



*Making More From Sheep*

**MODULE 2**

## Market Focused Wool Production



A joint initiative of Australian Wool Innovation and Meat & Livestock Australia



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# 2

## Market Focused Wool Production

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### What does this module do for you?

Successfully producing and marketing wool can be one of the most challenging but rewarding roles for a sheep producer. Taking a market focus to production is the basis for: planning and operation within the wool enterprise; better management of price risk; selling to advantage; and improved profitability.

This module provides a background to wool enterprise planning and is designed to assist with on-farm decision-making, no matter what production and marketing processes are used. It describes

the influence of fibre characterisation on price, presents options for estimating wool value and offers a range of selling options. There are three procedures that form the basis for decision making in wool production, harvesting and marketing.

It introduces Woolcheque and other industry tools for valuing wool. Taking a market focus to production will help maximise the net return per hectare from wool.

## Procedure 2.1

Know the features of your wool influencing demand and price



### Background information



The physical characteristics of wool that determine the price you receive are heavily influenced by genetics, level of nutrition, time of shearing, contamination such as vegetable matter, and the way in which the wool is prepared for sale. In addition, any given wool type is subject to supply and demand factors that may alter within a wool selling season (short term factors) or between wool selling seasons (long term factors).

### Introduction

The wool pipeline from sheep producer to customer is long and complex. A simplified outline is presented in tool 2.1, figure 1. Around 80% of Australian fleece wool and pieces passes through the worsted pipeline based on wool fibres longer than 40mm ('combing types') that lie parallel in yarn.

The balance is made into woollen yarn used in knitwear, based on wool fibres shorter than 40mm ('carding types') that do not lie parallel to each other.

### Influence on price

Prices received for raw wool are heavily influenced by its physical characteristics. This is shown over three selling seasons (2003–04 to 2005–06) in tool 2.2, figure 1 for superfine wool and tool 2.2, figure 2 for mid-micron wools.

These fibre characteristics are influenced by flock breeding programs (see procedure 9.2 in *Gain from Genetics*). Tool 9.10 in *Gain from Genetics* – the on-farm fibre measurement (OFFM) calculator – can help you assess the expected financial benefits of applying OFFM to your wool enterprise, separated into clip preparation, breeding and selection.

Pasture management throughout the year (see procedure 8.3 in *Turn Pasture into Product*) and shearing date can also be important influences on wool characteristics.

### AT A GLANCE



- Understand the wool pipeline and identify the factors influencing demand and how they affect wool price
- Know the important characteristics that influence price of wool at sale
- Use a range of information sources to monitor the wool market

### Short-term wool market factors

Wool is a global product. Supply and demand factors can influence the raw wool market after you are committed to producing a particular type and style of wool in the current season. These may occur when:

- Stocks of wool in the form of tops and yarn build up in warehouses and spinners slow down purchases of wool top, with corresponding implications for raw wool demand
- The quantity and quality of wool on offer does not match current buyer demand
- Major trading currencies shift, eg, a sudden rise in the Australian dollar may cause wool prices to decline at short notice.

Wool brokers and advisers have current information to help you better understand these short-term factors.

Buyers also blend fleecewool to meet the specifications of a processor order. This is done because:

- Most mill lots are large and cannot be obtained from one sheep producer, or fleece wool of one type
- Processing efficiency often requires wool to be of different types
- It offers processors the opportunity to maintain continuity of supply of a similar blend throughout the year.

The practice of blending affects the supply–demand cycle. Wool can be blended with different types grown within Australia and also wool from other countries to maintain a consistent, continuous supply of a particular blend. This may explain price volatility for the same types of wool at auction on the same day and as processor orders are filled.

### Long-term wool market factors

Some factors affect the market gradually, over a year or more. This provides an opportunity to respond with the type of wool produced. These factors include:

- An increasing consumer preference for light-weight apparel fabrics. Spinners and weavers have responded accordingly by increasing their demand for finer wool.
- Fashion trends and economic growth in the major industrialised countries. This affects consumer demand for textiles.
- Wool competes with synthetic fibres (polyester and acrylic), and natural fibres (cotton, cashmere, mohair and silk).
- Long-term trends in currency exchange rates.

### Key decisions, critical actions and benchmarks

Sheep producers choose the type of sheep and wool that best suits the farm's physical characteristics, management operations and production environment. Once a micron range and breeding line



On-farm fibre measurement can help identify your most valuable wool-cutting sheep and make decisions directly related to your enterprise profitability based on objective information.

are selected, find out what characteristics or specifications processors require within that wool type, particularly those wool characteristics influencing price.

AWEX market reports and wool brokers' reports and advice are all sources of information that can be used to research the price implications of proposed changes to the sheep enterprise. The production and management decisions may range from:

- A shift from producing 21 micron wool (on average) to, say, 19 micron wool, while holding fleece weight at current levels
- Starting (or increasing) supplementary feeding in autumn to reduce the possibility of tender wool (ie, below 40 N/Ktex); or
- Changing shearing date, lambing time or increasing stocking rate.

