

2004 AGM - CEO's report

Transcript of 2004 AWI Annual General Meeting

CEO's Report

LEN STEPHENS: Thank you, Ian. Good afternoon, ladies and gentlemen. Thank you very much for making the effort to be here today. I would like to talk to you about how AWI encourages prosperity in the wool industry. To prosper we sometimes have to overcome adversity and our Chairman's just given us an overview of some of the challenges we face and some of the opportunities we have in the wool industry. The lead up to this AGM has certainly been intensive. Not only due to the election of directors but also with the promotion debate and the activities of PETA.



The threat from PETA of course comes in many forms. Last week we had security guards at the entrance to AWI, just as we have today to guard against the sometimes destructive actions that PETA is known to endorse. This sort of thing can be fairly unsettling for some of you, perhaps, and certainly to staff based in the city.

What I've started to do recently is organise a few lunchtime meetings with the staff to discuss what's on their mind. It was interesting last Wednesday. One woman said to me, "Len, do you really like your job?" I think part of that was, "What do you do?" as well. The answer to that came to me two days earlier at a meeting which we organised with industry leaders to discuss our response to PETA. We have a group of people who have been working pretty much day and night for the last couple of months organising our response to PETA and at Robert Pietsch's instigation, we decided to get some industry leaders together to bring them up to speed. We had about 20 or 30 industry presidents and representatives from all over Australia in the room and at the end of the meeting they came to a good consensus and they turned to AWI to implement their strategy. It was at that stage that I felt very proud to have a team working for me who can deliver the goods for industry. That's the way AWI works. We deliver on industry needs and demands. It's a company that's about people working for people.

I know from talking to you, from talking to many of you, and from the comments that you've made today that you all have very strong views about what AWI should and should not do. AWI is expected to implement all sorts of activities from the pastures of in the Mallee to the catwalks of Milan. I would love to be able to do it all. Of course we can't, so we need to make priority decisions and it's in our mission that we try to do the things that will encourage prosperity, the things that will encourage prosperity on your property. If we can't create prosperity for you, we can do things that will help your business to become prosperous.

We're still a relatively young company. Our role is to use the best available technology, science, information, communication and, recently, marketing to try to deliver prosperity to your business. There are four reasons why I'm confident that we'll be successful at doing that and I would like to go through those if I could. First of all, as the chairman said in his speech, we are now set to deliver. Some projects of course, you heard this morning, are already delivering. The goals for the future are clear and we're going about our business with a real sense of urgency and purpose.

I would like to spend the rest of my talk emphasising those four points, if I may. We have clever and creative people in AWI working for you and we have very good management systems and project management systems. A really unique and important feature of AWI is our financial strength. You all know we have over one hundred million dollars in the bank to do whatever we need to do within the constraints of our mandate to drive prosperity in the wool industry. It's a very important strength we have in the company. What I would like to do now is go through the financial statements for the financial year ended 30 June 2004.

You can see there the statement of financial position. At the close of the year, net assets of the company were 116.5 million. The liabilities shown there were primarily accruals on contracts and, of course, creditors.

In the statement of cash flows, you can see that we began the year with \$91 million and closed with \$113.1 million. A substantial reason for the increase in funds was the income, the cash received from the sale of properties, in particular the CSIRO research property at Prospect.

The statement of financial performance shows that revenue through the year was \$63 million, composed to \$42.7 million of your levies, and a very important \$14 million contribution from the Australian government, \$6 million worth of interest. That revenue was down about \$18 million on last year.

Expenditure, \$54 million, slightly down on last year, leaving surplus as shown there.

This is the accumulative wool levy receipts from the company over 2002/03 shown in blue and 2003/04 shown in red. You can see there the impact on the company's revenue as a result of reduction in levy receipts. These are consistent with an over 20 per cent reduction in the value of the Australian wool sales during that year.

I said the expenditure was \$54 million and I know many of you would like to know the details of where our money goes. So there's a highlight of some of the issues that are more relevant. You can see the breakdown in actual expenditure in textiles, wool production and education, communication, \$2.6 million, and overheads of \$16.1 million.

For those of you who follow these things, you will note that the employee costs and the travel costs were actually both down on last year. That employee figure also includes contractors as well.

