CRC for Premium Quality Wool

The Future of the Australian Wool Textile Industry

Produced for the CRC for Premium Quality Wool undergraduate program by;
Bill Jones, Living Fabrics.

Taskforce Executive Summary

- "..development of clusters of wool processing businesses"
  - page 22
- "International and domestic investors in wool processing should carefully assess the potential for new value adding investment in Australia…"
  - Recommendation 25, page 23

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Bill Jones
Source: The Wool Taskforce (1999)

Sector Trends

- carbonising
- scouring
- top-making

- spinning
- fabric manufacture

- garment-making

- "..wool combed in Australia…over 30% (of production" ??

- "…spinning, weaving and knitting sectors, there has been a decline in domestic activity"

- "..niche investments in garment-making"
  - Taskforce Report, page 23

Bill Jones
Source: The Wool Taskforce (1999)

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Use of ESP & LSP Capacity

	PROD	*EXPORT*	*%EXP*
1991/92	**(M kg)**		
Scouring	**160**	**106**	**80%**
Carbonising	**30**	**26**	**85%**
Topmaking	**30**	**24**	**80%**
Yarn & Fabric	**5**	**neg.**	**neg.**
1996/97			
Scoured	***~120**	**91**	**75%**
Carbonised	***~70**	**53**	**75%**
Tops	***~60**	**57**	**95%**
Yarn & Fabric	**~2**	**neg.**	**neg.**

(* estimates based on exports)

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Source: Griffith, R.E. (1993) & AWPC & ABS

Yarn Production (Australia)

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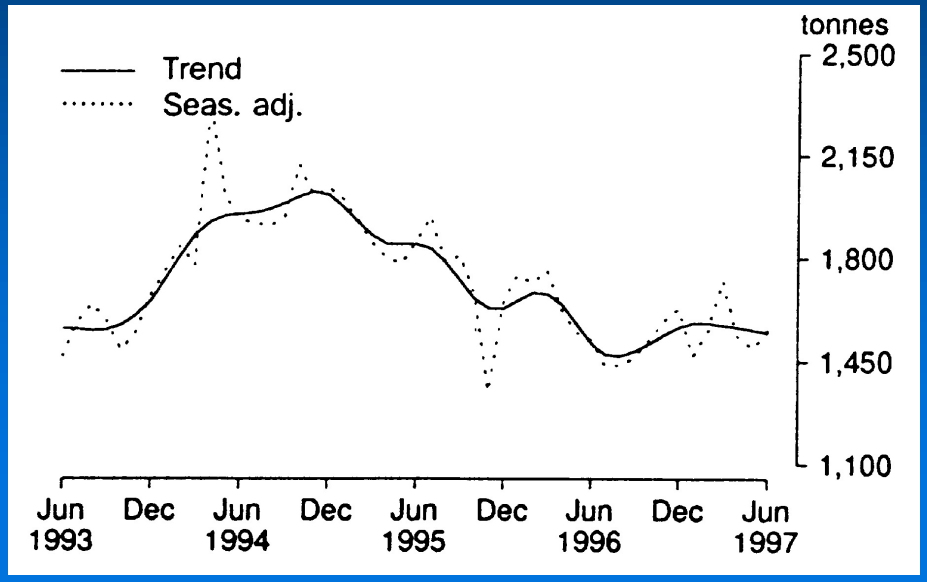
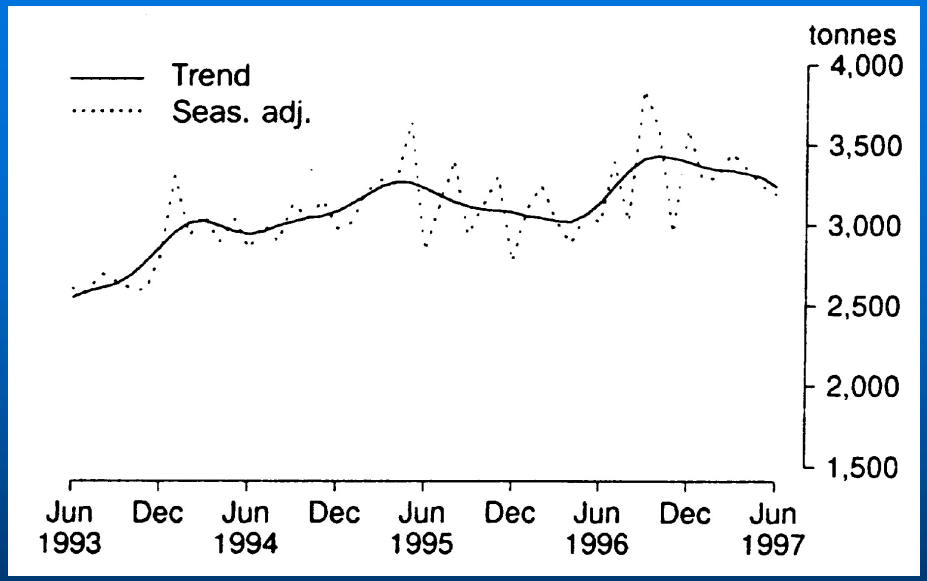
wool