In all cases, assess price information over a number of consecutive years, use your personal knowledge of the wool market, seek advice from your brokers', and/or brokers' management services to interpret the variations in price and consider potential financial gains.

### Growing superfine Merino fleece wool

The most important attributes of superfine fleece wool (16.6-18.5 microns) that influence price received are (see tool 2.2, figure 1):

- Fibre diameter
- Staple strength
- Staple length

In combination, these physical characteristics make up 68% of the variation in price paid for finer categories of raw Merino fleece wool.

The fine, and particularly superfine, market segments also place a significant emphasis on clip preparation standards. Sheep producers can receive a premium for a well-prepared clip. Significant discounts are imposed in the fine and superfine market segments for any contamination or inconsistent quality, as this wool is generally bound for more sensitive end uses.

## Growing mid-range Merino fleece wool

The most important attributes of mid-range Merino fleece wool (20.6–22.5 micron) that influence price received are (see tool 2.2, figure 2):

- Fibre diameter
- Staple strength
- Vegetable matter

In combination these physical characteristics make up 61% of the variation in price paid for mid-micron categories of raw merino fleece wool.

## Australian Wool Production Forecast Report

The AWI Australian Wool Production Forecasting Committee publishes a forecast of Australian wool production four times a year to provide the best possible estimates of future sheep numbers for wool production (see signposts).

The committee releases its forecasts of production as a press release with a report that provides detailed forecasts, historical data and commentary on the key drivers of the forecasts. This report is a useful planning tool for wool producers.

## Develop your own clip database

Establish an information database or spreadsheet for your own wool clip to record annual production levels, quality and quantity of wool sold by category and price received for each wool type. Review this database/spreadsheet regularly to track progress towards your wool quality and production goals and embed it in your business plan (see procedure 1.1 in *Plan for Success*).

## Signposts



### Read

**Wool Reports** in rural newspapers such as The Land, Stock and Land, The Weekly Times, Stock Journal, The Countryman and The Queensland Country Life

**The BWKElders weekly global market report** brings the world market perspective: [http://wool.elders.com.au/viewpdf.asp?PDF=media/reports/Reports\\_66.pdf](http://wool.elders.com.au/viewpdf.asp?PDF=media/reports/Reports_66.pdf)

**The Mackinnon Project** report on the best time for shearing: [http://uninews.unimelb.edu.au/unarticleid\\_3740.html](http://uninews.unimelb.edu.au/unarticleid_3740.html)

### View

**Elders Wool Market Reports:** daily physical market reports, the weekly analysis and regional averages plus monthly reports: <http://wool.elders.com.au/marketreport.asp>

**Elders Portfolio Management:** a specialist wool marketing service that gives you accurate advice on how and when to sell your wool: <http://wool.elders.com.au/portfolio.asp>

**Landmark Wool Market Information:** up-to-date reports, news and analysis of the wool market, plus the opportunity to register your details to receive market reports via email (click on the “Wool” tab on the left hand side of the web page): <http://www.landmark.com.au/>

**AWI's Market Intelligence Reports:** collect and collate global wool market information. View web link: [www.wool.com.au/Market\\_Information/Market\\_intelligence\\_reports/page\\_\\_6739.aspx](http://www.wool.com.au/Market_Information/Market_intelligence_reports/page__6739.aspx)

## Australian Wool Exchange Market

**Information:** services for a range of industry market reports based on daily, weekly, and monthly cycles. Web link: <http://www.awex.com.au/scripts/nc.dll?AWEX.852486:LANDING:921565467:pc=L2>

## Australian Wool Production Forecast

**Report:** detailed forecasts, historical data and commentary on the key drivers of future sheep numbers and wool production, published quarterly: [www.wool.com.au/page\\_\\_6738.aspx](http://www.wool.com.au/page__6738.aspx)

**Wool on the Web:** technical information on the wool pipeline for wool processors: [www.woolontheweb.com.au/LivePage.aspx?pageId=2](http://www.woolontheweb.com.au/LivePage.aspx?pageId=2)

**On Farm Fibre Measurement** quality assurance brochure: questions and answers about OFFM which includes information about assuring the quality of your OFFM provider and a case study. Visit: [http://www.wool.com.au/Publications/Genetics\\_and\\_wool\\_quality/page\\_\\_2212.aspx](http://www.wool.com.au/Publications/Genetics_and_wool_quality/page__2212.aspx)

### Attend:

**OFFM workshop:** on-farm fibre measurement workshops help wool producers understand how to best use the products available, help wool brokers to accurately advise their clients and facilitate specialist training for OFFM operators. For workshop locations and dates, see: [http://www.wool.com.au/Testing\\_and\\_Handling/page\\_\\_2201.aspx](http://www.wool.com.au/Testing_and_Handling/page__2201.aspx)

### Website link not working?

Go to the Making More From Sheep website:

[www.makingmorefromsheep.com.au](http://www.makingmorefromsheep.com.au)

and follow the links to updated signposts



## Procedure 2.2

Use a customer focus to produce, harvest and prepare wool for sale



### Background information



The Australian Wool Exchange (AWEX) Code of Practice for the preparation of Australian Wool Clips describes the recommended practices and standards. The code aims to:

- Prepare uniform, consistent, reliable, predictable, low risk lines of wool suitable for the diverse needs of wool processing and so maximise competition from buyers for the wool;
- Present a product free of contamination that is correctly documented, described and packaged.