Total expenditure of \$54 million was lower than budgeted and I would like to explain why. The first reason is we're talking about the financial year 2003/04 and it was five months into that year before we had the WoolPoll result in November 2003. So although we had cash in the bank, we had no certainty of income in future years. I've already shown you that the levy income was reduced, so we took a conservative approach to expenditure in the face of that reduced income. It also takes time to recruit General Managers of an international calibre from all over the world and it takes time for them to build their teams. Lastly, there was a need to revise our strategic plan and have it signed off by industry. All these things take time.

So overall, we did take a conservative approach during 2003/04. The result, of course, as I've said, was a company with a substantial bank balance and this is a very, very powerful situation for the industry to be in. It means that we have the resources to be able to drive the best quality R&D to work to the benefit of your industry and our industry. Importantly though, all of our investments are very strictly controlled by procedures laid down by the financial and audit committee.

Nonetheless, I'm sure many of you are asking what we'll be using those funds for. Here are some of the answers. We have established a capital reserve fund of \$20 million from the sale of the proceeds of the land at CSIRO at Prospect. This was a capital asset and it's being kept as capital funds. It will be used for any major issues that the industry wishes to pursue.

There's obviously a very strong desire by the industry for us to do as much work as we possibly can do build demand for Australian wool. You've heard this morning Eric Finnie talk about marketing platforms. There are 16 of those marketing platforms under development. There's an enormous amount of work we can do with the Woolmark Company as we extend our global reach alongside them. We can see enormous opportunities in China. There's also India, eastern Europe, places like Turkey and, last but certainly not least, the United States of America.

I hope too that very soon I'll be putting proposals to the Board to use reasonable amounts of that money to commercialise inventions in shearing and mulesing. Of course we maintain reserves for exotic disease, emergencies and contract commitments moving forward. I have no doubt we'll be using some of those funds for the ongoing battle against PETA.

For you to take all of those activities plus our strategic plan, which is flagging expenditure each year greater than income, you will see that the plan leads to a final balance of about \$18 million reserves by 2009.

The budget for this current year, as you can see there, shows income estimated to be about \$72 million and our expenditure about \$89 million. You can see the breakdown there according to each of the portfolio areas of the company. Whether we spend these funds or not really depends on the rate at which we can get the work going overseas. Currently we have commitments for expenditure this year of \$44 million, a little under half.

During the year we undertook a major capital development at the Falkiner Memorial Field Station, that's the property near Deniliquin in New South Wales. It was \$1.3 million expenditure involving the upgrade through laser grading irrigation, pastures and fencing on 450 hectares of irrigated land. It boosted the capacity of the property to 7,500 DSE to about 15,000 DSE. Over the next three years the major use of that property will be to maintain 6,000 sheep that are being used in the genomics programme that we are conducting collaboratively with Meat and Livestock Australia.

Moving away from finances and capital investments, I would now like to talk a little bit about the staff. During the year we recruited four new general managers, which completed the establishment of the team of six general managers. Each of these general managers leads a major portfolio section of the company. As you saw this morning, we have a wonderful team of very smart managers in place. Collectively they manage over 300 projects and during the year we have refined our project management systems to help those managers manage the projects better.

This slide, for example, shows you how we trace milestones. All of our R&D projects have milestones so that we can track whether or not the research organisation is doing the job that we are funding them to do. This chart shows milestones that were due on or before October this year. It shows the proportion of milestones that have been met. In R&D, of course, you never meet all of your milestones, there are always things that are unpredictable, so an average milestone achievement rate of about 77 per cent is, I believe, a fantastic situation to be in.

These milestones reflect some very significant developments in projects that have happened during the year and I would like to highlight just a few of them. You saw many of the results this morning. I would just like to show you a couple of my favourites. In the textiles area, the wool fleece, a very exciting product. It's been developed and it's now moving to sales. The ultra light fabric, a fabulous product developed by Canesis for business shirts and women's tailoring. It's now being placed with companies for scale up.

TQW Saving Alliance from Tasmania, they have secured a contract with Peter Hart in Europe for sale of a substantial amount of Tasmanian wool each year.

Again, the transeasonal fabrics. The products have been developed and are ready to go into the market early next year. Similarly, total easy care in the USA, a great assault on the American market, I hope.

