

Vision and Action

for New Zealand's
Wool Sector

A report from the
Wool Industry Project
Action Group

July 2020





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The Wool Industry Project Action Group

The Wool Industry Project Action Group (PAG) was formed out of the 2018 Wool Summit and the subsequent work of the Wool Industry Working Group.

The purpose of the PAG is to be a catalyst for change in the New Zealand wool sector (with a particular focus on strong wool) to:

- help the sector identify developing global opportunities for consumer products made from natural fibres, particularly wool, in a uniquely New Zealand way
- enable the sector to understand where investment and collaboration is required to respond to these emerging opportunities and what the sector and government roles should be
- through these actions, see the demand for high-quality wool from New Zealand farmers increase and the profitability and viability of sheep farming in hill country New Zealand strengthened.

The PAG also wishes to respond to the emerging vision for New Zealand's agriculture, food and fibre sector developed by Minister O'Connor's Primary Sector Council – **an enriched future by providing the world's most discerning customers with outstanding, ethically produced natural products.**

Members of the PAG were drawn from the wider Wool Industry Working Group, covering the breadth of the wool value chain, with an independent Chair:

John Rodwell	Independent Chair – farming and investment banking perspective
Kate Acland	Strong wool farmer – farming perspective
Paul Alston	Chief Executive Officer, Cavalier Bremworth – manufacturer
Andy Cooper	Science Impact Leader, AgResearch – research and development
Grant Edwards	General Manager, PGG Wrightson Wool – broker and exporter
Paul Ensor	Fine wool farmer – farming perspective
Sandra Faulkner	Strong wool farmer – farming perspective
Gretchen Foster	International Marketing Manager, NZ Merino Company – marketing and consumer perspectives (meetings 1 and 2)
Steve Williamson	General Manager Creative, NZ Merino Company and Studio ZQ – marketing and consumer perspectives (subsequent meetings)
Peter Whiteman	Managing Director, Segard Masarel (NZ) Ltd – exporter

The PAG has drawn on discussions it has had with many different parties and groups across the New Zealand wool sector to produce this report.

It is also underpinned by analysis of a wide range of sector data and market information gathered from the past 20 years, which is compiled in more detail in **Appendix 1.**

In Summary

A snapshot

New Zealand is one of the world's most significant producers of strong wool. We export more strong wool than any other nation to the world's leading textile manufacturers. The increasing shift back to using natural and environmentally sustainable materials is a significant opportunity to further grow our wool sector and continue to innovate with new uses for wool.

A natural fibre renaissance

Increased competition from synthetic fibres has reduced demand for strong wool and led to a long-term contraction of the sector. We acknowledge that attempts to respond to this threat and revitalise the strong wool sector have failed in the past. However, we believe we are on the cusp of a natural fibre renaissance led by more environmentally and socially conscious consumers and that a new approach is needed. The wool sector has a significant opportunity to leverage New Zealand's unique farming systems and the natural and sustainable qualities of wool to further expand markets by targeting discerning consumers who value these attributes.

Impact of COVID-19

The COVID-19 crisis has caused significant disruption domestically and across international markets. However, this is not expected to negatively affect the long-term demand for natural and sustainable fibres such as New Zealand wool. We believe this disruption will present new opportunities if we build on New Zealand's safe and reliable reputation, and blend this with an understanding of an evolving consumer mindset that places a high value on products that enhance family safety and health.

New uses and new product categories

The high quality and unique attributes of our strong wool can support the development of entirely new product categories and uses. Gaining a better understanding of the needs of our consumers, as well as all of our end users, will allow us to leverage the high quality of our wool into new and innovative products.

Consumer-focused and match fit

Our recommendations focus on identifying opportunities for players in the strong wool sector to invest and work together to target high-value consumers and end users, while simultaneously getting the sector match fit by addressing the issues that have manifested due to a sustained lack of investment. Alongside the need for the strong wool sector to become more responsive to consumer and end user needs, there is also an opportunity for government and all New Zealanders to show greater leadership by incorporating criteria requiring sustainable and environmentally friendly products into purchasing decisions.

Agile and inspirational

We will not change the fortunes of the strong wool sector overnight, but our recommendations will start to build a vibrant sector ecosystem that delivers for all – from our growers, along the supply chain to our consumers and end users. Our hope is that this revitalised sector will be agile, attract the best talent and inspire and become an exemplar to the primary sector.

Mission Intent

Over the next decade, the New Zealand wool sector should commit to capturing the hearts, minds and values of consumers who love natural, sustainable materials.



Our mission intent encapsulates the opportunity in front of a strong wool sector and is intended to guide the execution of our recommendations. It acknowledges there is a growing segment of consumers who desire more natural and sustainable products and that strong wool is inherently well positioned to meet that market demand. This view is gaining momentum across New Zealand's agriculture, food and fibre sector, as articulated in the Primary Sector Council's vision, which incorporates the concept of Te Taiao – respect for and harmony with the natural world.

Key Actions

We recommend three key actions:

1 **Develop a market-focused investment case and strategic roadmap for the strong wool sector**

Partner with a group of global experts capable of providing an “outside-in”¹ market perspective to identify opportunities for the New Zealand strong wool sector and an investment case for players within the sector to take advantage of these opportunities. By putting consumers and end users at the heart of what we do and understanding their needs, we will be able to position New Zealand strong wool as the high-value natural fibre of choice. This will increase demand for strong wool and lift profitability for all parts of the sector.

2 **Establish the capability necessary to get the sector match fit and ready for the opportunities ahead**

New Zealand’s strong wool sector needs to rebuild its capability to do the work that keeps the sector functional, agile and responsive to new opportunities. An executive officer should be appointed and supported by existing expertise in the wool sector and government agencies to undertake immediate actions in the following areas:

- Skills training and capability development
- Research and development
- Accreditation and standards
- Sector data and statistics
- Sector connection and coordination.

1. Where the term “outside-in” is used in this report, it refers to the engagement of thought leaders from outside the strong wool sector who are capable of providing a consumer-centric and investment perspective

3

Establish a governance and coordination capability

To transform the strong wool sector, we need a strong collaborative governance, coordination and leadership group that represents the sector, builds on the PAG and brings together strong market perspectives with government. This group will be responsible for overseeing development of the investment case and strategic roadmap, providing governance for the executive officer, restoring the sector's core capabilities and informing actions and investment by government agencies and sector participants to support the sector's development.

To inform these recommendations and our views, we have paired a broad understanding of the sector through a historical lens, including the various attempts at structural sector reform over the past 20 years, with in-depth analysis of a wide range of sector data and market information. Based on this analysis, we believe strong wool has a bright future providing a significant contribution to our rural communities and continuing its long and proud tradition as part of New Zealand's rural identity.

The challenge for us now is to collectively seize this timely market shift towards natural fibres and reinstate strong wool as an important part of our rural economy as our "team of five million" sets itself to recover from the COVID-19 crisis.

The wool sector will not be doing this alone

It will be critical to communicate clearly with farmers and companies along the supply chain about a common set of values. This should be based on the food and fibres sector Vision developed by the Primary Sector Council (PSC) and the core principle of Te Taiiao – respect for and harmony with the natural world.