Clips prepared to the Code of Practice will meet the needs of wool processors and attract the maximum competition at auction to maximise the return.

Australian wool is renowned worldwide for its whiteness and cleanliness and, consequently, commands premiums compared to wools from other countries.

Contamination of the Australian Merino wool clip has mostly been associated with dark fibres originating from urine stains and isolated pigmentation found in the fleece. In recent years the introduction of exotic sheep breeds has brought a new and increasing source of dark and medullated fibre contamination. This contamination costs about \$100 million each year to remove or correct by picking out from fabric after weaving.

### Key decisions, critical actions and benchmarks

#### Cost of production

Cost of production (COP) is a key factor affecting the profitability of wool producing businesses. COP, measured in dollars per kilogram of clean wool, is an indication of the outlay needed to produce each kg of wool (see tool 1.7 in *Plan for Success* and other COP tools including the Elders COP calculator). Calculating the cost of production (in cents per kilogram) is an important step in assessing and improving the performance of a wool growing enterprise. COP is most useful when calculated over two or more years, to track trends and influences over time.

The key benefits of knowing COP are to:

- Provide a benchmark to measure the performance of your wool enterprise year on year
- Enable a comparison of the efficiency of your enterprise annually with other wool producers
- Identify any opportunities for improvement and where your enterprise is performing well
- Help set a target sale price which will achieve a satisfactory profit margin and help determine the right time and price to market your wool.

#### AT A GLANCE



- Understand the benefits of developing the relationships that underpin the annual production, harvesting and preparation of wool
- Use the AWEX Code of Practice for Woolclassers to manage and supervise shearing, preparation and classing activities
- Discuss your shearing plans with your broker and secure their shearing stationery
- Consider producing for the growing niche market for 'ethical' and organic wool

#### Managing shearing

Shearing management and wool harvesting practices can have a big influence on quality of wool sold. Tool 2.4 contains basic guidelines to assist with planning for shearing, wool preparation and classing.

#### Dark and medullated fibre contamination

AWI-funded research by CSIRO developed the dark and medullated fibre (DMF) test for use on wool core-samples routinely used for yield and micron testing by the Australian Wool Testing Authority (AWTA). For around \$40 (+GST), the voluntary DMF test:



Clips prepared to the AWEX Code of Practice will attract maximum competition from buyers at auction

- Enables Australia’s white-wool producers to promote their wool as such to buyers
- Provides buyers and processors with a reliable and quantified measure of the level of dark and/or medullated fibre risk in sale lots.

The Dark and Medullated Fibre Risk (DMFR) Scheme is a voluntary declaration that rates clips for contamination risk and advises purchasers of Australian wool of the likely level of contamination of white wool from traditional natural pigmentation or stains and new sources such as exotic breeds.

The DMFR declaration requires Australian Merino wool producers to formally identify the following information on their wool classer’s specification or associated declaration form:

- If their stock have been in contact with exotic sheep breeds
- If crutched
- If crutched within 3 months of shearing
- Age
- Sex
- Wool description.

Tool 2.3 describes how this information contributes to the ratings. If the classer’s specification form does not include a section for this information, a separate declaration form is available from wool brokers.

Wool producers can nominate all, some, or certain lines in their wool clip for inclusion in the voluntary declaration scheme.

**Eco / organic wool**

Recent market research indicates that there is a growing niche market for ‘eco’ and organically grown wool. Ethical wool products are those made from fibre grown in an environmentally sustainable manner (see procedure 5.4 in *Protect Your Farm’s Natural Assets*) and that recognise animal welfare (see procedure 11.5 in *Healthy and Contented Sheep*), human rights and social justice standards. While this is a niche market, it is likely that the demand for ethical and organic wool will increase substantially over the next five years.

The EU Eco-label provides one such voluntary opportunity where products are certified for their ‘kindness to the environment’. In the case of wool products, this includes chemical residues on raw wool falling below certain prescribed levels. The Australian wool industry is well placed to supply these niche markets. The EU Eco-label provides some simple rules about chemical use for greasy wool that sheep producers can aim to meet (see tool 2.5).

**Best practice chemical use**

Guidelines are being developed to enable the most cost-effective external parasite (lice and blowflies) control and achieve environmental protection, human safety and quality of final product (wool and meat). Tool 2.6 describes currently recommended practices for the use of chemicals (pesticides) to control lice and blowflies on sheep.