You heard Pascal talk about trade negotiations. I believe we're now in a very good position through our knowledge of Australian government officials and Chinese government officials to represent the wool industry as well as we possibly can in free trade negotiation discussions between the Australian government and the Chinese government, remembering that wool is Australia's second biggest export to China.

In wool production, I think the dark and methylated fibre project is just a fantastic example of all the sections of the industry working together to develop the technology needed to overcome a problem which was defined for us by our customers, and then implement a declaration process.

The TIMERITE programme began in the west and it's moved all across the country and I know it's been very valuable to many farmers.

New legumes are under development through our NAPLIP programme. There's been almost 40 legumes developed by this company and its predecessors in the past years and we're still developing new varieties.

The lifetime wool project, again the product of some great work done by the Hamilton DPI here in Victoria, it really is a tremendous project for those producers who really want to push the envelope.

Sire evaluation sites, of course, have been responsible for some very significant increases in the genetic quality of Merino sheep.

In information and education we've added \$4 million to the AWTA trust to create the Australian wool education trust. That trust will now allow young Australians to do more training and education in the wool industry.

The pilot study for shearer training is now finished and we are well into the stage of planning the actual shearer and shedhand training. It will be implemented in four states before Christmas and the rest of the states soon after Christmas.

We have 35 academic scholarships in place across the world right now. We have 126 grower groups across Australia representing 3,500 growers who are all involved in, if you like, grower directed, grower involving R&D. The pricemaker program is a nice little bit of software on the web to be used by growers when they need to and is well subscribed.

Publications. An extensive range of publications, most notably Beyond the Bale. I encourage those of you who haven't been to the website to please go there. It's constantly updated. It has great information on it and I believe it's one of the best websites in Australian agriculture.

Of course, not all projects are successful. I wouldn't be honest and open if I tried to pretend to you that everything we touch turns to gold. We do regularly review projects, we highlight problems and we try to learn from those problems and identify areas needing improvement. A good example is the non woven project. It's now fairly obvious to us that that will not have a major impact on the apparel market. It will have some but not a major impact on the apparel market, but it will be particularly effective in industrial textiles and medical textiles.

That's a summary of where we are now. I would now like to move to our goals for the future. Setting clear goals is a very important function in AWI. The goals are published in the strategic plan which has been distributed to all

shareholders and we report against those goals in the annual report. Setting smart goals is essential because it helps us to measure our progress. We can't use the type of financial bottom line numbers that you use in your business. We need different types of goals and I would like to give you examples of some of our highest priority goals for the next two years.

In the area of wool production, we will do our darnedest to commercialise that upright shearing platform and put a new hand grease into the market in two years' time.

You have heard that we will work as hard as we can to develop an alternative to surgical mulesing and the same approach applies to the development of a new dog bait and bait attractant.

I won't be happy until at least 20 per cent of Merino rams have Australian sheep breeding values attached to them during sales, and that's our goal.

We've developed an in shed lice test and we will certainly have that commercialised within two years.

At least 40 per cent of fleece lines ought to have the (inaudible) ventilated fibre declarations associated to them during the sale process over the next two years.

In textiles, you've heard some of these before. Noveau classique. At least 1.3 billion kilograms of 22 micron wool products, new products, new markets. Transeasonal, half a million kilograms sales within two years. Lightweight tailoring, 177 million kilograms. Woolfleece, 300,000 kilograms. Merino Super Soft, 250 kilograms of 19 micron wool in new products. Washable suit in China, it's worked well "it's worked well" is a bit of an overstatement. We've established it in China. There is a real opportunity for that product to really fly in China. Also nanowool technology, very popular piece of technology for the Chinese market which is so health sensitive.

Are we doing enough in textiles? It's a commonly asked question. On the screen there you can see targets on about five or six of our marketing platforms and, as I said before, there are another ten platforms under development.

These are the targets both on and off farm that we simply won't give up on because they're very important in encouraging prosperity in the Australian wool industry. Managers in other companies have dividend targets or sales targets or profit targets. We don't have those kind of targets. These are the sort of targets that managers have in AWI. Of course, we can't promise to deliver them, but they are managerial targets which we are very conscious of so that the managers have nowhere to hide.