The recommendations we have made will get us started on a significant shift for the sector – but the sector will not be doing it alone. The wider food and fibre sector is embarking on a once-in-a-generation transformation, with the recommendations in this report both supporting and reinforcing the changes outlined by the PSC's vision and transformation plan.



Steve Williamson, General Manager Creative, NZ Merino Company and Studio ZQ

For strong wool to thrive, shifts are required. A shift from volume to value. A shift from trading to marketing. A shift from generic promotion to bespoke stories and value chains. A shift from rules to rewards. A shift from stale to young and vibrant. A shift from old categories to new categories. A shift from an industry 'inside-out' view to an end user 'outside-in' view.

Our Wool Sector has a Long, Proud History

The New Zealand wool sector is an iconic part of New Zealand's rural identity and has supported vibrant rural communities over many farming generations. It remains an important part of New Zealand's regional economies:

- Sheep farming has always been an important part of large-scale agriculture in New Zealand, and the significant investments individuals have made in the sector have provided a platform not just for the wool growing sector to develop but also for other parts of our now-thriving agriculture, food and fibre sector.
- A comprehensive supply chain has evolved, including farming, logistics, selling, exporting and some manufacturing, supported by deep research and development.
- New Zealand remains a major global player in the strong wool sector. We remain the largest exporter of strong wool in the world, and the quality of our wool cannot be topped.

But the strong wool sector has lacked investment

The loss of core sector capabilities and coordination of investment has resulted in many of our critical development capabilities declining over the past 20 years, but evolving consumer demands and the investment and transformation necessary to support the economic recovery from COVID-19 offer the wool sector an opportunity to lift its market and export position.



Sandra Faulkner, Strong wool farmer

We are the generation of wool producers who grew up on stories of our grandparents paying off the farm with the wool cheque. We watched our parents struggle through deregulation of the sheep and beef industries and the subsequent McKinsey Report, which orchestrated the demise of the Wool Board. We heard about the wastage of industry-good funds and projects that floundered and failed, taking grower contributions with them. Yet we still believe in wool. We have created our own niche businesses, maintained the wool standards in our sheep flocks and utilised this phenomenal natural product in as many ways as possible. We wear it, we sleep in it, we wrap our homes in it – wool is wrapped around everything that we hold most dear because it is the best fibre for our world.

- While synthetic fibres have displaced strong wool in the market niches it once dominated, impacting the sector's profitability and influencing farm production decisions, the sector has maintained a critical mass to build from.
- The lack of profitability and investment has seen sheep numbers go down 45% since 1995 (from 49 million to just 27 million in 2018), with wool production falling 51% (from 213 million kg clean equivalent to 105 million kg).
- The decline has halted investment in the work that keeps the sector functional across research and development, training and capability, sector data collection, pan-sector accreditation and standards, and sector connection and coordination.
- Markets are shifting, with consumers and large consumer brands looking for natural fibres that have a strong environmental story and supply large-scale supply chains. New Zealand's strong wool sector can meet these market needs if we can shift how we engage with global consumers and collaborate to renew investment in the sector.

The situation for fine wool has been quite different

Over the past 20 years, the price of fine wool has increased by approximately 50% to an average annual price of \$26/kg clean in 2018. This has been achieved through strong leadership, sustained investment and collaboration between farmers and companies to maintain the volume of fine wool produced in New Zealand, improve its quality and develop the story presented to consumers.

- Fine wool pricing has benefited not only from continued use in applications such as high-end suiting but also from the deliberate development of a new product category – natural fibre outdoor lifestyle clothing.
- This new product category has, in large part, been created by innovative companies that have built strong connections with their customers and developed an in-depth understanding of consumer needs.
- This has enabled the development of “hero” brands that appeal to consumers who value the use of natural products and the specific performance attributes of fine wool.

We believe natural fibres are on the cusp of a renaissance

- Consumers around the world are becoming increasingly aware of the negative impacts of synthetic fibres – particularly plastic pollution and the use of potentially harmful chemicals such as fire retardants. That awareness is changing how and what consumers choose to buy.
- Younger generations are leading the way in the pursuit of more sustainable lifestyles, with those under 40 years old being significantly more likely to consider sustainability when choosing a brand or product. This will be an increasingly important factor for natural fibres as the purchasing power of this group increases.
- This change in consumer sentiment is being exacerbated by government policy around the world, which is increasingly demanding that any negative impacts that products have on the environment be captured in the pricing of those products. This is driving the price of synthetic fibres up relative to wool and other more environmentally friendly fibres.



Andy Cooper, Science Impact Leader,
AgResearch

In a world that is highly aware of plastic pollution and a growing mega trend around naturality, the red carpet has been rolled out for natural fibres. For the New Zealand wool sector to take advantage of this opportunity, we need to shift wool from a low-value commodity product and innovate to uses in high-value products and applications for global markets. We have the capability and experience in our researchers. The sector needs the will to enable them.



Paul Alston, Chief Executive Officer,
Cavalier Bremworth

*“Wool is the forgotten fibre.”
The world is changing, and synthetic fibres have had their day. With new thinking and the right focus, strong wool will enjoy something of a renaissance.*

This presents the strong wool sector with a significant opportunity

- We believe that New Zealand strong wool has the potential to once again be a leader in its traditional market niches such as carpets and blankets and to develop entirely new product categories targeted at consumers and end users who are searching for natural, healthy and sustainable alternatives.
- We believe that consumers will pay a premium for strong wool products because of the natural properties of wool, our distinctive farming systems and our sustainable and ethical production credentials. We need to get better at telling that story.
- We also believe that the high quality and unique attributes of our strong wool has the potential to support the development of entirely new uses. We need to get better at understanding the needs of our consumers and end users and how to leverage the high quality of our wool into new and innovative products.

The fine wool sector can inform our direction

- The fine wool sector has demonstrated the success of consumer-focused business models and strong connections between growers and brand partners. These connections provide a channel to understand and deliver to consumer needs across the supply chain and ensure that products truly resonate with the end user. Fine wool farmers understand who uses their wool, and that gives them a sense of pride and purpose.

Existing structures may need to change, but this must be informed by sound strategy and an investment plan

- While some further structural changes may be necessary to ensure the strong wool sector is fit for a new future, we have purposefully steered away from making any recommendations on this now. Instead, we believe that those in the sector who are willing to change need a clear strategy and a transparent process to participate in.
- Any future structural changes within the sector will be driven by commercial principles on the back of sound strategic pathways. The proposed investment plan will be the framework for these decisions.

We must act now

- The time is right, and the time is now. We will not capitalise on this opportunity without deliberate and timely action. We must all be open to looking inwards and outwards to understand where we need to change the way we do things and be prepared to invest in our future.

The size of the prize makes this worth doing

- The evidence suggests that the market for healthier and more sustainable products is expanding. If we can tap into just a portion of that market, we will see a very real increase in the profitability of strong wool for all parts of the sector and supply chain from our growers through to manufacturers and retailers.

Recommended Actions

Acting on our opportunity

The recommendations in this report focus on identifying how players in the strong wool sector can work together, invest and take action to shape a future ecosystem based on a stronger connection with consumers and end users and a thorough understanding of their needs. At the same time, we will kick-start investment to undertake the work necessary to keep our sector functional and rebuild what has been lost through a sustained lack of investment across the sector.