## Signposts



### Read

**Preparation of Australian Wool Clips: the Code of Practice 2007–2009:** the Australian standard for preparing wool to meet the needs of wool processors. It contains recommended practices and technical explanations for wool producers and woolclassers to help maintain Australia's reputation as the world's premier supplier of a quality natural fibre. Contact The Woolclasser Registrar on (02) 9428 6100 or email [registrar@awex.com.au](mailto:registrar@awex.com.au) for your copy.

**BOARDTalk:** the quarterly Wool classer Newsletter published by AWEX. For previous copies, visit: [http://www.awex.com.au/scripts/nc.dll?AWEX.721054:STAND ARD:462977925:pc=PC\\_10](http://www.awex.com.au/scripts/nc.dll?AWEX.721054:STAND ARD:462977925:pc=PC_10)

Fact Sheet: **'Guidelines for producing European (EU) eco-label, low or nil residue wool':** [www.agric.wa.gov.au/pls/portal30/docs/FOLDER/IKMP/PW/AH/CHEM/FSNILLOWRESGUIDELINES.PDF](http://www.agric.wa.gov.au/pls/portal30/docs/FOLDER/IKMP/PW/AH/CHEM/FSNILLOWRESGUIDELINES.PDF)

**Visual Assessment Scores:** a national set of standardised visual scores to consistently describe, record and class sheep conformation, wool quality and breech traits. To order your free copy, call the AWI Helpline on 1800 070 099 (free within Australia).

### View

**AWI Cost of Production Calculator for Wool:** calculating your cost of production is an important step in assessing flock profitability and a first step to making change: <http://www.woolcheque.com.au/LivePage.aspx?pagelD=89>

Elders Business Tools: includes the **Elders Cost of Production on-line calculator:** <http://wool.elders.com.au/businesstools.asp>

**AWEX Code of Practice for Woolclassers:** visit the AWEX website for your copy: [http://www.awex.com.au/scripts/nc.dll?AWEX.65680:STANDARD:1693608426:pc=PC\\_15](http://www.awex.com.au/scripts/nc.dll?AWEX.65680:STANDARD:1693608426:pc=PC_15)

Monitor **AWI and AWEX websites** to keep abreast of current developments:

- [www.wool.com.au](http://www.wool.com.au)
- [www.awex.com.au](http://www.awex.com.au)

## The Dark and Medullated Fibre Risk (DMFR) Scheme is a voluntary declaration that rates clips for contamination risk ... from traditional natural pigmentation or stains and new sources such as exotic breeds



Single dark fibres in a white or pastel fabric need picking out at a cost of more than 10 cents per kilogram

**AWTA Raw Wool Testing Services:** summary of the major services AWTA provides to the industry, and descriptions of the processes used to achieve test results: [http://www.awta.com.au/Publications/Marketing/Raw\\_Wool\\_Services/Testing\\_the\\_Clip.htm](http://www.awta.com.au/Publications/Marketing/Raw_Wool_Services/Testing_the_Clip.htm)

**Dark and Medullated Fibres Program:** protecting the reputation of Australian White Merino Wool:

→ DMF testing: [http://www.awta.com.au/Publications/Marketing/Dark\\_Fibre/Dark\\_Fibre.pdf](http://www.awta.com.au/Publications/Marketing/Dark_Fibre/Dark_Fibre.pdf)

→ DMFR scheme, including links to DMF declaration forms for wool producers: [http://www.awta.com.au/Publications/Marketing/DMF\\_Risk/DMFR\\_Scheme.htm](http://www.awta.com.au/Publications/Marketing/DMF_Risk/DMFR_Scheme.htm)

→ EU Eco-label web site: [www.ec.europa.eu/environment/ecolabel/index\\_en.htm](http://www.ec.europa.eu/environment/ecolabel/index_en.htm)

**Farmnote 30/2002:** a good overview of the issues posed by wool residues, published by the Department of Agriculture and Food WA: [www.agric.wa.gov.au/pls/portal30/docs/folder/ikmp/aap/sl/wool/fn030\\_2002.pdf](http://www.agric.wa.gov.au/pls/portal30/docs/folder/ikmp/aap/sl/wool/fn030_2002.pdf).

### AWI Wool Handling and Shed Skills

**DVD:** a Training DVD for wool handlers covering throwing, skirting, rolling and other shed responsibilities. Other DVDs in the series include *Novice Shearer Training, Improvers / Professional Shearer Training* and *Gear Maintenance and Grinding*. To order your free DVDs, call the AWI Helpline on 1800 070 099 (free within Australia).

### Attend

**Woolclasser education courses:** prior to being registered by AWEX as a woolclasser, individuals need to undertake a wool classing training course. Find out more about wool classing courses by contacting your nearest TAFE or training organization, contacting AWEX on (02) 9428 6140 or emailing: [industryservices@awex.com.au](mailto:industryservices@awex.com.au)

## Procedure 2.3

Maximise returns from your wool sales



### Background information



Many options exist for the marketing of your wool clip. The price of wool is highly volatile, with this volatility being a major risk for any woolgrowing business. Understanding the value of your wool before sale can assist in assessing marketing options and the use of price risk management tools. Knowing where current prices sit in relation to historical values can also help reveal the current point in commodity price cycles.

