptions leading to statements contained in the draft report by the Productivity Commission.

AWI's organisational performance can be measured in several ways:

The outcome of the triennial Wool Poll conducted in compliance with the *Wool Services Privatisation (Wool Levy Poll) Regulations 2003 (Cth)*;

The outcomes of the triennial Review of Performance conducted in compliance with the Statutory Funding Agreement;

The outcome of the One Year On Review of Performance conducted in compliance with the Statutory Funding Agreement;

Returns to levy payers and outcomes delivered against targets outlined in the Strategic and Annual Operating Plans.

3.1 Wool Poll 2009

The most recent triennial Wool Poll was held in 2009. In compliance with the *Wool Services Privatisation (Wool Levy Poll) Regulations 2003 (Cth)*, AWI is required to provide shareholders with five options of the levy rate they pay, including 0 percent, accompanied by the business case for how AWI would invest those funds. The five options provided in the 2009 Wool Poll were 0, 1, 2, 2.5 and 3 per cent.

The Wool Poll process allows shareholders to determine how the AWI business is to operate, along with financial parameters. The result of Wool Poll was the following funding split between R&D and marketing, and on and off farm investments:

Research and Development 50%		Marketing 50%
On Farm R&D 30%	Off Farm R&D 20%	Off Farm Marketing 50%
On Farm Activities 30%	Off Farm Activities 70%	

Figure 1 AWI's Funding split

If shareholders were dissatisfied with AWI's performance in the 2006-2009 period, they had the opportunity to vote for a zero per cent levy, thereby closing down the organisation. However in November 2009, 73 per cent of votes cast were in favour of a levy of 2 per cent or more. The votes cast represented a small increase in participation from the previous Wool Poll in 2006.

3.2 Review of Performance 2006-2009

In compliance with Section 16.2 and 16.3 of the Statutory Funding Agreement, AWI is to conduct an independent review of performance of the preceding three year period, prior to any Wool Poll.

The information contained within this review of performance allows shareholders to objectively determine how well the organisation has performed in investment of its levy monies.

The 2006-2009 Review of Performance identified areas where AWI was delivering and also some opportunities for improvement.

Importantly, the timeframe of the 2006-2009 Review of Performance (1 July 2006 - 30 June 2009), upon which a large portion of the Productivity Commission's Draft Report is premised, excluded consideration of significant changes to the operation of the business, including the appointment of a new CEO and development of a new strategy. At the time of release of the 2006-2009 Review of Performance Report, AWI had already identified many of the areas for improvement and was concurrently implementing plans for change. However these steps were not included in the 2006-2009 Review of Performance due to its timeframe.

These improvements and the progress of implementation of the 2006-2009 Review of Performance recommendations were outlined in AWI's original submission to the Productivity Commission. Unfortunately this progress by AWI was not reported in the Productivity Commission's draft report, nor was this area the subject of any further inquiries from the Productivity Commission during the informal discussions between June and September 2010.

3.3 Return to Levy Payers

Pursuant to the Corporations Act (2001) and the Statutory Funding Agreement, AWI reports on its performance each year in its Annual Report. The report is distributed to all shareholders in October each year and copies provided to key stakeholders such as the Minister and DAFF.

Appendix A, sourced from AWI's 2009/10 Annual Report, details delivery against the 2008/2009 Annual Operating Plan.

AWI also provides quarterly updates to industry stakeholders. The updates typically include:

- Progress or achievements relating to flystrike prevention activities;
- Grower issues and position update;
- Supply chain developments;
- R&D / animal welfare update.
- Marketing activities

3.3.1 *Strategic Plan 2010– 2013*

Since early 2009 AWI has focused on consolidating the business and consulting with stakeholders to ensure the business is delivering on their expectations.

Wool Poll 2009 determined the framework within which levy payers desired AWI to operate. From early 2010 AWI's focus was on consulting with stakeholders in the lead up to the development of the 2010-2013 Strategic Plan. This plan reflects the significant changes which have occurred within the organisation. To build on these improvements the direction, focus and operations of AWI are firmly embedded in the strategic goals for the next three years:

- Help build a sustainable Australian wool industry through improvements in productivity and profitability on-farm.
- Help increase demand for Australian Merino wool by recognising and addressing through off-farm R&D the product and process barriers to consumption at trade level through consumer-driven, targeted research, development and innovation programs.
- Help increase demand for Australian Merino wool by recognising and addressing the information barriers to consumption at consumer and trade level, and informing people of the Merino wool fibre story.