Our recommendations for action

1. Develop a market-focused investment case and strategic roadmap for the strong wool sector.
2. Establish the capability necessary to get the sector match fit and ready for the opportunities ahead.
3. Establish a governance and coordination capability.



Paul Ensor, Fine wool farmer

We need to rediscover our affinity with wool and have real ambition for it to become an essential part of everyday life and wellbeing globally. A prosperous wool sector will require our growers to be champions of and for the sector. Wool producers will need to meet the needs of the most-discerning customers so we can once again command premiums for our unparalleled natural fibre. There is a need for the supply chain to invest in the sector with a long-term view to effect change. I urge growers to take the time to understand and consider the recommendations in this report. We should grow our wool like the world depends on it!

Recommendation One

Partner with in-market global experts to develop a market-focused investment case and strategic roadmap for the strong wool sector

We need validation to direct our investment

- Markets are rapidly changing and shifting, and the trend towards natural and sustainable materials is gathering momentum. However, we need to understand what opportunities are the best fit for our strong wool sector and what is required for us to realise them.
- By engaging a group of global experts to develop a consumer-centric investment case, we will be able to gain a fuller understanding of:
 - the nature of the opportunity in front of us
 - how to increase connectivity with our consumers and end users and understand their needs
 - how to tell the New Zealand strong wool story in a way that resonates with consumers
 - the investment we need to meet this opportunity with confidence.

Global expertise paired with sector knowledge will inform our strategic actions

- The sector needs to pair its deep industry knowledge with an in-depth “outside-in” look at our market opportunities and assess the case for investment along with clear actions required to implement and realise the benefits. This will be a new way of working for the sector. This work will:
 - describe the opportunity presented by consumers’ desire for more natural, sustainable and healthy products and the business models or value-chain partnerships needed to realise these opportunities
 - outline the opportunities across markets and consumer groups and the gaps in the sector’s capability to take advantage of those opportunities
 - identify the investments required and the potential returns each opportunity represents.
- For selected opportunities, it will also produce an investment case and strategic roadmap to reach consumers and end users by:
 - outlining the fundamental attributes different groups of consumers would demand from wool, and what quality, provenance and other attributes would be fundamental
 - identifying global brand developers whose values align with these consumers and who have the ability to produce a suite of products that are rich in wool
 - articulating the sector capabilities, structures and investment that would be required to meet the needs of global brand developers and this discerning consumer group.

The investment case will inform individual players in the industry to make sound, informed decisions and to act

- The investment case and roadmap will lay out the practical steps that individual players in the strong wool sector and the wool sector as a whole can take to capitalise on this opportunity, either on an individual basis or as a “coalition of the willing”.
- It will provide a call to action for players in the sector to mobilise themselves to create a new ecosystem with strong connections across the value chain, from strong wool growers all the way through to consumers.

Recommendation One:

Create a market-focused investment case and strategic roadmap for the sector by partnering with a group of global experts capable of providing an “outside-in” perspective to identify opportunities for the strong wool sector and what individual players within the sector can do to take advantage of them.

Recommendation Two

Establish the capability necessary to get the sector match fit and ready for the opportunities ahead

The wool sector needs to rebuild its capability to do the work that keeps the sector functional, agile and responsive to new opportunities. An executive officer should be appointed and supported by existing expertise in the wool sector and government agencies to undertake immediate actions in the following areas:

- Skills training and capability development
- Research and development
- Accreditation and standards
- Sector data and statistics
- Sector connection and coordination.

The loss of core wool sector capability has had a material impact on the growth opportunities for strong wool. Restoring core capabilities and aligning critical investment and actions will provide a strong foundation for the sector to transform itself into a more consumer-led, product-driven category leader.



Kate Acland, Strong wool farmer

As farmers, we need to champion our product, reinvest in our sector, be open to change and commit to re-energising our industry. If this commitment is matched across the value chain, the sector can work together to drive our industry towards a prosperous future.

We must invest in our strong wool sector to get match fit again

- Our detailed consultation and research has identified that the strong wool sector has suffered from a lack of coordination of effort and investment across the industry's core capabilities.
- From this work, we know what we must do and how to fix it. It will require a sustained effort and coordination of work from the sector, specialist expertise, coordination of government and sector work programmes and strong leadership.
- The impact of this work and investment will assist in creating a strong wool sector that is able to pivot and build a new future.

We can leverage existing resources and capability to do this work

- There are already significant resources and capability in organisations such as AgResearch, Beef + Lamb and universities that must be leveraged to build the momentum to transform the sector for the future. This will include ensuring the necessary support for new product development, development of new categories and the right investment and regulatory settings for growth.

Recommendation Two:

Appoint an executive officer who is supported by existing expertise in the wool sector and government agencies to undertake immediate actions in the following areas:

- Skills training and capability development
- Research and development
- Accreditation and standards
- Sector data and statistics
- Sector connection and coordination.

A full summary of the work needed is developed in further detail in **Appendix 2**.



Grant Edwards, General Manager, PGG Wrightson Wool,
and
Peter Whiteman, Managing Director, Segard Masurel (NZ) Ltd

Many of us have spent our entire careers buying, selling, processing, researching, and marketing this noble fibre. During that time, we have seen a decline in demand, quality, clip preparation and standards. Our aim is to first halt that decline by enabling stakeholders to invest in marketing, industry training, quality assurance and on-farm activities, but above all assist in the search for a new product or new product categories that will get strong wool back in the hearts and minds of the next generation to allow them to live happy, healthy and sustainable lives.

Recommendation Three

Establish a strong wool sector governance and coordination group to develop and implement the investment case and strategic roadmap and oversee the executive officer.

The group must build on the PAG's strong foundation and leadership

- The transformation process needs a strong governance and coordination group able to coordinate activities across numerous and concurrent work programmes. The new group will include representatives from the sector, PAG, value chains and government – including farmers, researchers, exporters, manufacturers, merchants and marketers.
- The group must provide leadership and develop trust across the sector, identifying non-competitive areas where parties can actively collaborate, and continue to build the cohesion necessary for the next level of sector development.