### Introduction

Wool producers have many selling options available to them. The options will vary according to the scale of your enterprise, and the characteristics of the wool you produce (micron, market speciality). To secure the true market value of your wool, work with your wool broker or adviser when using any of these selling options. The more commonly used methods include:

→ **Open-cry 'progressive' auction**

– The preferred method of sale and ownership transfer for about 85% of wool producers. This system is facilitated and managed by wool brokers, guarantees payment, and allows maximum exposure and competition for wool at sale time, with all major buyers of Australian wool present in the auction rooms.

→ **Private treaty** – Prices are negotiated privately with buyers at or about the time of shearing. Wool may be sold either tested or untested, however, untested wools will not be paid the same as tested wools.

→ **Forward sales** – A contract is made before shearing to deliver wool to an agreed specification and to an agreed price schedule. Payment is made against the actual test results. Remember that once contracted, your wool must meet specifications.

→ **Direct to topmaker/exporter** – Similar to forward contract, but a spot sale through an exporter for delivery direct to a topmaker. Negotiation of the final price in Australian currency must be managed carefully to eliminate fluctuations in currency exchange rates.

### AT A GLANCE



- Use AWEX, your wool broker and/or Woolcheque to estimate the value of your wool
  - Use your wool value estimates to set auction reserve prices or negotiate direct sales
  - Consider wool selling options 4–6 months ahead of shearing and evaluate a range of methods
  - Develop strategies to manage price unpredictability before shearing and keep under regular review.
- **Internet selling** – There are two types of internet selling platforms:
- Electronic offer board where wool is available for sale to buyers 24 hours a day, 7 days a week. A reserve price is 'posted' (presented for sale on computer screen) and can be simultaneously seen by all registered buyers. Submission of bids and final sale is facilitated via the offer board, and not directly with the seller. The most significant advantage of an electronic offer board comes in a rising market, when it allows buyers to purchase wool lots outside the scheduled auctions. See the link to Wooltrade in the signposts.

- On-line auction replicates an open-cry auction system, but is conducted via the internet and can be accessed from anywhere in the world. Transactions are made directly between buyer and seller and in real time. See the link to Elders On-Line Global Wool Auction in the signposts.

→ **“Special feature” sales** – An open cry progressive auction where the ‘speciality featured wool’ is specially marketed and consolidated, providing critical mass for the buyer of that speciality lot, eg, the Elders organic wool auctions.

→ **Grower marketing groups** – Grower based marketing groups established to sell direct to processors and manufacturers. Grower marketing groups need a structure, training and a sound business case to succeed and be profitable over time.

If immediate sale prospects are poor at the time of shearing and the outlook is for improving price, consider holding wool in store pending a later sale (defer selling). Alternatively, sell part of the clip (split selling) and defer the remainder to a time of lower supply. Work closely with your wool broker or adviser and be aware of storage costs and the time value of money.

## Key decisions, critical actions and benchmarks

### Valuing your wool

You can use the web-based tool, Woolcheque, to independently value your wool clip with the prices sourced from the historical AWEX market reporting system.



Woolcheque can be used for:

- Modeling different clip scenarios and flock management strategies
- Daily and historical valuation of clip details
- Understanding the role that premiums and discounts for staple strength, VM, staple length etc play in achieving profitability
- Appreciating the importance of price risk management.

Woolcheque includes up-to-date market pricing, useful price charts and lot benchmarking. The key operational processes are outlined on the Woolcheque website, [www.woolcheque.com.au](http://www.woolcheque.com.au).

Alternatively, you can use your wool brokers’ appraisals. These appraisals may differ from those provided by Woolcheque. Brokers’ appraisals incorporate a visual inspection of your wool in the sample box, anticipated market movements and the quantity of offerings in the forward weeks to provide an estimate of what your wool will achieve at auction. Woolcheque values your wool based on previous auction results only. It is prudent to use both the Woolcheque valuation and your broker’s appraisal when marketing your wool.

### Selling options

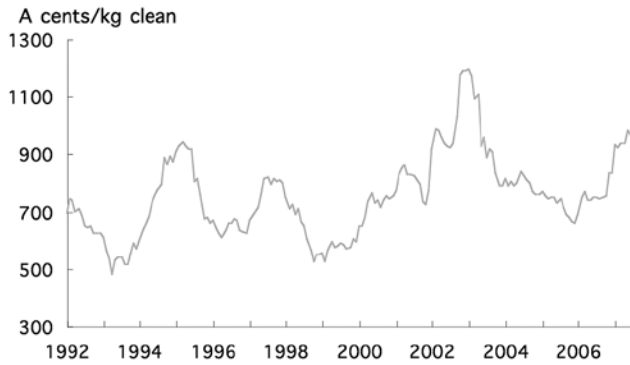
Plan your selling system 4–6 months before shearing commences. The final choice will be determined by a number of factors including:

- Short- to medium-term market outlook and projected price trends
- Estimates of the value of your wool using information from broker valuations, forward markets or Woolcheque
- Prices on offer relative to that valuation and expected price trends
- Estimates of selling and possible storage costs
- Your own financial circumstances, including the cost of production
- Potential risks of market volatility and your approach to managing price risks.