- Review the role and value of the Woolmark brand, revitalise it and, where markets and partners permit, maximise the presence and income streams of the brand.
- Define threats and opportunities facing the Wool industry, and build strategies and programs to ensure market access, sustainable production and improved trading environment across the supply chain.

Research, development and extension are integral to AWI's new Strategic Plan. AWI uses on-farm R&D investment to build and maintain a sustainable wool industry by providing support across areas defined by woolgrowers. It will focus its off-farm R&D on increasing demand for Australian Merino wool through addressing the product and process barriers to consumption at trade level. Greater detail about AWI's Strategic Framework for on-farm and off-farm R&D is provided below.

3.3.2 Annual Operating Plan 2010/2011

Through its roles in promoting and supporting research and development and wool marketing, AWI has the goals of:

- increasing information and knowledge through the targeted investment in on-farm and off-farm research and development to enhance the profitability, international competitiveness and sustainability of the Australian wool industry;
- increasing demand and market access for Australian wool through targeted investments in marketing and promotion; and
- providing a range of industry services to support the broader wool industry and building human, leadership and technical capacity.

To support these goals, AWI's business objectives for 2010/2011 focus to consolidate and continue progress :

- AWI will be a leaner, commercially oriented company with a sales and customer focused culture where every member of the team is either marketing wool and its attributes, or serving someone who is selling wool in its various forms as it moves through the supply chain.
- In line with the reduced size of the industry, AWI will continue to actively review its size and resource base and reduce it wherever possible without compromising our ability to achieve our Vision and Goal.
- Review the role of AWI brands (e.g. the Woolmark) and define a long term strategy to rebuild the brand and its value to consumers and trade.

Proactively review and manage current and potential issues impacting trade development, regulatory controls and in the period of this Strategic Plan, AWI will continue its efforts to identify and capture new revenue streams. We recognise that in the short term this is difficult, due to the diverse nature of the supply chain we must service, and the size of the challenges that confront us. We will however make every effort to enhance current revenue streams, and define new revenue streams

3.4 One Year on Review of Performance

A recommendation of the 2006-2009 Review of Performance (RoP) included that AWI conduct a one year on review of performance. AWI engaged GHD Hassall to conduct the review. This company has extensive experience conducting similar RoPs for other IOC RDCs.

The 2009-2010 Review of Performance is provided in Appendix C. The key outcomes of this report are summarised in Table 1 against each area reviewed, however we encourage the Productivity Commission to consider the report in its entirety as it serves to demonstrate and clarify the positive changes in AWI since the 2006-2009 Review of Performance.

Further, AWI is aware that perceptions take time to change and are dedicated to demonstrating the improvements that have been made, and are continuing to be made, despite some misreporting. It is for this reason that AWI has committed to conducting another independent Review of Performance in 2011.

While Table 1 gives an overview of the report conclusions, it is imperative that consideration be given to the assessment criteria and the full report findings.

Table 1: Summary of 2009-2010 Review of Performance (RoP) outcomes

Area Reviewed	Review Conclusion
Position and role in the industry	Fully implemented - complete
Strategy	Partial - work commenced, expected completion by/ prior 2012 RoP
Internal Structures for Planning & Evaluation	Partial - work commenced, expected completion by/ prior 2012 RoP
Consultation & Engagement	Partial - work commenced, expected completion by/ prior 2012 RoP
Measurement and Reporting	Partial - work commenced, expected completion by/ prior 2012 RoP
Company Structures & Processes	Fully implemented - complete
Corporate Governance	In progress – well on track to completion in advance of 2012 RoP
Appointment of Directors	In progress – well on track to completion in advance of 2012 RoP
Risk, Fraud & Intellectual Property	In progress – well on track to completion in advance of 2012 RoP
Documentation & Communication	In progress – well on track to completion in advance of 2012 RoP
Current RoP	Fully implemented - complete

AWI's hope is that this current course of action, and demonstrated commitment, will silence those misrepresentations.

4 Statutory Funding Agreement

This section outlines the key provisions of the 2010-2013 Statutory Funding Agreement, and changes that have been made as a result of DAFF seeking to introduce greater consistency among IOC SFAs.

The Industry Owned Companies (IOC) Research and Development Corporations (RDCs) each have a contract – or Statutory Funding Agreement (SFA) - with the federal government outlining expectations and requirements arising from the federal government levy and collection of levies. The terms of these SFAs differ due to the nature of the industries they serve and business structures.

AWI's SFA operates on a three year basis, with each successive period expiring following the Review of Performance and Wool Poll, conducted at the end of the previous year. This timeframe provides both parties with an excellent opportunity to review compliance and other requirements.