We are also pursuing these goals with a sense of purpose and urgency as I said at the start of the speech. Let me explain just what I mean by this by using sheering as an example. To really get this program firing, we took George Waldthausen off all of his other duties and moved him under Les Targ as the deputy CEO. We recruited

about four sheering and engineering experts to work with him. They scoured Australia and New Zealand for the best available technology they could find. They found 80 projects and went away and analysed them until they found the best five. Then they went to those five companies and said, "We really want to work with you to develop your sheering prototype". As you might imagine, some of them said, "Yes, thanks very much, that's a good idea, we're not quite ready yet, come back later on", and we said "No, no, no, we want to do this now, we want to do it today. What can we do to work with you in your business to try to get you to focus on this product?" We've got five prototypes and we're working on it very strongly at the moment.

Simultaneously, we engaged OH&S experts and started discussions with the unions so that when the new technology is available we can introduce it seamlessly. Not content with that, we had a brainstorming session where we brought experts in from all over the place, defence experts, electronics, engineers, chemists and so on, to say: "Can we do it better? Isn't there something different, something better we can do?" Many of those ideas are now being pursued as well.

Finally, when we have the first prototype we won't be going into endless commercialisation and IP type deals. We'll be working with those companies from day one (inaudible) both commercialisations to market as hard as we possibly can.

There are similar stories to this regarding mulesing. The Australian sheep genetic database got off to a slow start, but we really pushed it and later it's developed. And the dog bait project: In each case we've worked with the R&D providers to accelerate the programme whenever possible.

In textiles earlier this year we advanced \$20 million to accelerate the delivery to consumers of Woolfleece transitional blends in the new ultra light fabrics. We have people working in China and in Italy, and whenever possible we work closely with the Woolmark Company to accelerate delivery.

So where is all this taking the wool industry? At AWI we're keenly aware of our responsibility to invest your levies well. The directors of the company, the staff, many of you, I know, have been involved in decisions that help us make those investments. Today I would like to thank the directors and the staff and each of you for the help that you've given us in making these decisions. AWI is well set up to deliver. We've got very clear goals and some projects are delivering now. Our goals are clear to the future and we have the funds to deliver those goals. We have a company that's filled with clever and creative people who are working with a real sense of urgency and purpose to deliver and encourage prosperity on your property.

I think it's a very exciting industry, I love working in it and I look forward to working with you over the next year.

Thank you, ladies and gentlemen.

IAN MCLACHLAN: Thanks very much, Len. I'll now ask the CEO to deal with the questions relevant to this item to the agenda that have been received on notice and then after that I'll invite your questions and comment on Dr Stephens' report. I mentioned earlier questions that were received from WoolProducers Robert Pietsch. Robert, I think we've got all these questions. Are you happy? We'll just answer them and perhaps you might like to comment at the end of that? So stay there.

ROBERT PIETSCH: Thanks, Chairman.

LEN STEPHENS: Thank you very much. Robert, I have the questions. The first one relates to the funds held by AWI. What I'd like to do now is suggest that I dealt with that in my presentation and if you had further questions, encourage you to ask them of me.

You had a secondary question that related to loans to companies. If I could briefly paraphrase your question, you refer to the note nine under non current assets receivable where it refers to a loan to a textile company. And you are questioning the basis of that loan.

That loan relates to a loan to Macquarie Textiles, initiated by the previous manager of the company. It's a loan in connection with the non woven program. In many R&D projects, you have to find a way to provide capital to companies that are involved in R&D. That loan was, as I said, made several years ago. In earlier annual reports it was shown as project expenditure, but our new financial manager, in checking the financial standards, said to us that it really should be recorded as a loan. That's what's been done in this year's annual report. It's a commercial loan, interest is paid quarterly and the loan is due to be paid back once production targets are made. I hope that answers your question, and I'm happy to explain further if need be.

Your third question related to monitoring and evaluation of projects. You questioned the European Wool Awards and the basis on which \$90,000 of that amount of money was in fact returned to the company. The answer to that question is yes, the \$90,000 has been returned to the company by the people who ran the European Wool Awards in Europe. As many people know, we were not happy with the way that they conducted those awards, even though they did go ahead, and as soon as it was over, we asked them to wrap it up and send us any money back, and that's what they've done.