A fresh partnership to enable a broader transformation

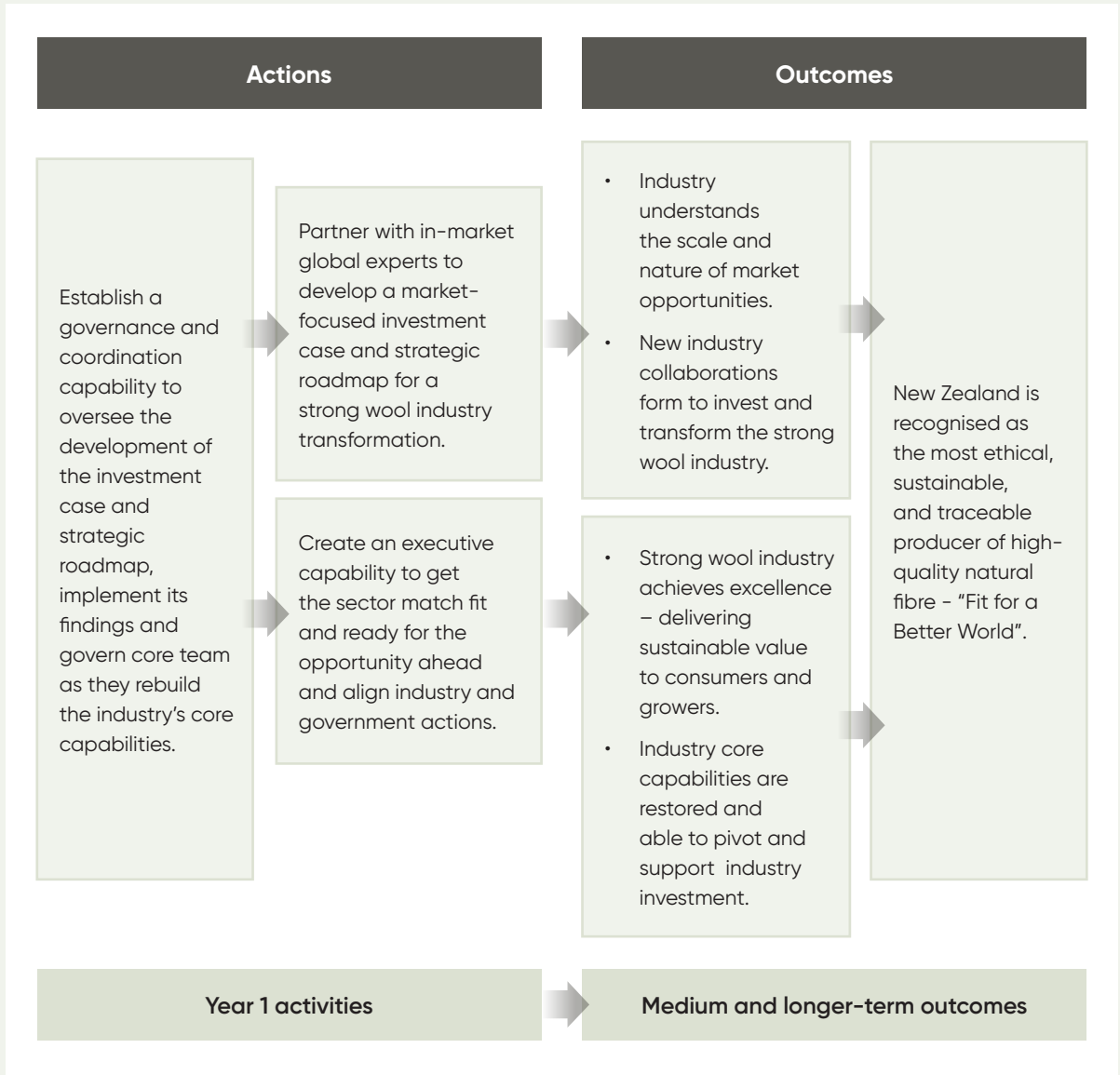
- The group will work closely with the global experts to produce an investment case and strategic roadmap for the strong wool sector. The group must be able to draw on the sector's deep knowledge and resources to inform the investment case and roadmap development.
- When the investment case and strategic roadmap are completed, the group will work with the wider wool sector to socialise its findings, which will allow farmers and businesses to mobilise and engage with the opportunities ahead.
- The group will also be responsible for socialising this work with government agencies to ensure government and sector actions and investments are focused in the same direction.

Recommendation Three:

Establish a strong governance and coordination capability to oversee the development of the investment case and strategic roadmap, work with the wool sector to implement its investment case and strategic roadmap and oversee the executive officer.

Our Outcomes

We know what steps we need to take and what success looks like



How the sector will be able to engage and progress

This report provides a long-term direction for the industry, along with detailed actions for an intensive first year of activities.

These will set a strong foundation that the industry can then take forward (with the support of key stakeholders and value chains) to achieve its medium and long-term outcomes.

After six months

The industry will have an investment case and strategic roadmap, which will be a 'North Star' to guide the industry.

The investment case and strategic roadmap will describe the opportunity in front of the strong wool industry and what individual players need to do to seize it. It will make clear where investment in production and capability is needed and where natural collaborations of existing industry players will allow opportunities to be realised harder and faster.

The executive capability will be established and working to restore core capabilities in identified areas to get the sector match fit and ready for the opportunities ahead.

After 12 months

The industry governance and coordination group will have socialised the investment case and strategic roadmap widely with the industry. It's our expectation that a "coalition of the willing" will emerge to challenge existing structures and enable sector investment to deliver positive outcomes.

Industry participants and businesses will have a clear view of their options for investment, and commercial value chains will be forming and/or collaborating with key partners to target consumer opportunities.

The executive capability will align its work going forward with the investment plan and strategic roadmap.

Sector structure and form will change

- Enduring wool sector structures will be determined as collaborative investment programmes evolve around new opportunities. This will enable all sector participants and new entrants to assess where and how they would like to participate.



John Rodwell, Independent Chair,
Wool Industry Project Action Group

How powerful to see the wool sector, steeped in history, values and economic relevance, join together as growers, merchants, exporters, researchers, marketers and manufacturers to develop an investment case and strategic roadmap using "outside-in" thinking to guide their future. And how powerful to see that investment case and roadmap being centred around the consumer, whose changing values and perspectives will lead to powerful opportunities for products based on renewable natural materials.

This will be an important example for others in the food and fibre sector of Aotearoa New Zealand.

How the sector will recognise and experience success

- We will experience the renaissance of a vibrant wool sector that attracts talent and creates new job opportunities.
- Farmers will rediscover the craft of growing wool with pride and confidence, and they will be financially rewarded for their efforts and product.
- The sector will increasingly work together through shared natural alliances and collaborative investment, and we will lift the economic impact of strong wool for the benefit of New Zealand's rural communities and wider economy.

The actions we have recommended will leave a legacy of a more connected, coordinated and forward-looking wool sector that is consumer-focused and embraces its place within the natural world.

Our success will light the way for other sectors

- Others in the food and fibre sector will be able to draw from our model of consumer-focused strategic thinking paired with a broad range of existing sector knowledge to create consumer-focused transformation in a well-established sector.