4.1 AWI's SFA 2010-2013

AWI's current SFA commenced on 1 July 2010 (Appendix D). Negotiations for the SFA commenced in early April 2010 and proceeded seamlessly, with the AWI Board endorsing the SFA in its May meeting.

Despite the finalisation of these negotiations in May, the SFA is required, like any contract, to be counter-signed by the Minister. Until this Agreement was finalised, it would have been inappropriate for AWI to include the changes to the SFA in our initial submission to the Productivity Commission on 25 June 2010.

4.1.1 Key Provisions of the SFA

The outcome of Wool Poll 2009 determined how funding was to be split (Figure 1); 50 per cent on marketing activities, 30 per cent on on-farm R&D and 20 per cent on off-farm R&D.

Funds must not be used for "agri-political activity" (engaging in or financing any form of external or internal political campaigning). This is in fact a provision being included in all contracts with IOC RDC's as they arise for renewal.

AWI is clearly defined to be a research and development, and marketing, body. Not an industry representative body.

A Strategic Plan, covering the three year term of the SFA, must be provided to the Minister by September 2010 (this has been achieved and, since, finalised), The Strategic Plan is to be updated by 30 June in each year. Further AWI must provide to the Minister prior to 1 July in each year a copy of the Annual Operating Plan.

AWI must provide to the Minister copies of the Annual Report at the same time it is released to shareholders. This has been completed for the 2009/2010 year.

The results of the 2009-2010 Review of Performance are to be provided to the Minister by December 2010. As the Report of this review has been recently delivered to AWI, this will be achieved shortly.

AWI needs to aim to establish a “Skills-Based Board” recommended by a Nomination Committee. A Board Nomination Committee will be implemented by AWI prior to the biennial election of Directors at the 2011 Annual General Meeting. This has been communicated to the Minister.

Under the terms of the previous and current SFA, AWI is to meet with the Department quarterly and the Minister biannually. (The Hon. Tony Burke MP delegated these biannual meetings to DAFF). At these meetings the operations of AWI and key issues arising are discussed in detail.

4.1.2 Common Changes to all IOC SFA's

AWI's 2010-2013 SFA includes a number of measures to introduce greater consistency among all IOC RDCs as their terms expire. This point seems to have been overlooked in the draft Productivity Commission report, which infers that these changes have been made to AWI's 2010-2013 SFA in isolation.

These common elements introduced to IOC SFAs are outlined in Appendix E and include items such as:

A new definition of “skills based board”

Consultation with the Commonwealth on changes to the Constitution

Formal reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
Greater consultation with DAFF in the development of strategic plans

Executive salaries to reflect levy payer and community expectations

IOCs must meet with industry representative bodies not less than six monthly.

4.2 SFA Compliance - a baseline measure

AWI has consistently complied with the terms of the SFA, both the 2007-2010 and 2010-2013 versions. Further, in committing to undertake a further 2011 Review of Performance, AWI will indeed exceed the expectations set out in the SFA. AWI welcomes the opportunity this will bring to demonstrate its progress.

The notable provisions of the SFA set out above, along with the changes applying to all IOC RDC's, demonstrate the level of checks and balances within which AWI operates.

A base measure, or starting point, of performance for IOCs is their compliance with their SFAs. DAFF's view of how the SFA acts as a tool is outlined below:

The Minister is accountable to Parliament for ensuring that the funds are spent for the purposes for which they were appropriated and that they are spent efficiently, effectively and ethically.

SFAs are the prime mechanism to assist the Minister to discharge this responsibility. They are routinely upgraded when they are renewed to take account, inter alia, of the most recent performance review, changes in Government policy and priorities, including, with respect to the management and expenditure of public monies, and developments in stakeholder expectations.

Source: DAFF 2010 - Information paper recent innovations in the development of Statutory Funding Agreements.

AWI's SFA is the basis upon which the business operates. Almost without exception business functions are verified against the SFA to ensure AWI is continually complying with those requirements.

Operating within the terms of the SFA represents a 'baseline' level at which AWI should operate as determined by DAFF and AWI. Suggestions or inferences that AWI has not operated at this level are incorrect.

5 Governance – Board Processes & Nominations Committee

This section outlines a number of measures that AWI has in place or has introduced to ensure good governance and continual improvement.

The AWI Corporate Governance Framework is designed to support the strategic and operational objectives set out in the 2010/2011 Annual Operating Plan and 2010 -13 Strategic Plan by allocating accountability and establishing controls.

The framework aims to meet stakeholder expectations of sound corporate governance practice and to foster a strong culture of good governance in the company.