I hope that answers your questions, Robert, and I'm happy to expand if you'd like me to.

ROBERT PIETSCH: If I could just come back to the first question, that was to do with the unspent funds, your projected budgets against the strategic plan. Could I just have a bit more clarification on effectively you mentioned that you were actually highlighting some key areas of program. Under this new program expenditure will you have to fast track some of those programs which actually have been underspent to a degree, not have had the priority to actually go forward?

LEN STEPHENS: The answer to that is effectively yes. There were discussions about that with the Board yesterday. As is normal practice in companies like this we'll be doing our forward forecasts against for the December meeting and when we've done those forecasts we'll have a much better idea of exactly the numbers. The short answer to your question is yes, we're working very hard to identify good projects to invest those funds in. Really, it's an issue of good projects that deliver benefits, not just spending the money.

ROBERT PIETSCH: But the ones actually against your strategic plan which actually haven't been able to progress because of other reasons, specifically those. I mean, are they going to be highlighted?

LEN STEPHENS: Again the answer is yes, generally. Are there any you have specifically in mind?

ROBERT PIETSCH: No, just generality.

LEN STEPHENS: Okay. The operational plan is there which shows the annual plan against the five year Strategic Plan, Those project, you are aware, and as I say we will review those in the December forecast. That's where anything would be picked up and advanced if we possibly can.

ROBERT PIETSCH: Thanks, Len. If I could just make a comment, I would like to pay my thanks to Matt Flugge as industry liaison who has worked extremely hard with me over a couple of very difficult issues, PETA being one of them. He and his staff have done enormous beyond the call of duty, and I would just like to place that on record because if we didn't have those sorts of commitments, I can assure you it makes our industries job so much harder. So I just wanted to place that on record.

LEN STEPHENS: Thank you very much Robert, he's a good operator.

IAN MCLACHLAN: Thank you very much, Robert. I now invite your questions and comments on the rest of Dr Stephens' report. Again, those people holding yellow, blue, orange cards are allowed to ask questions and make comments. Could you please go to the microphone and show the AWI staff. Yes, number three.

SIMON RAMSAY: Thanks, Mr Chairman. I would like to make a comment in front of a question, if you would permit me. I am pretty disappointed that Michael Collins saw fit to make those personal remarks, just on record. Our business runs 6,000 whethers and we have a million dollar investment in land and modern processing so I think our investment in the wool industry is quite large and I think anyone who knows me would know that I'm very passionate about the wool industry. I spent a number of my years in trying to lead the wool industry to a good future. I'm pretty saddened, to be honest, and I'm pretty disappointed that Michael would make such personal comments.

The question, I guess, Len, moving forward as we should always do, is about the PETA issue and I guess the industry did in Sydney put a timetable to 2010. We didn't do that lightly, we did it for a reason, for reasons you

know well, and I guess I would like to hear from AWI what strategy they're going to put in place to make sure there is a realisable alternative when we move towards that date, the industry does have an opportunity to manage flystike in the future.

LEN STEPHENS: Okay, I can answer that. It's a big question and I'll try to deal with it briefly. First of all, I think many people are aware of the work we're doing with the University of Adelaide. We've been very generous with the University of Adelaide, saying "What do you need to advance this work as rapidly as you possibly can?" and we're still developing that team,. It's a big team and we're still developing it. We've also brought in consultants who in their past lives have worked with chemical companies and actually taken to market chemical products for agriculture. They're working on the project and guiding the process as well.

It's very important that you do things in parallel in this sort of process, so we're not going step by step, we're taking a few guesses, if you like, that might lead us up blind paths but we just believe that we need to do things in parallel, not one after the other, so we can accelerate this program. It's a risk you take, but the goal is so important I think we need to do it.

We're also having a brainstorming session. I think it's in the second or third week of December. We will bring about 30 or 40 experts together to say, "Have we got it right, can we do something else?" The project is looking at one protein going into the sheep. There might be lots of other proteins we can use.

Simultaneously, there's also the genetic process. That won't be in place by 2010, but there are sheep around with bare breaches and using genomics technology, if it exists, we have to be able to get a gene marker for that and use that for the process of intergression through flocks to try to establish that process. I hope that answers your question, Simon.