Our Work

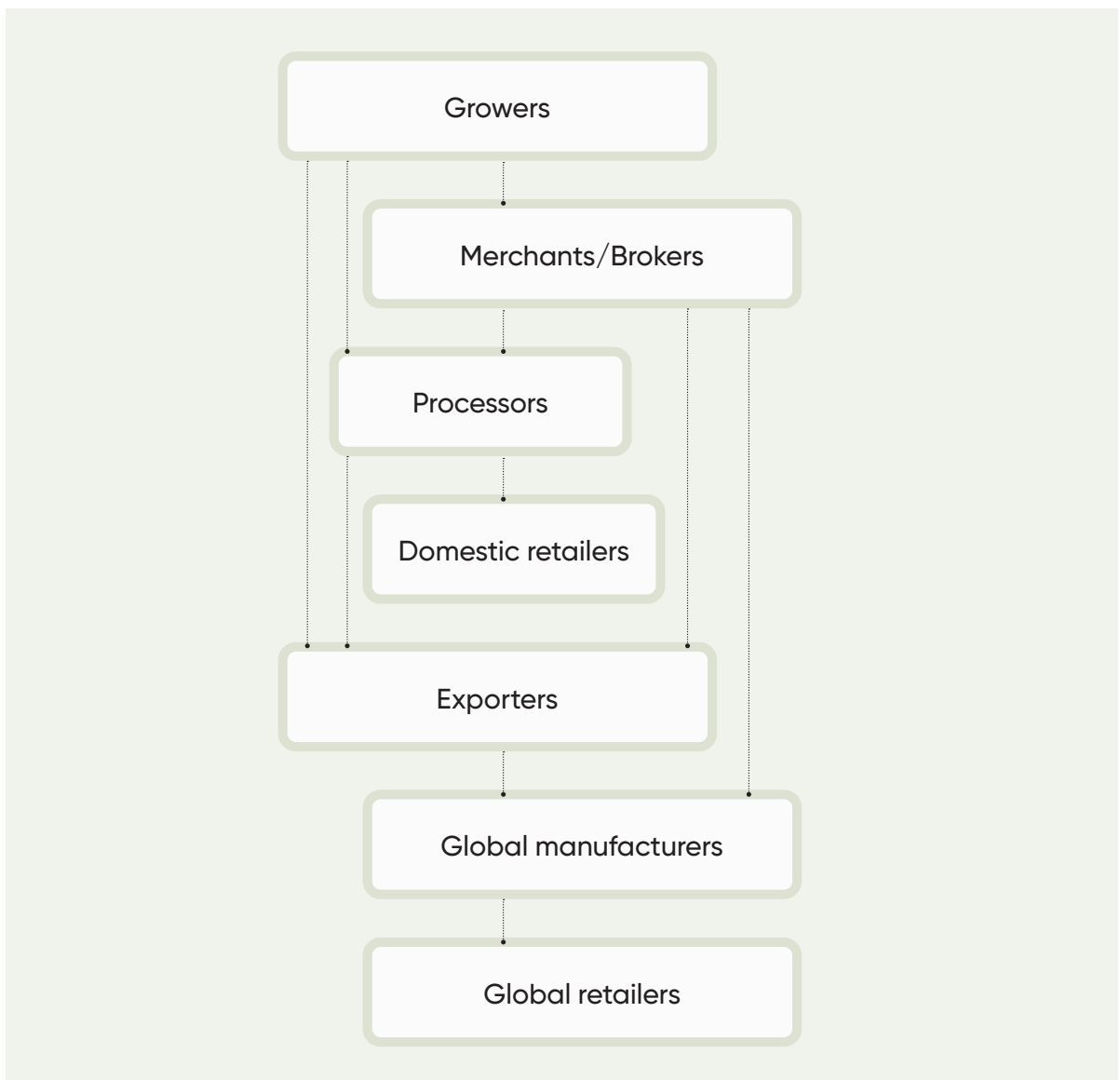
Appendix 1.

Evidence base for action plan

We focused initially on developing a strong evidence base for our recommendations. This involved pulling together data from the past two decades on all aspects of the wool sector – growing, harvesting, processing, distribution, markets, research and innovation. This is the first time in some years that a structured approach to data collection and analysis has been carried out in the wool sector.

We also sought the input of a wide range of people across the full breadth of the New Zealand wool value chain and have drawn on the findings and lessons learned from other wool investigations and initiatives undertaken in recent years.

Figure 1: The New Zealand wool value chain



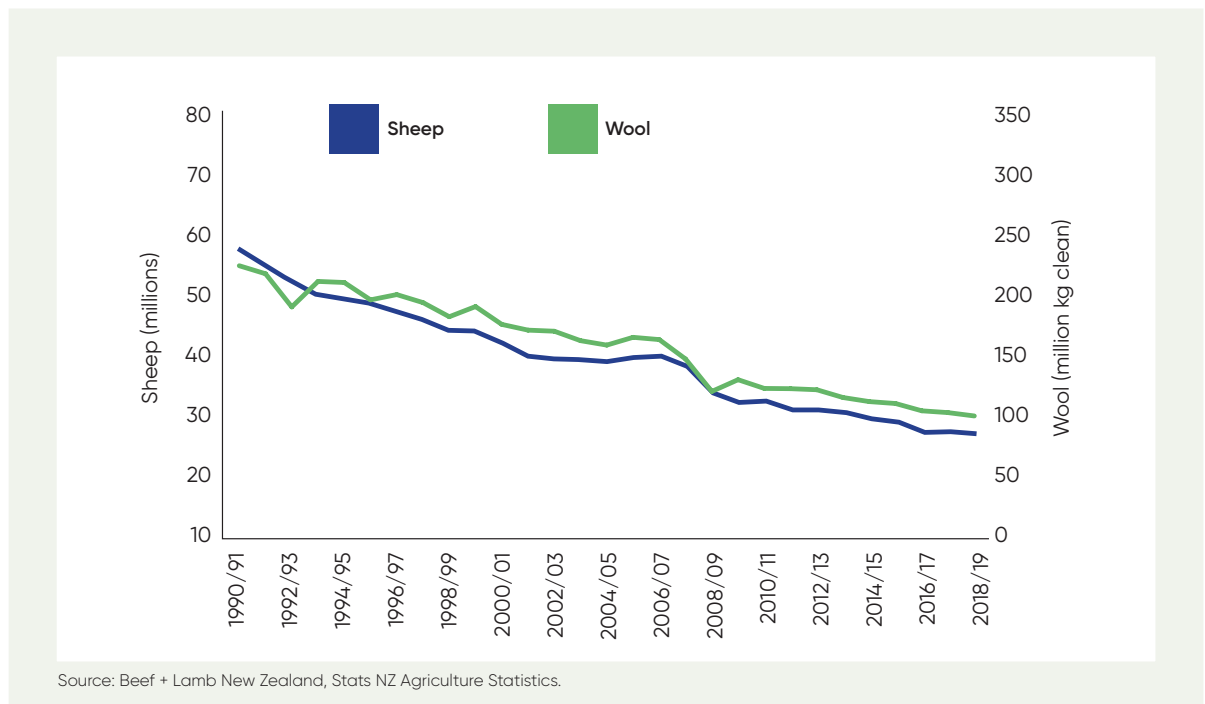
Our analysis of the information gathered has allowed us to identify and describe the opportunity we believe exists to build and sustain a vibrant and thriving wool sector in New Zealand. It has also allowed us to identify what is holding the sector back from organising itself to make the most of the opportunities it has.

The key elements of our findings are set out below.

Decline in sheep numbers and volume of wool produced

Sheep numbers in New Zealand have declined markedly as has the volume of wool produced – from 58 million sheep producing 305,000 tonnes of wool in 1990 to 27 million sheep producing 140,000 tonnes of wool today.