A summary of the AWI Corporate Governance Framework is set out in the Annual Report 2009/10, and extracted in Appendix F.

5.1 Board Processes

5.1.1 Board Performance

As reported by GHD Hassall in the 2009-2010 Review of Performance, section 4.1 of the 2010 to 2013 SFA, outlines the Board Corporate Governance in which it should implement good corporate governance practices drawing on the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007*. In particular the three main aims of this charter are to:

- Structure the Board to add value
- Establishment of a Skills Based Board recommended by a Nominations Committee (subject to retirement and election requirements under the company's Constitution); and
- Establish a process for evaluating the performance of the Board and its Committees.

The *Statutory Funding Agreement 2010 to 2013* was approved by the Board at its May 2010 meeting.

Further, the Board is working with a consultant, Mr John Harrison, on board performance. This has included

establishing KPIs, and coaching of the Board collectively and individually.

5.1.2 Formal & Informal Board Reviews

AWI has commissioned specialist governance advice to implement Board operating protocols and provide specific recommendations to the Board as to the correct division of function between the Board and management. Since this time the Board and CEO have been implementing these recommendations, including:

Formal Board operating protocols;

Formal annual Board and Director performance review;

A new conflict of interest policy; and

A new grievance policy.

Further, as reported by GHD Hassall in the 2009-2010 Review of Performance, during 2010 the Board has worked on clarifying its role and the division of function with management. A corporate governance structure was presented to the Board at the October 2010 meeting, extracted as Appendix F. The Board has also developed an action plan to ensure it schedules and deliberates on its functions during the year. This includes strategic planning, investment decisions, performance reporting and reviews of policies and procedures.

Further, noted in the 2009-2010 Review of Performance, in setting the Company's strategic direction, the AWI Board delegated the day to day management of the company to the CEO and also established a number of committees in order to ensure AWI operates to good governance standards and accountability provisions. The following committees and advisory groups have been established:

- Finance and Audit Committee;
- Remuneration and Appointment Committee; and
- Science and Welfare Committee;
- Wool Carbon Alliance;
- Wild Dog Advisory Group, and
- Wool Grower Industry Consultative Committee.

The Wool Carbon Alliance and the Wild Dog Advisory Group report to the Science and Welfare Committee.

The Board is also, with the assistance of Mr John Harrison, finalising a set of key performance indicators to measure and manage its own performance. Mr Harrison's involvement has also extended to coaching of the Board, collectively and individually.

5.1.3 Board Policies & Procedures

AWI has extensive and robust links with its key stakeholder groups: the Australian wool industry and the Australian government.

Managing Conflicts of Interest

AWI has often been criticised, for perceived Board conflicts of interest. Such criticisms are unfounded. AWI takes the issue of potential conflict seriously and has introduced numerous measures to ensure that Director's individual interests are not permitted to affect the performance of their roles on the Board.

As reported by GHD Hassall in the 2009-2010 Review of Performance, the Board approved on 24 September 2009 a policy titled *Conflicts of Interest – Directors and Officers* to 'assist it to undertake decisions in an ethical and responsible way without being influenced by improper considerations' in order to ensure contracts are of a commercial nature and consistent with AWI's legal obligations.

In order to assist the Board in undertaking decisions in an ethical way, the Board refer to its many policies, set out in full in Appendix F, along with the Corporations legislation.

5.2 Nominations Committee

5.2.1 Skills Based Board

At its July meeting the AWI Board agreed to put in place a Board Nominations Committee, and at its October 2010 meeting agreed to demonstrate the skills of the Board through preparation of skills. Preparation of this matrix is well underway and is expected to be finalised in February 2011. This will then be provided to the Minister.

The 2010-2013 SFA defines the required skills of the AWI Board as demonstrating collective expertise against each of the following:

- (a) corporate governance;
- (b) wool growing;
- (c) wool processing;
- (d) product promotion and retail marketing;
- (e) domestic and international market development and international trade;
- (f) R&D, technology, technology transfer, commercialisation and adoption of R&D and innovation;
- (g) conservation and management of natural resources;
- (h) administration of research and development; and
- (i) finance and business management.

The Board is in the process of reviewing its Charter to bring it into line with the SFA in this regard.

5.2.2 Nominations Committee

The Board Nomination Committee will comprise five members – two members of the AWI Board and three people who are not members of the AWI Board.

The establishment of the Board Nominations Committee ensures the AWI Constitution remains intact, under the terms of the SFA. An individual can be considered as a candidate for the AWI Board by obtaining 100 signatures under the terms of the AWI Constitution, with recommendations made by the Nominations Committee.