cotton



www.woolwise.com

Bill Jones
Source: ABS (1997)

Fabric Production (Australia)

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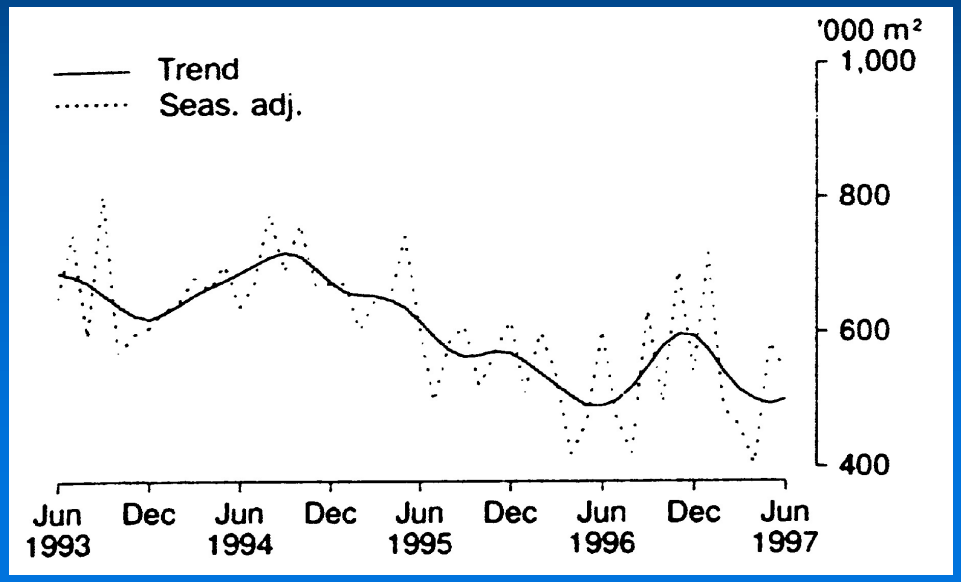
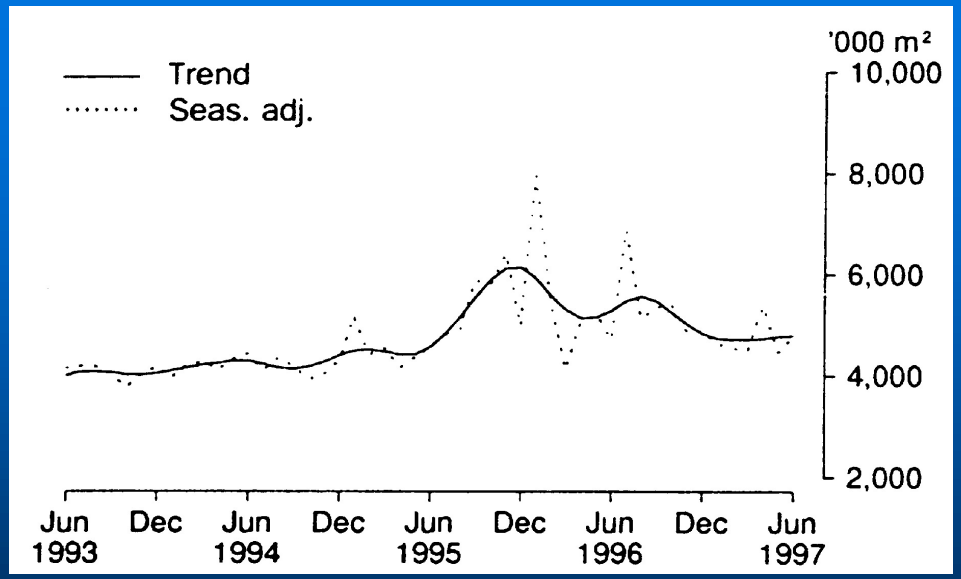
woven wool