It is recommended that you monitor market conditions and review approaches to selling, up to the point of sale.

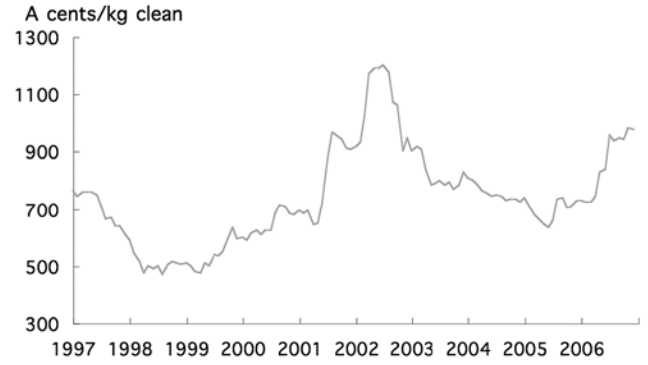


**Eastern Market Indicator**



Source: Woolmark, AWEX  
Data to June 2007.

**Western Market Indicator**



Source: AWEX  
Data to available from July 1997 to June 2007.

**Figure 2.1:** Commodity price cycles in key wool markets over 15 years (Source: The Woolmark Company)

**Managing price volatility**

The profitability of your enterprise is determined by a combination of seasonal conditions, your personal management programs, and wool price cycles. Wool prices, like all commodity prices, move in cycles, as shown in figure 2.1 below:

A recent study indicated that wool price volatility is the major source of business risk on woolgrowing farms. Wool price volatility contributed about 80% of the variability of return on equity, while production risk contributed about 20% of the variability. Yet few wool producers have appropriate strategies in place to reduce the risk of low and unprofitable wool prices.

Price risk management programs and products can help protect your profitability from volatile commodity prices and the vagaries of the weather.

Wool brokers and advisers can access a wide variety of price risk management tools around the world to help reduce the uncertainty of future cash flows. It is important to seek professional advice to understand the practicalities and implications when developing strategies to manage price risk. Options include:

- Making use of forward selling or hedging options such as selling wool futures before shearing.
- Accessing price risk management tools through a wool agent or exporter. This eliminates most of the risk of price fluctuation, but production and wool quality risk remains.

**Price risk management programs and products can help protect your profitability from volatile commodity prices and the vagaries of the weather**

- Exploring fixed price wool indicator contracts, wool minimum price facility, and deferred price contracts.

Some on-farm approaches to managing the current market situation and possibility of price volatility at the time of sale include:

- Spreading the risk by offering your clip over more than one scheduled sale
- Setting well researched and realistic reserves to protect against downside risk of price fluctuations and maintain flexibility up to the time of sale.

Holding wool in storage requires an assessment of the likely storage costs and financial impact of a delay in wool sales against the potential for price gains when wool is finally sold.



## Signposts



### Read

**A Marketing Guide for Wool Growers:** a manual that outlines the various methods and operations involved in selling wool. To order, call the AWI Helpline 1800 070 099 (free within Australia).

**Risk Management for Woolgrowers:** explains alternative approaches to risk management. To order, call the AWI Helpline 1800 070 099 (free within Australia).

**Factors Affecting the Business Risk of Wool Growing Farms in the High Rainfall Zone of Australia:** explains why managing price volatility is important for woolgrowing enterprises: <http://sheepjournal.une.edu.au/sheepjournal/vol45/iss4/paper4/>

### View

**Elders Online Globalwool Auction:** this online auction system gives wool buyers, mills and merchants the opportunity to participate in the Elders Global Auction from anywhere in the world: <http://wool.elders.com.au/sellingdetail.asp?RefID=18>

**Wool Trade:** an internet based wool selling and trading system allowing wool producers to offer their clips to all buyers 24 hours/7 days per week: [www.wooltrade.com.au](http://www.wooltrade.com.au)

**Elders Exchange Desk:** provides woolgrowers with the mechanism to sell wool quickly and efficiently outside of the auction system: <http://wool.elders.com.au/sellingdetail.asp?RefID=4>

**Woolcheque:** the wool pricing tool for Australian wool producers: [www.woolcheque.com.au](http://www.woolcheque.com.au)

**Websites for managing wool price risk** and market volatility can be found at:

→ Elders Risk Management (wool): <http://riskmanagement.elders.com.au/wool.asp>

→ Landmark Risk Management Online (wool): [www.landmark.com.au/bm\\_wrm.asp](http://www.landmark.com.au/bm_wrm.asp)



... wool price volatility is the major source of business risk on woolgrowing farms. Wool price volatility contributed about 80% of the variability of return on equity while production risk contributed about 20% of the variability