The Nomination Committee, with the assistance of external advisors if required, will determine the optimal skill set required by the Board at the time of nominations and will provide a report to the Board, for communication to AWI shareholders, regarding how the appointment of each of the nominees would result in the Board having an appropriate balance of skills and experience.

The AWI Board members will still be elected by shareholders at an AGM.

The size of the AWI Board will continue to be determined by the current Constitution (ie – not less than 5, and not more than 10).

A Board Nomination Committee Charter was finalised and approved by the Board in its November meeting, in line with the requirements of the SFA. A letter will be sent to the Minister shortly outlining progress in this regard.

6 Consultation Processes

This section outlines the processes AWI has introduced to promote better stakeholder engagement and consultation.

Concurrent to the 2006-2009 Review of Performance, AWI reviewed its processes for engaging stakeholders. The result has been a more formalised and structured approach, as summarised below in Figure 2.

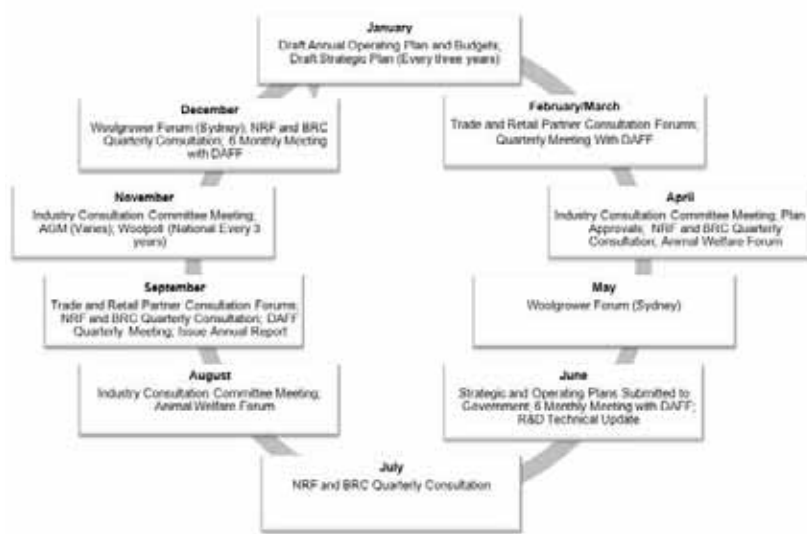


Figure 2 AWI's Annual Consultation Cycle

A key outcome of AWI's review of stakeholder engagement was the establishment of two groups - the Industry Woolgrower Consultative Committee (ICC) and the Animal Welfare Forum.

As noted in 3.4.1 in AWI's initial submission to the PC, the ICC was established to ensure woolgrower representatives are formally consulted. The ICC meets 3-4 times a year allowing for AWI to seek input on the development of priorities and other key activities. The ICC also provides a forum for grower representatives to provide feedback to AWI. The ICC last met on 4 November 2010.

The Animal Welfare Forum was established in 2009 to ensure that key animal welfare organisations and researchers are consulted on key issues.

This forum meets twice a year with the main focus being on breech flystrike prevention. The Animal Welfare Forum last met on 3 November 2010.

In addition to these consultative groups, AWI consults and engages a wide range of stakeholders in areas across its business. These are summarised in Figure 2 above and detailed in Table 3 below.

Table 3: AWI Stakeholder Consultation 1 July 2009 – 30 June 2010 (Source: 2009-2010 AWI RoP)

Engagement	Planned consultation	Actual consultation
Woolgrowers	<ul style="list-style-type: none"> National Wool RD&E Strategy grower workshops in all wool growing areas ▶ Woolgrower Forum ▶ Key regional events including shows, field days and, forums . ▶ Wild Dog Advisory Committee ▶ Wool Carbon Alliance 	<ul style="list-style-type: none"> ▶ Participation at 85 regional and industry events including industry field days, seminars, conferences, speaking engagements, online webinars and telephone hook-ups. ▶ December 2009 & May 2010 woolgrowers consultation days ▶ 8 strategic planning forums across Australia. ▶ Industry Woolgrower Consultative Committee meetings held in April & June 2010. A further meeting is scheduled for November 2010. ▶ Consultation at two meetings on the AWI Climate change and variability Strategy ▶ Two ICC meetings
Retailers and Brands	<ul style="list-style-type: none"> ▶ Annual delegation to meet with British Retail Consortium (BRF) and National Retail Federation (NRF). ▶ Quarterly reports to British Retail Consortium (BRF) and National Retail Federation (NRF). ▶ Formal consultations and informal discussions on issues as they arise. ▶ Retailer & Brand 	<ul style="list-style-type: none"> ▶ Delegation in December 2009 & September 2010 to provide an update on progress of flystrike R&D to BRF and NRF. ▶ Quarterly briefings of NRF & BRC conducted in June/ July, Sept & Dec 2009, March/ April, June and Sept 2010, ▶ AWI hosted Eric Autor (NRF) to Australia in April 2010 to meet with industry organisations, R&D scientists and welfare groups and