woven cotton



Bill Jones
Source: ABS (1997)

Garment Production

- garment drives fabric (& yarn)
- Australian production has fallen
- garments made OS using Australian fabrics
  - Import Credit Scheme
  - Overseas Assembly Provision (OAP)

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Advantages of Australian Processing

- better information flow from processor
  - woolgrower benefit
- close to raw material
  - processor benefit
- employment
- foreign exchange
  - value adding
- more effective R&D
- focussed industry
  - processor & grower benefit

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Disadvantages of Australian Processing

- more difficult information flow
  - processor to consumer
- distance from customers
- small local market
- restricted raw material
- high cost of employment
- Australian exchange rate
- capital cost

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Factors Affecting Viability

- government policy
  - grants
  - import credit schemes
  - investment environment
- labour costs
- tariffs
- geography
  - main markets are OS (response)
  - importance of domestic market
- technology
  - capital investment required
  - current capacity
  - technical expertise

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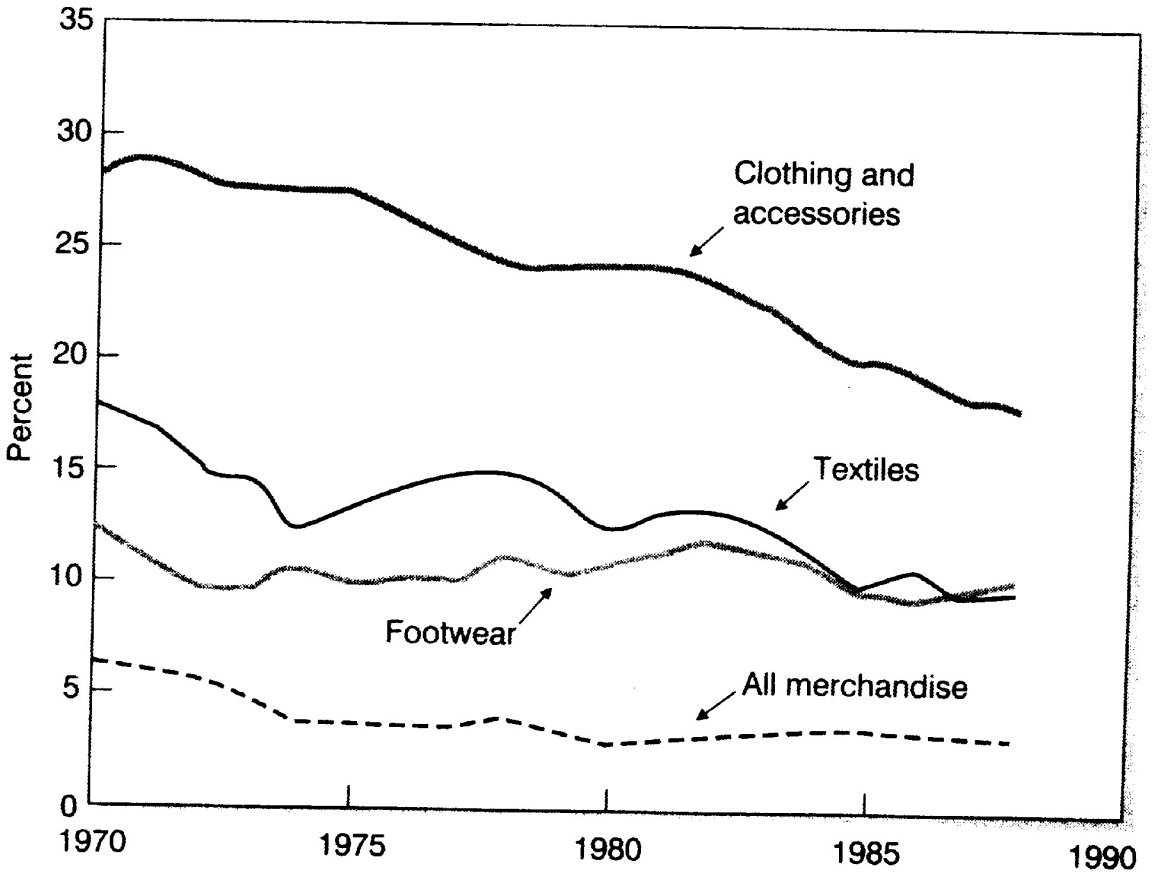
Wage Structure