Figure 2: Sheep numbers and wool production (1990/91 to 2018/19e)

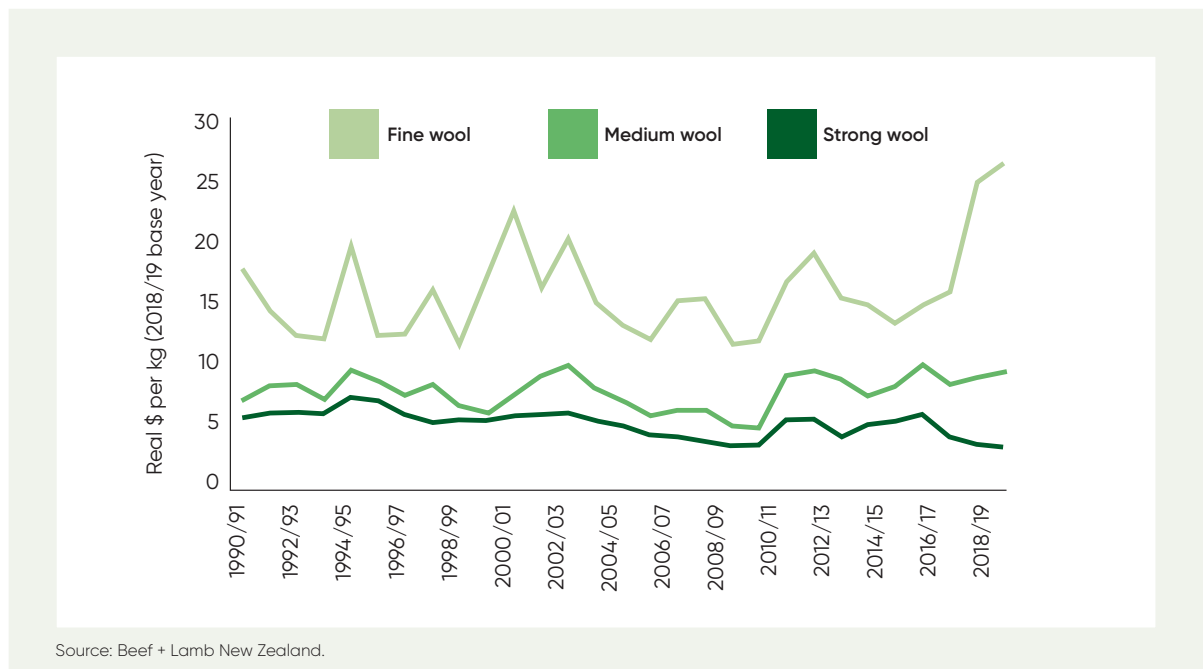


Decline in real price of strong wool

In real terms (inflation adjusted), the New Zealand strong wool price has decreased by 41% between 1990/91 and 2018/19 to an average annual price of \$3.52/kg clean in 2018. This decline continues, with PGG Wrightson's market indicator at \$2.55/kg clean at 20 February 2020.

Over the same period, the price of fine wool increased by around 50% to an average annual price of \$26/kg clean in 2018. Fine wool prices ranged from \$20.00 to \$22.10/kg clean at 28 November 2019 (PGG Wrightson).

Figure 3: New Zealand real price trend (1990/91 to 2018/19e)

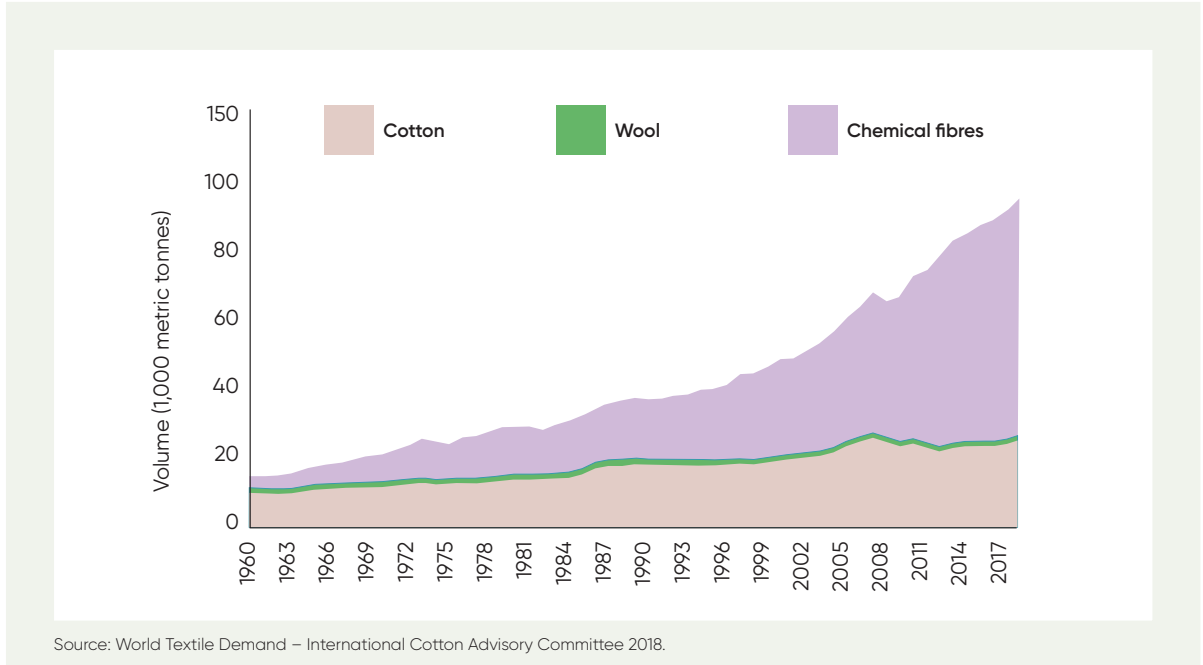


Competition from synthetics

It appears that the long-term decline in the value of strong wool is a result of competition from synthetic fibres in global textile fibre markets since the 1960s, particularly in the last 20 years. This aggressive marketing of synthetics coincided with the collapse of a unified marketing approach to wool.

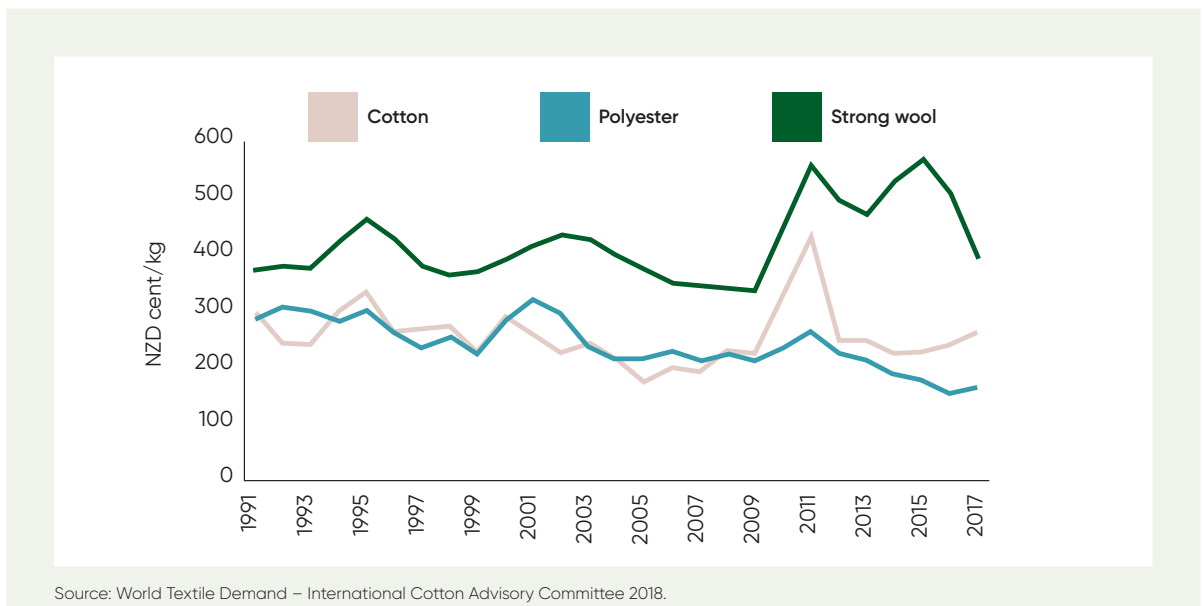
Figure 4 shows that the consumption of synthetics was around twice that of wool in 1960 and increased sharply to around 40 times that of wool in 2015.