Engagement	Planned consultation	Actual consultation
	<p>consultation on product and innovation development Spinexpo New York & Shanghai; Milano Unica, Italy; Premiere Vision, Paris</p>	<p>government officials in order to gain an understanding of the industry and efforts to find alternatives to mulesing.</p> <ul style="list-style-type: none"> ▶ Product development & Innovation workshops at all key trade shows as planned. ▶ Expert marketing panel established to provide independent expert advice on the global marketing campaign
Manufacturers	<ul style="list-style-type: none"> ▶ Annual product development and innovation workshops with key and influential manufacturing partners ▶ Regular informal discussions and workshops on technical issues as required with ▶ Exploit IWTO forum to meet with early stag processors and manufacturers ▶ Contribute to the International Standards Organisation (ISO) industry committees to ensure the standards are not biased against 	<ul style="list-style-type: none"> ▶ Product development & Innovation workshops with key and influential manufacturing partners ▶ Workshops and discussions during July 2009 and February 2010 ▶ Participated in IWTO Conferences at India 2009 and Paris 2010 to discuss technical developments and innovations ▶ Participated in ISO industry committees
Fashion designers	<ul style="list-style-type: none"> ▶ Informal panel assembled by AWI, comprising designers who influence both the form and content of fashion apparel. 	<ul style="list-style-type: none"> ▶ Fashion and design consultation forum planned for March 2011. (BTB Sept 2010) ▶ Fashion festivals: Melbourne and Sydney
Government	<ul style="list-style-type: none"> ▶ Six monthly Ministerial meetings and Quarterly meetings with Department of Agriculture, Forestry and Fisheries (DAFF) 	<ul style="list-style-type: none"> ▶ Six monthly SFA meeting with DAFF on 22 December 2009 and 17 June 2010. ▶ Quarterly SFA meetings with DAFF on 27 July 2009; 1 April, 2 July & 29 September 2010. Further meetings planned for December 2010.
R&D Vendors	<ul style="list-style-type: none"> ▶ Conference (Flystrike R&D technical update) ▶ Informal consultations 	<ul style="list-style-type: none"> ▶ Bi-annual Flystrike R&D Update held in June 2010

Engagement	Planned consultation	Actual consultation
	<p>on issues as they arise.</p> <ul style="list-style-type: none"> ▶ Planning for Ag Insights bi-annual Forum (AWI & MLA) to be held in 2011 ▶ National Wool RD&E Strategy Working Group ▶ National Wild Dog Management Advisory Group ▶ National Animal Welfare RD&E Strategy Steering Committee 	<ul style="list-style-type: none"> ▶ Animal Welfare Forum held in August 2009, April 2010. A further meeting is planned for November 2010. ▶ Ag Insights held in March 2009 and next scheduled for March 2011 ▶ Participation in two teleconferences (Oct and May) - sharing of objectives and priorities ▶ Participation in the two meetings - sharing of objectives and priorities ▶ Participation in 4 face to face meetings (Oct, Feb, May, June) - sharing of objectives and priorities

7 Intermediate Sanctions

This section addresses the Productivity Commission's request for measures to address under-performing RDCs.

The draft Productivity Commission report requests input on what comment specifically on notes that if AWI's organisational performance has not improved by 2012, a strong case could be made for the removal of funding.

This request seems to overlook the numerous measures that currently exist.

7.1 Regular reporting

AWI's SFA, like those of the other IOCs, requires ongoing and regular reporting on integral business activities including the annual operating plan, the three year strategic plan, the annual report, any other report on activities at any time requested by the Minister. In addition, at the six monthly AWI provides a compliance report, outlining the actions taken in the previous period demonstrating compliance with the SFA. These requirements are outlined in Clauses 12-15 in the 2010-2013 AWI SFA, Attachment D.

While these reporting protocols and requirements do not in themselves represent actions the government could take against an underperforming RDC, it does demonstrate the comprehensive reporting system currently in place, ensuring that RDCs operate as required by the government through the SFA.

7.2 Suspension or Termination

The Commonwealth currently holds extensive powers to suspend or terminate RDCs if they are found to be in breach or under-performing.