- 1993 figures

Rank	Country	$US/hr	ratio
1	Japan	23.65	204
6	West Germany	20.50	177
11	Italy	16.20	140
12	East Germany	14.17	122
15	U.S.A.	11.61	100
16	Australia	10.84	93
17	U.K.	10.27	88
30	Mexico	2.93	25
42	Malaysia	1.18	10
47	India	0.56	5
50	Indonesia	0.43	4
54	PR China	0.36	3

Bill Jones
Source: Dickerson, K. G. (1995)

Average Tariff Rates



Congressional Budget Office (1991). Calculations based on data from *Highlights of U.S. Export and Import Trade*, Report No. FT990, U.S. Bureau of the Census, various issues. *Note*: Average rates were calculated by dividing total tariff revenue collected by customs value of imports. Products are classified according to Schedule A, SITC-Based Statistical Classification of Commodities Imported into the United States.

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Source: Dickerson, K. G. (1995)

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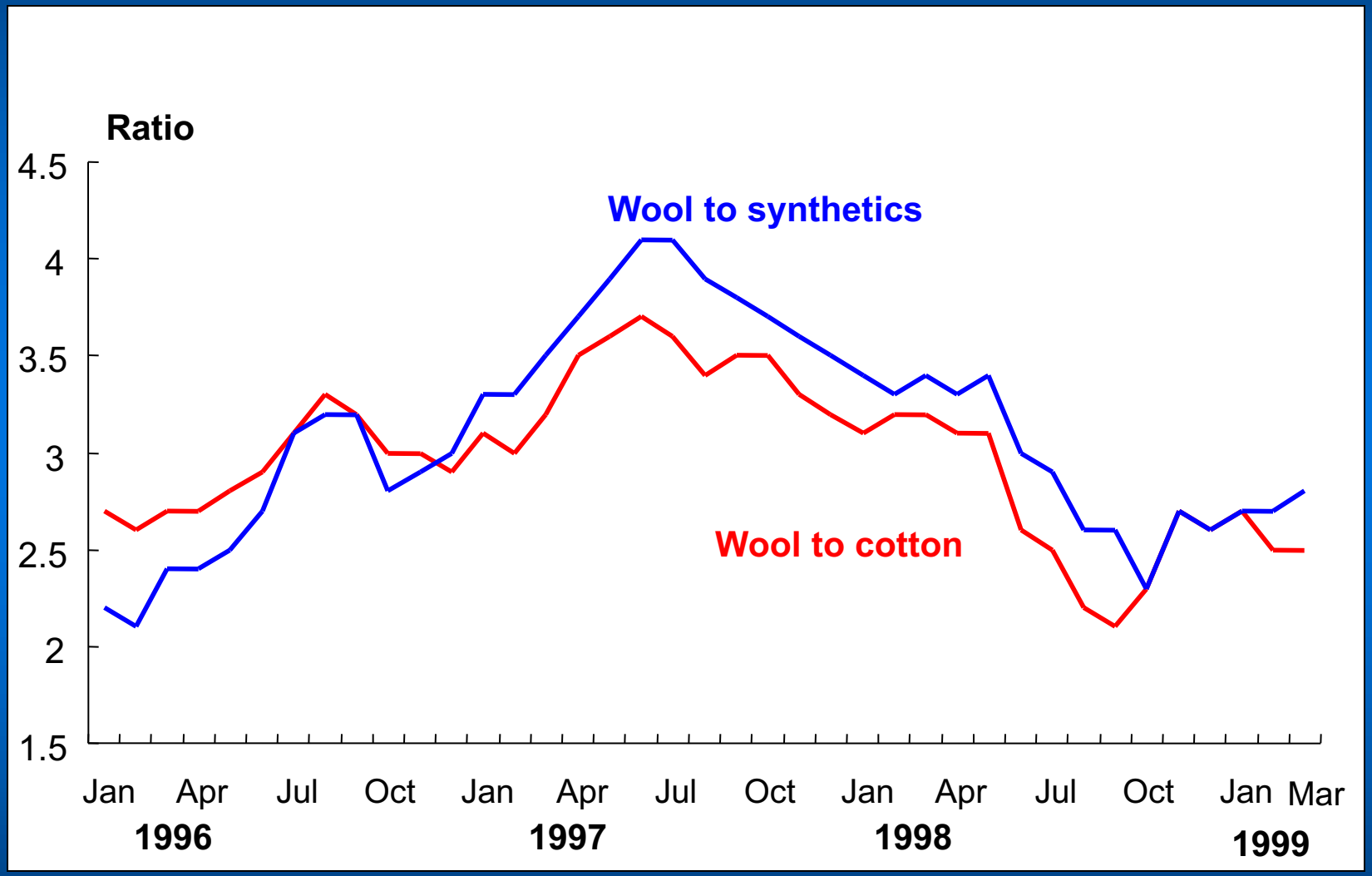
Wool Price Relativities