IAN MCLACHLAN: Simon, I should have called the speaker up earlier for that personal remark, and I won't allow any more personal remarks in this meeting that's not to do with the resolution.

Number two, Will

WILL CROZIER: Thanks, Mr Chairman. Will Crozier, woolgrower from Casterton, we know each other. I think we've heard enough about the statement before today so I'll cut straight to the chase. If by your own admission last year was pretty slow because of WoolPoll uncertainty, how can you have a five year strategic plan, because WoolPoll is an issue that will not go away?

LEN STEPHENS: Good question. We just have to assume, because there's no other basis on which to assume, we just assume in our projected planning that the two per cent levy will be there. So clearly if the WoolPoll result we just have to assume that the current two per cent levy will continue for the life of the current strategic plan. If it changes, of course we need to redo the strategic plan. That's not a problem because the strategic plan is not a

document that's set in concrete. we're a new company, it's a rapidly changing industry, so we're always looking at it and refining it.

IAN MCLACHLAN: Yes, number three, please.

ROB TEHAN: Rob Tehan. I would urge some caution with regards to the 2010 date on the end of mulesing. It's a desirable objective there's a hell of a lot of woolgrowers out there who weren't consulted on the issue and if there aren't the necessary alternatives available at the time, they're certainly going to continue with what's the only practical solution at the moment. The real question I had was to do with the Macquarie wools project and the felting process. This is the first time today I've heard that has been disappointing. I wonder if you could elaborate on that a bit more, please?

LEN STEPHENS: The question on mulesing is the goal, if you like, of that project is to make available to growers technology which is so good that they want to use it. The goal is 2010. We have to set those goals and we'll work as hard as we can towards it.

As far as the Macquarie project, when we first started that project, we really well, I wasn't here when it was started, but the message we were given was that here was technology which was used widely with other fibres and had not been used widely for wool, and there was a real opportunity there to use this technology to make woollen garments which were cheaper so you could get wool into the market at a lower price point. I wouldn't like you to think that it's been a total failure, far from it. But it's turning out that it's incredibly difficult to have non woven fabric with the right finish, with the right feel, the right drape, to be able to get it into volume markets. We might still crack that, but I'm just explaining to you that it's not turning out to be as easy as we hoped it would be.

IAN MCLACHLAN: Okay number one, please.

REG HOLT: Reg Holt. Mr Chairman, Dr Stephens, you know there are a couple of projects which you are hoping to bring fruition in the not too distant future, but I notice in your projected incomes for the budget process that there are no royalty payments or aspects of projected income from that. Do you have an anticipated income stream from the projects and the research and development which we're funding?

LEN STEPHENS: Thanks for that question. It's a really very important issue and the answer is we are primarily concerned with increasing demand for wool. It's very important, I believe, that we do not let intellectual property and royalty discussions get in the way of that. They have done in the past. I hasten to add very quickly that if royalties are there and they are available of course we'll take them and put them back into the coffers, especially in things like health areas and so on, but we just think it's far more important to get the product out there than to worry about getting \$100,000 or \$200,000 worth of royalties.

IAN MCLACHLAN: Yes, George.

GEORGE WARD: George Ward, Armidale. Firstly, I would like to congratulate the Board on the wonderful job they've done over the last two years. My question is: What is being done to encourage processors in India? I think we need to offset the monopoly that the Chinese have. They did a very good job but they're very, very (inaudible).

LEN STEPHENS: George, you did say in India, did you not?

GEORGE WARD: Yes.

LEN STEPHENS: Okay. We're just starting in India. I was there a few months ago. We have a guy, Tom Drummond, who has been there quite a lot and we're currently involved in negotiations with about ten companies in India to develop projects with them, projects along the lines of what you heard this morning. The Woolmark Company also has a substantial presence in India and of course we're talking to them about working over there as well.

GEORGE WARD: Thank you. I think we need to offset the monopoly China has. We can't leave all the eggs in one basket.

IAN MCLACHLAN: Thanks George. Number three.