Under Clause 8 of the 2010-2013 AWI SFA (and clauses 6 of the 2007-2010 SFA) the Commonwealth currently has extensive powers to act against underperforming RDCs, as detailed below

8.1 If the Commonwealth is not satisfied that any activities (including, but not limited to, Research and

Development Activities) carried out by the Company benefit Australian woolgrowers and/or the Australian community generally, the Commonwealth may, by giving written notice to the Company, require the Company to provide an explanation of how any activities specified in the notice are for the benefit of Australian woolgrowers and/or the Australian community generally, within 7 days of receipt of the notice. The Commonwealth may:

- (a) consult Industry representative bodies on any explanation received from the Company; and/or
- (b) publish the written notice and the Company's explanation.

8.2 Subject to clause 8.3, the Commonwealth may, by giving written notice to the Company, immediately:

- (a) suspend or terminate payment of any or all of the Funds;
- (b) suspend or reduce the amount of a payment of the Funds that would otherwise be made;
- (c) direct the Company to deal with all or any of the Funds in a certain way; and/or
- (d) terminate this Agreement

if:

- (e) an Insolvency Event occurs; or
- (f) the Company is in breach of its obligations under this Agreement or the Act including:
 - (i) its obligations under clause 7.3 to spend the Funds efficiently, effectively and ethically; or
 - (ii) a failure to provide a satisfactory report or explanation under clause 15.1; or
 - (iii) a failure to take associate remedial action arising from the clause 15.1 report or explanation; or
 - (iv) failure to rectify the breach;

and:

- (v) the Company has not either provided a satisfactory report and undertaken remedial action within the time specified; or

- (vi) rectified the breach within 28 days of receiving notice of the breach; or
 - (g) the Company fails to provide an explanation satisfactory to the Commonwealth under clause 8.1; or
 - (h) the Commonwealth considers that it is appropriate because of a change to the Constitution of the Company; or
 - (i) the declaration of the Company under the Act as the Industry Research Body is revoked; or
 - (j) there is a change in Government policy relating to the raising or spending of the Levies or the payment or spending of Commonwealth Matching Funds.
- 8.3 The Commonwealth shall not issue a notice under clause 8.2 for a ground stated in clause 8.2 (i) or (j) unless the Commonwealth has first:
- (a) given the Company six months prior written notice of its intention to issue a notice under clause 8.2 (i) or (j); and
 - (b) had regard to any matters raised by the Company in response (including, but not limited to, matters related to any long term commitments of the Company).

AWI believes that this current reporting framework is sufficient.

An additional measure which could be adopted is a formal consultation by DAFF with the industry representative body (IRB) of each RDC. This would reflect the industry-government partnership of the RDC model which is generally accepted as being one of its core strengths. Such a process could have DAFF, the RDC and the IRB involved in a joint meeting, to specifically review the performance of the RDC against the SFA. We recommend the industry representative body for AWI should be the existing Wool Grower Industry Consultative Committee.

8 2012 Review of Performance

This section addresses the issues raised in the draft report relating to the outcomes of AWI's 2012 Review of Performance.

The draft Productivity Commission report notes that if AWI's organisational performance has not improved by 2012, a strong case could be made for the removal of funding.

AWI does not agree with this recommendation. However it does so, by strongly encouraging those making assertions about AWI's performance, to do so in a fresh, informed and objective manner rather than using any prejudices of past activities. Despite the 2006-2009 Review of Performance, levy payers were confident enough to support the Board at Wool Poll 2009 with a 73% vote for a levy of 2% or more, and an 86% majority gave their support to biennial Director elections.

As noted in section 2.3.1 and 2.3.2, AWI has significantly improved business operations over the past 18 months; has just completed a one year review of performance (1 July 2009 - 30 Jun 2010); and AWI has already committed to conducting an additional one year review of performance in 2011 (1 July 2010 - 30 Jun 2011).

In November 2012, with the reports of these two most recent one year on reviews of performance, AWI shareholders will be better informed than at any other time in terms of the performance of the organisation and the returns to levy payers. At that time, similar to in previous Wool Polls, if the shareholders are dissatisfied with the performance of AWI they can vote to support a zero per cent levy and disband the organisation.

9 AWI's presentation to the Productivity Commission

This section addresses those issues raised during AWI's presentation to the Productivity Commission on 22 November 2010.

Review's ToR not focused on AWI

The manner in which the individual RDCs and the CRRDC have responded to the PC review has been twofold: generic issues relating to all RDCs are covered by the collective CRRDC submission; whilst industry specific issues are addressed in the individual RDC submissions.