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Source: The Woolmark Company and Cotton Outlook

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World Fibre Production 1900 - 1997

Year	Natural Fibres		Manufactured Fibres	
	Cotton	Wool	Artificial (Cellulosic) Fibres	Synthetic (Noncellulosic) Fibres
1900	3,162	730		
1950	6,647	1,057	1,608	69
1960	10,113	1,463	2,656	702
1970	11,784	1,659	3,579	4,818
1973	13,738	1,497	3,856	7,767
1980	14,040	1,599	3,557	10,625
1986	15,196	1,701	3,276	13,765
1992	18,115	1,676	2,620	17,213
1997	19,849	1,478	2,899	24,626

(UNITS: millions of metric tons)

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Source: Dickerson, K. G. (1995)

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Taskforce

- Recommended
  - streamlining farm to processor chain
  - reduce ease of sale impediments
  - encourage investment in local wool processing
  - encourage niche marketing in Australia
  - encourage R&D in Australia
  - encourage education in Australia

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Basic Approaches

- **Niche Marketing / Production**
  - design
  - innovation
  - R&D
- **high price product**

- **Volume Marketing / Production**
  - price
  - reliability
  - R&D
- **low price products**

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Building Blocks to Reduce Costs

- wool conversion more efficient
- focussed R&D + education
  - CSIRO & IFC
- geographical diversification
  - locate to low labour cost countries
- industry structure
  - pipeline improvements
  - number of exchanges
  - Alliances

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Alliances

- includes low cost countries
  - high labour cost components
- proximity to consumers
- proximity to fibre suppliers
- vertical alliances
  - ownership structure
  - keeps profits
  - information flow
  - risk costs (can be very high)

Another Building Block

- wool-poor products
  - 10% (WHISPER WOOL)
  - property performance
  - added cost 13c/linear metre
    - based on 10% wool @ 600c/kg
    - 90% cotton/synthetic @ 200c/kg
    - 250-300 g/m^2 fabric
  - if raw wool price increases by 50%
    - fabric costs increase by only 10c / linear metre
  - Great LEVERAGE

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The Future

- Expansion in Australia
  - scouring and top-making
  - alliances for LSP outside Australia
  - niche marketing
- Contraction in Australia
  - volume marketing
  - production in LSP & garments

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WIN-WIN

- higher returns to woolgrowers
- lower priced consumer products

requires

- GLOBAL APPROACH
  - lower cost wool processing
  - WHISPER WOOL blends

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