DAVID WOLFENDEN: Thank you, Mr Chairman. David Wolfenden. Len, thank you for all the comment on the strategic plan. Thank you for writing a very informative and clear document. I found it to be a very good strategic plan in its layout. Most strategic plans have outlined all the industry problems, have this sort of hairy fuzzy black box in the middle and then sort of all the promises at the end. I think you did a very good job in outlining the current situation and then your strategies and actions that move forward on the projects.

I would ask you that the headings and the groupings in the strategic plan do not align with your annual report so it is therefore very hard to look at one and follow it through. I would like to ask you to take onboard or to look at taking your strategic plan and then reporting in the annual report in the same categories and therefore reporting against the goals, the objects and hopefully some of the milestones that you actually set in the strategic plan so when you put the two documents together they become more transparent so in a few years time we can look back on the strategic plan and say, "Did they do what they were setting out to do and did they meet the objectives that they set themselves?"

LEN STEPHENS: Thanks very much, David. Look, that's exactly the speech that I think I gave to our executive team about two meetings ago, so the question is right on and that's where we're headed. Thank you.

IAN MCLACHLAN: Number two.

WILL CROZIER: Thank you, Chairman. Dr Stephens, in your address you spoke of the aim of expanding the global presence alongside Woolmark Worldwide, which obviously is a very clearly desirable objective. You've told us about what's happening in India or what's intended to happen in India, you mentioned eastern Europe and of course we've heard a great deal appropriately about China. No one has mentioned Russia. Bearing in mind that the old Soviet Union used to be our major customer, could you tell us in your opinion what are the prospects for reviving an export market in Russia?

LEN STEPHENS: Thanks very much. We have a couple of reports on Russia. There's one big issue, or let's just say what do they call it now? The former Soviet Union or former Soviet republics, whatever it is, and one is capacity to pay. That is a significant issue. We're wary of going into countries like that and we'll always go with companies that know those countries better than we do. We have to accept that we have rudimentary knowledge of those countries at best. We, AWI, do not have people on the ground. So they're very much in our target, but they are countries that I think we have to move slowly and carefully because you could very easily lose your shirt.

IAN MCLACHLAN: And they still owe us \$300 million bucks. Number one, please.

CHRIS LANG: Chris Lang, a woolgrower from Lismore. Probably to the chairman, I guess, is that a number of us here are about to vote for the Directors on the board. Is there a system of benchmarking of the Directors or are you likely to develop one so that we as woolgrowers have an idea of who we're voting for and their capabilities rather than just a list of what their impressions of themselves are?

IAN MCLACHLAN: Well, a hundred out of a hundred. The answer to that is, look, I have resisted that. I somewhat resist the business of evaluating the performance of the Board. You have an opportunity every year I mean to me the best way of dealing with that is this Annual General Meeting, and the answer to your question is no, and I find it I think it's a great disruption. I know it's all the fashion, or was, but it's going out pretty quick, I think, and that is this internal evaluation of each other's Board performance. I think this Board and this company is different to a lot because well, it's not all that different, I suppose, but it has an election every year and you are able to put anybody you like up with a nomination of more than 99 nominations. You have much more access to the Directors than other companies would have, especially in the local area, I mean in Western Australia you have Kevin Bell moving around or me moving around other places. My view is no the answer is no we haven't and I think it's a disruption and quite frankly I think it will slowly disappear out of the system. It's a bit of an American thing to me. You can have your view, but to me it's more disruptive than useful. Number two and then three.

MICHAEL COLLINS: Michael Collins here again. Two things. Firstly, if not if. I would like to apologise for what I said before. Obviously what I said was incorrect. I had read the rural press and obviously got it wrong so I apologise for my thoughts and what I said about you having sold your sheep. So I would like to make that very clear that I apologise for saying those things.

IAN MCLACHLAN: Thank you for doing that.

MICHAEL COLLINS: My next question is re China. China is becoming a major buyer of our wool and is increasing in the percentage of the wool that's been purchased. Is this going to continue to increase and is it a worry to our industry that one country is purchasing the large bulk of the product at what could in time be an organised price? Is that a concern or not?