AWI's second submission follows this rationale. However in addition to the industry specific R&D issues, AWI's subsequent submission also addresses comments made specifically relating to AWI in the draft PC report.

During the recent presentation the PC noted that the review scope and terms of reference were about the RDC model as a whole and not specifically about AWI.

AWI recognises this, however as noted earlier in this submission, AWI believe some of these comments are not accurate. Consequently these have been raised and specifically covered in this submission to ensure full consideration of the issues is enabled by the PC.

Frequency of Wool Poll

Pursuant with the *Wool Services Privatisation (Wool Levy Poll) regulations 2003 (C'1th)* AWI is required to conduct a poll of levy payers every three years.

The Productivity Commission queried whether AWI had considered conducting this poll every five years.

AWI notes that the Wool Poll Panel, in their final reports in 2003 and 2006, recommended that the frequency of the poll be expanded to every five years.

This issue has been discussed internally however a firm position has not been determined. However given the cost of conducting the triennial poll and the fact that "industry seems to be consolidating behind a 2% levy" it may be worth presenting this option to shareholders.

Attendance at CRRDC meetings

Through the Council of Rural Research & Development Corporations (CRRDC), the RDCs have a forum to meet and discuss a wide range of issues. This forum also supports

In addition to the Chairs and CEOs forum are the Business Managers and Communications Managers Forum. AWI has participated in all of these forums in the past.

AWI has found significant benefit from its participation in these forums and will continue to ongoing involvement.

AWI's R&D focus

AWI's role is the R&D and marketing organisation for the wool industry. The way in AWI operates is outlined within its SFA. The SFA outlines the manner in which AWI is to invest funds as determined by levy payers every three years at Wool Poll.

The following diagram explains how 50% of the funds AWI invests are in R&D and 50% in marketing.

Research and Development 50%		Marketing 50%
On Farm R&D 30%	Off Farm R&D 20%	Off Farm Marketing 50%
On Farm Activities 30%	Off Farm Activities 70%	

To claim AWI is not focused on R&D is completely inaccurate. It is true to say however that compared to other RDCs and industries, AWI and the wool industry has traditionally had a stronger focus on off-farm supply chain, fibre innovation R&D and marketing issues than other RDCs which have historically invested mainly in on-farm productivity issues.

As noted in the initial submission to the PC, the wool industry is currently facing a turning point. Now more than ever investment in R&D is critical to ensure a productive and profitable outlook for wool growers. With this backdrop in mind, the 2010-2013 strategic plan was developed to ensure significant investment was made in key areas outlined in the plan.

The 2010-2013 Strategic Plan promotes research and development as a mechanism to drive improvements in:

- farm productivity and profitability,
- the sustainability of wool production, manufacturing, use and disposal, and
- wool's relative market share in key segments (particularly casual wear).

AWI, through its roles in promoting and supporting research and development and wool marketing, has the objectives of:

- increasing information and knowledge through the targeted investment in on-farm and off-farm research and development to enhance the profitability, international competitiveness and sustainability of the Australian wool industry;
- increasing demand and market access for Australian wool through targeted investments in marketing and promotion; and
- providing a range of industry services to support the broader wool industry and building human, leadership and technical capacity.

10 Conclusions

AWI is a significantly changed organisation from the one examined in the 2006-09 Review of Performance, as noted by the 2009/2010 Review of Performance report. The 2009 Wool Poll strongly demonstrated woolgrowers' endorsement of a new strategic direction and the implementation of this is well underway.

As also stated in the 2009/2010 Review of Performance, AWI has a clear and defined role in the Australian wool industry, its latest strategic plan clearly communicates the direction and strategic intent of the company across all areas of on and off farm R&D as well as marketing.

AWI has a defined cycle of consultation with shareholders as well as a rigorous reporting of performance.

It has a pathway to move towards a skills based board as defined by the new SFA.

AWI provides a central R&D and marketing role to the Australian wool industry it serves. It is accountable to the woolgrowers and federal government that fund it and has a clear path forward for the future.

Appendices

<i>Appendix A</i>	<i>Deliverables against 2009/10 KPIs</i>
<i>Appendix B</i>	<i>2010/11-2012/13 Strategic Plan</i>
<i>Appendix C</i>	<i>2009-2010 Review of Performance</i>
<i>Appendix D</i>	<i>Statutory Funding Agreement 2010-2013</i>
<i>Appendix E</i>	<i>DAFF changes to IOC SFA's</i>
<i>Appendix F</i>	<i>AWI Corporate Governance Framework</i>