Figure 4: World consumption of textile fibres (1960-2015)



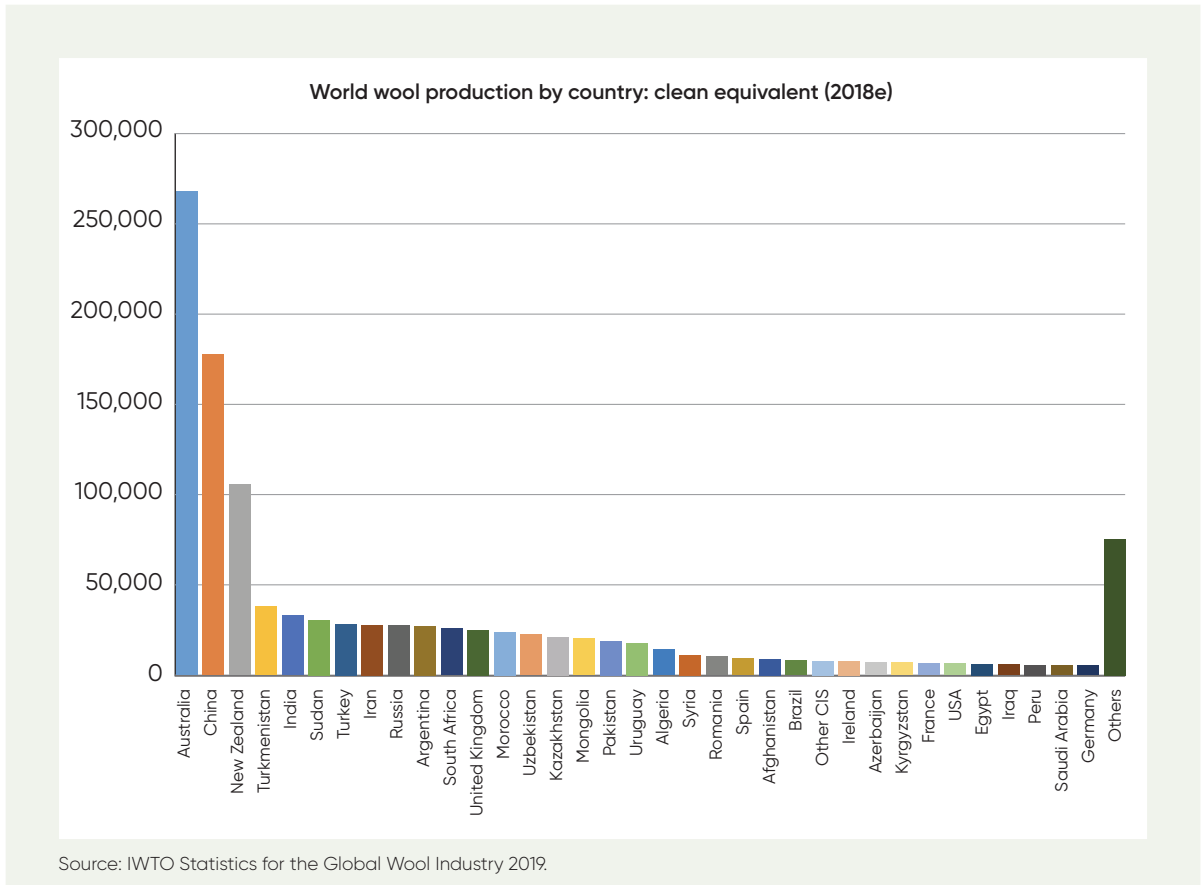
This reflects the growing use of synthetic textile fibres such as polyester and nylon in applications such as carpet, where their competitive pricing has dragged down the price of wool. Recent initiatives, such as the ban on single-use plastic bags, may signal further actions from markets and regulators to ensure the negative externalities of synthetic textiles are properly accounted for and potentially shrink the price difference between synthetic and natural textiles.

Figure 5: Nominal prices of strong wool and other textile fibres (1991-2017)



New Zealand's potential for supplying quality strong wool to the world

Figure 6: Wool production by country



New Zealand produces around 10% of global wool of all micron types, as shown in Figure 6 above, and around 20% of the 500M kg of strong wool produced globally.

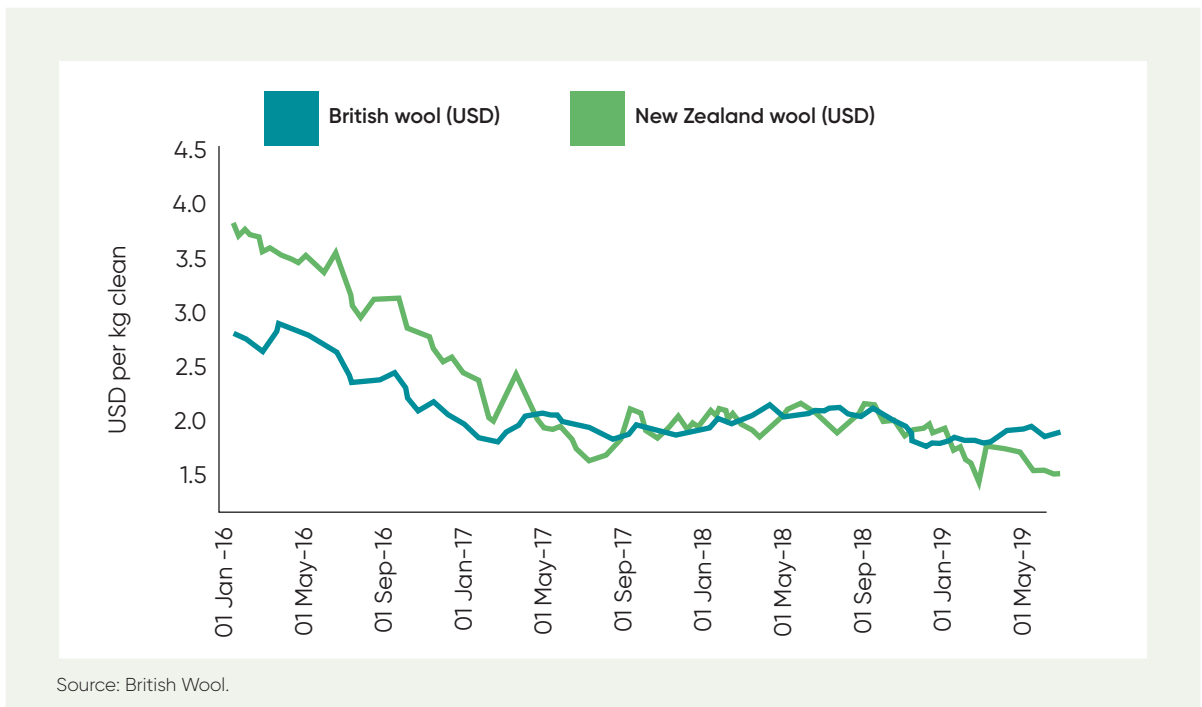
China is the only other country that produces strong wool on a similar scale to New Zealand. China has been increasing its own domestic sheep flock, although only one-third of these sheep produce strong wool. If our wool is sold as an undifferentiated commodity, we will always run the risk of our wool being substituted by wool from other countries.