LEN STEPHENS: Thanks for the question because it mirrors concerns that are frequently put up to us. The answer is twofold. China is our biggest customer and they don't have to buy wool. So in any business you find your biggest customer and you are as sweet as you possibly can be to them and that's what I think we should be doing. It's quite interesting, when the Chinese come to Australia and they hear us talking about that and they ask me, they say, "What have we done wrong? What is it?" They might be good negotiators, but it's interesting when you have that reflected back to you in China. But also as good business people, and we can look the Chinese straight in the eye and say, "Of course we're working in India, of course we're going to work in Taiwan" and they don't like that, and of course we're going to be working in Turkey because we sell wool to whoever's buying. So it's a dual strategy. I hope that answers your question.

IAN MCLACHLAN: Number three, please.

TOM SMALL: Tom Small from St Arnaud. I'm concerned, as probably one of the very few woolgrowers here under 30 or 40 or even 50, I'm concerned that we don't have enough time to make productivity gains that you are talking about. It's all well and good to put our money into R&D, but I think you probably need to see ten or 15 years to get the productivity gains required. I'm a bit worried that we're going to be slamming the gate after the horse has bolted sort of thing in that situation. There'll be a lot of farmers around that are retirement age now, there are very, very few of my contemporaries going into wool growing. In fact, I'm the only one of my friends that is going into wool growing. I think it's a big concern to the industry. Secondly, when I talk to my friends in Melbourne, they don't know about all these wool innovations that we have. I think it's all well and good to pour our money into these wonderful new products which I think is a wonderful thing, but how is anybody ever going to know about these wool products? When you talk about wool to somebody who doesn't know about it, they think Don Burke's ugly jumpers and that sort of thing. I just feel that we really need to have a lot more generic marketing to let people know about these products and the good work that you're doing.

IAN MCLACHLAN: Let me just answer that. This research company was not set up to be a generic marketer. It specifically is not allowed to do that. We've had after the forums the conversations with the government people in recent times and they all agree that yes, we can product market, but generic marketing, not advertising is not our biscuit. That's the discussion that we've had. They set up the company, they collect the levies, it's a research, innovation and development company and we can do all of the things up to the point where we persuade someone else to get out there and flog the product. I will rephrase: to market that brilliant product. The Australian

Wool Services and the Woolmark Company are the marketers of the Woolmark and other things. I say that this company was set up differently. I went through that in my speech earlier. Number one.

WAL MERRIMAN: To Len, can you hear me.

IAN MCLACHLAN: Wall Merriman

WALL MERRIMAN: I want to talk about shearer training. I was on the wool advisory group some two years ago, shearer training was one of my projects. When we left the WAG shearing training project was up and ready to go based on a Victorian contractors model, the AWI funded strictly the board area rather than tapes and other modules banged onto it. I'm now told to today that up until August there's been no shearer trained with AWI money in the last two years. That concerns me and I wonder what's been happening in the last two years.

LEN STEPHENS: It's not correct to say there's been no shearer training money. In fact we ran a pilot program for six months to evaluate the new approach to shearer training that we took. I think it's also very important for us to know that the Federal Government puts a lot of money into industry training through the TAFE system and through other processes, so for the wool industry to fund it in its entirety is not really a clever business thing to do. I would like to have another discussion with you and Paul Comyn, if necessary, for you Wall, to understand why there was a perception of a slowdown early on. As far as I have seen, we ran a pilot program to test the process, got feedback and then implemented the new system. Thank you.

IAN MCLACHLAN: I'm only going to take one more question because we're running out of time, so I'm sorry George but we are running out of time. Number four, please.

DUNCAN FRASER: Thanks, Mr Chairman. Duncan Fraser woolgrower from Hay New South Wales, to Dr Stephens. First, thanks very much for a very concise report with lots of information which, you know, is something we've been wanting for years. Just one point, you mentioned the \$20 million capital reserve fund and I just wanted to know if you could elaborate on the guidelines for that fund given that you already appear to have made contingencies for exotic diseases.

LEN STEPHENS: There aren't any detailed guidelines at all. When the Board received the cash from the sale of that property, there's a very strong view that it was funds received from the sale after asset which had been owned by the industry for a long time and the Board's determination was to separate that into a fund. It's still under the control of the Board but they separate it under a separate line and deal with it separately and say that's special money, that is there to do something that that will create long term benefits for the industry. I think the important thing is that we don't regard it as just more operational funds. It's a block of money to do something special with. There aren't any other particular criteria other than what the Board might resolve.