→ Australian Wool Network Price Risk Management: <http://www.woolnetwork.com.au/aboutus/options.php>

→ National Australia Bank Agribusiness Price Risk: [www.national.com.au/Business\\_Solutions/](http://www.national.com.au/Business_Solutions/)

→ Australian Securities Exchange (ASX) Wool Futures: [www.asx.com.au/investor/futures/wool/index.htm](http://www.asx.com.au/investor/futures/wool/index.htm)

**Elders On-line Client Services:** Elders clients can register with Elders Online Client Services to access a range of information including wool test results and sales prices. Visit: <http://www4.elders.com.au/default.asp>

**Landmark Wool Clip Information:** available to Landmark clients for any wool sold through Auction or electronic marketing. Visit: <https://www.landmark.com.au/woolinfo/formslogin.asp>

**Landmark Wool Procedures Manual:** provides wool producers with the step by step guide on how to access a number of wool marketing alternatives to auction including Fibre Direct and 'farm to mill' supply arrangements: [www.landmark.com.au/wool.asp](http://www.landmark.com.au/wool.asp)

Landmark Precision Wool Marketing Systems: incorporates the complete range of Landmark's products and services available to wool producers. Visit: <https://www.landmark.com.au/> (click on the "Wool" tab on the left hand side of the page)

**AWEX up-to-date market reports:** receive regular market reports by fax, email, or SMS by subscribing to one of these services from AWEX. Call (02) 9428 6100 for more information, or visit the website: <http://www.awex.com.au/scripts/nc.dll?AWEX.852486:STANDARD:1262344700:pc=L2C1>

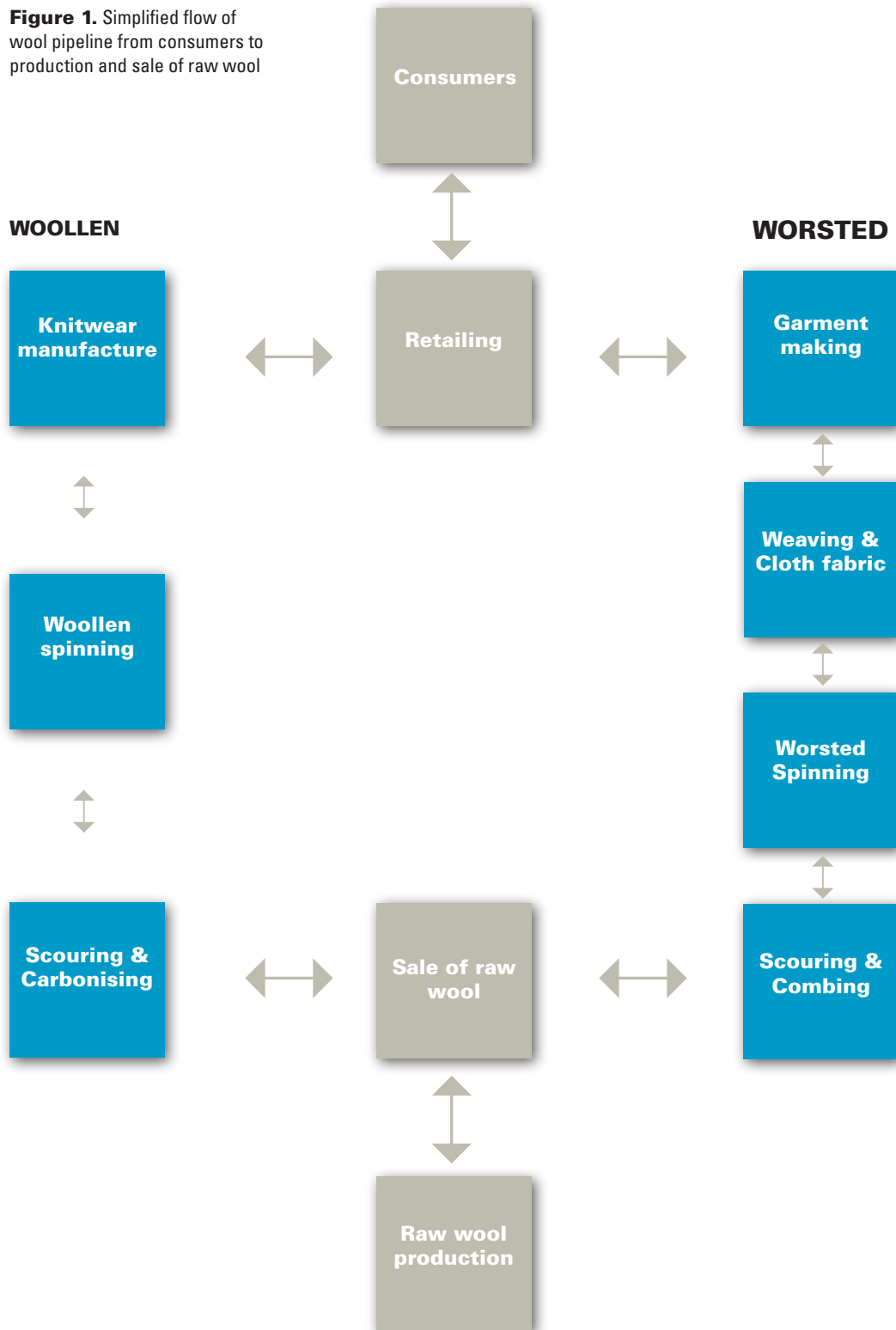
**Contact your local wool broker** and arrange for a licensed futures adviser to contact you.