New Zealand's other point of difference is the quality of the strong wool it produces. New Zealand largely has engaged growers that are focused on quality and enabled by a favourable climate for wool. As a transparent and trusted global trader, New Zealand can also provide reliable assurances of production conditions and supply chain integrity.

What does this data tell us?

Demand for and pricing of strong wool has been completely undermined by the availability of synthetic fibres at low prices over the last 20 to 30 years. This has been a reality for strong wool globally and has caused wool prices to fall across the board.

Figure 7: British and New Zealand wool prices – USD (2016-18)



While New Zealand conditions mean we can produce strong wool of excellent quality, the decline in value has led to poorer-quality wool being offered in some parts of the market as farmers responded by reducing investment in activities that contribute to wool quality. This includes breeding decisions and flock management as well as handling, classing and presentation of wool in shed.

As Figure 3 showed, however, in contrast to the fortunes of strong wool, the real price of New Zealand fine wool has increased by 48% since 1990.

Appendix 2.

Getting the wool sector match fit

This section of our report describes in further detail the actions that will create a strong wool sector that is match fit and ready to respond to the opportunities in front of it.

1. Skills training and capability development

On-farm:	Significant gap
Processing:	Gap
Exporting and marketing:	Gap

It is essential that the shearing and wool handling trades have adequate capability and training infrastructure. Marketing of our wool story and values relies on how well we manage our sheep and handle the wool and how we demonstrate this.

Despite the efforts of some sector players, the current training model for shearing and wool training is not adequate. The processing, retailing and marketing sectors require an evolving skillset to design and implement innovative processes and uses for wool to ensure the wool sector can meet consumer need.

Immediate action needed:

- Work with sector and government funders and providers on a fit-for-purpose training and qualification model for shearing and wool handling. This would include connecting with people and groups representing the wool sector on Workforce Development Councils, and the establishment of the Primary Sector Centre of Vocational Excellence to ensure a coordinated approach.
- Map out emerging and future sector skill shortages in design, engineering, materials science, marketing and other fields and determine how these can be addressed.

2. Research and development

On-farm:	Significant gap
Processing:	Gap
Exporting and marketing:	Gap

With the end of the wool levy and the deteriorating fortunes of the strong wool sector, there has been little funding of on-farm research over the past 10 to 20 years (although some on-farm research has been co-funded by government). This has undermined the development of the strong wool sector and farmers' ability to adapt to changing circumstances and market expectations.

There is also little to no extension of existing knowledge, and farmers are not confident about where to seek information.

Much research and development specific to wool processing has been done in the past, including by universities and Crown research institutes, but much less has been done in recent years with the exception of some individual commercial initiatives.

Processing-specific research is more likely to be for private commercial good. It is often not shared or is difficult to access, which leads to duplication of effort and missed opportunities.

Immediate action needed:

- Convene a workshop with members of the wool and related sectors to develop a list of priority on-farm research projects that need to be advanced.
- Develop a plan for advancing this research, working with government funders, Crown research institutes and universities.
- Undertake an extension role by working with relevant providers to share (subject to commercial availability) outcomes and learnings from current and previous Crown co-funded research with the sector and support uptake.
- Publish a summary of all the work that has been done over the last 20 years in a form that it is available for reuse.
- Advocate to government agencies the importance of Crown co-funding for some commercial initiatives, for example, in enabling technologies.

3. Accreditation and standards

On-farm:	Gap
Processing:	Gap
Exporting and marketing:	Gap

There are opportunities to create a unique and compelling value proposition for strong wool that is grown in New Zealand by explicitly leveraging its provenance and story. Farm accreditation that demonstrates these attributes to the world is a key element of connecting farmer supply of strong wool with quality manufacturers and retail brands.

Adopting a wool sector farm accreditation scheme that is accessible to all farms is a powerful mechanism for communicating consumer preferences directly to farmers. With stronger signals of consumer preferences, farmers will be able to improve on-farm practices and lift the value of the wool they are growing.

While there are already some existing company accreditation schemes that are allied to market branding and storytelling, a single wool sector accreditation scheme can complement existing schemes while providing a base industry-wide scheme. This would simplify and streamline the process of meeting consumer expectations for farmers and other parts of the supply chain and enable the production standards of New Zealand strong wool to be represented coherently abroad.

The NZ Farm Assurance Programme (NZFAP) is a base standard that was developed for the red meat sector and is already in place across the majority of sheep farms in New Zealand. In time, it is expected that NZFAP accreditation will be a requirement for all sheep farms wishing to sell meat to a processor in New Zealand. This presents an opportunity to update the NZFAP standard to include wool-focused criteria that require sheep farmers to meet a set of industry standards in woolshed practice in addition to the specific requirements that are already in place for the meat side of their business. Utilising NZFAP for this purpose would leverage the red meat sector's investment, thereby achieving significant cost savings, as auditors will be able to audit for meat and wool criteria at the same time. The NZFAP standard would be constantly reviewed and updated as needed to ensure that the wool sector is responsive to emerging risks and opportunities.

Immediate action needed:

- Work with the wool sector and NZFAP to finalise the inclusion of wool-specific criteria so that NZFAP can be adopted as a base wool sector assurance scheme for the wool sector.
- Liaise with the wool sector and NZFAP on an ongoing basis to ensure it remains fit for purpose for the wool sector and responsive to evolving consumer preferences.

4. Sector data and statistics

On-farm:	Significant gap
Processing:	Significant gap
Exporting and marketing:	Working to a minimal level

Since the end of the Wool Board, there has been minimal collection and sharing of data on on-farm wool volumes and profitability, and no industry-wide aggregation of sales-related data. This information is needed to inform on-farm and business decisions and provide the transparency necessary for long-term business relationships to develop.

Immediate action needed:

- Establish and publish a regular wool statistics report.
- Develop and disseminate an independent national wool indicator.

5. Sector connection and coordination

On-farm:	Significant gap
Processing:	Significant gap
Exporting and marketing:	Significant gap

The wool sector is fragmented and disjointed. While a number of entities are undertaking sector-good activities on behalf of some parts of the sector, there is no mechanism to ensure they do so in a coordinated, cohesive and representative way.

Our action plan includes activities that are primarily for the benefit of growers, activities that are primarily for the benefit of the post-farm parts of the wool sector and activities that benefit both groups. Undertaking all of these activities effectively and addressing future challenges and opportunities is not something that individual parts of the sector can achieve alone – it will require ongoing collaboration across the whole wool value chain.

As the executive officer gives effect to our action plan, they will need to work across the full length and breadth of the wool sector to develop a shared understanding of the sector's needs. This will create stronger connections within the wool sector and enable it to speak with a single voice on the issues that matter to it the most.