## Tool 2.1

### Simplified flow of the wool pipeline

**Figure 1.** Simplified flow of wool pipeline from consumers to production and sale of raw wool



Around 80% of Australian wool passes through the worsted system. This is based on firmly twisted yarn spun from combed and carded long-staple wool (such as fleeces and pieces).

Most of the remainder is processed through the short-staple woollen spinning system and comprises mainly lambs' wool and carding types (eg, locks and crutchings). Woollen yarn is typically used in knitwear.

It is important to understand that wool is bought and blended to meet customer/processor specifications. By managing this process buyers are able to meet the specifications for the least cost. Not only are different types of wool substituted from within the Australian clip to reduce cost but wools from other countries are also blended to meet specifications.

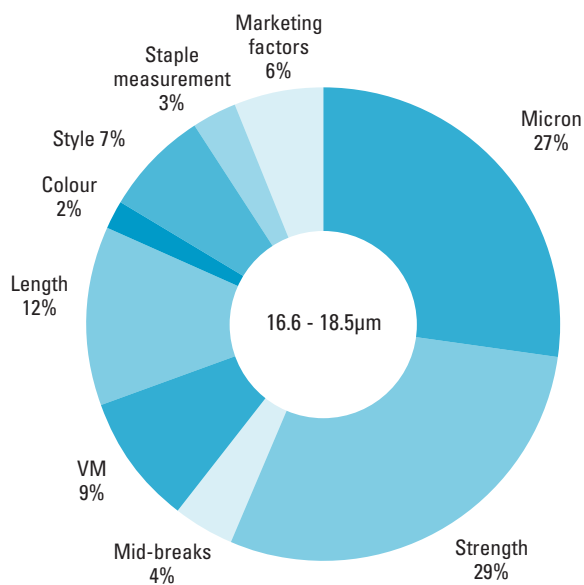


## Tool 2.2

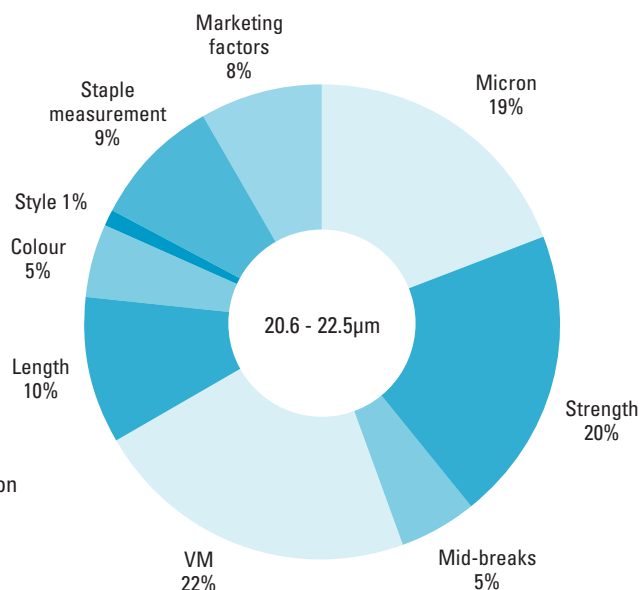
### Influence of physical characteristics on wool price

The influence of fibre and marketing characteristics is shown over three selling seasons (2003–04 to 2005–06) in Figure 1 for superfine wool and Figure 2 for mid-micron wool.

(Source: The Woolmark Company, courtesy Department of Agriculture and Food, Western Australia)



**Figure 1.** Superfine Merino fleece wool (16.6–18.5 micron categories)



**Figure 2.** Mid-micron Merino fleece wool (20.6–22.5 micron categories)

\* Marketing factors include region, sale by separation, re-handling and lot size.

Over the 3-year period, vegetable matter was equally important with fibre diameter and staple strength as a price determinant. Although this may have been the effect of a short-term factor, the trend was consistent over the 3-year period.

## Tool 2.3 The Merino Dark and Medullated Fibre Risk scheme

A voluntary dark and medullated fibre risk (DMFR) scheme was introduced for Merino fleece and piece wool in July 2004 initiated by the Australian Council of Wool Exporters. It provides a rating of the risk of dark and medullated fibre contamination recorded on Australian Wool Testing Authority (AWTA) test certificates and in sale catalogues. This program is promoted by some brokers and it is expected that market forces will show premiums for the declared clean wools.

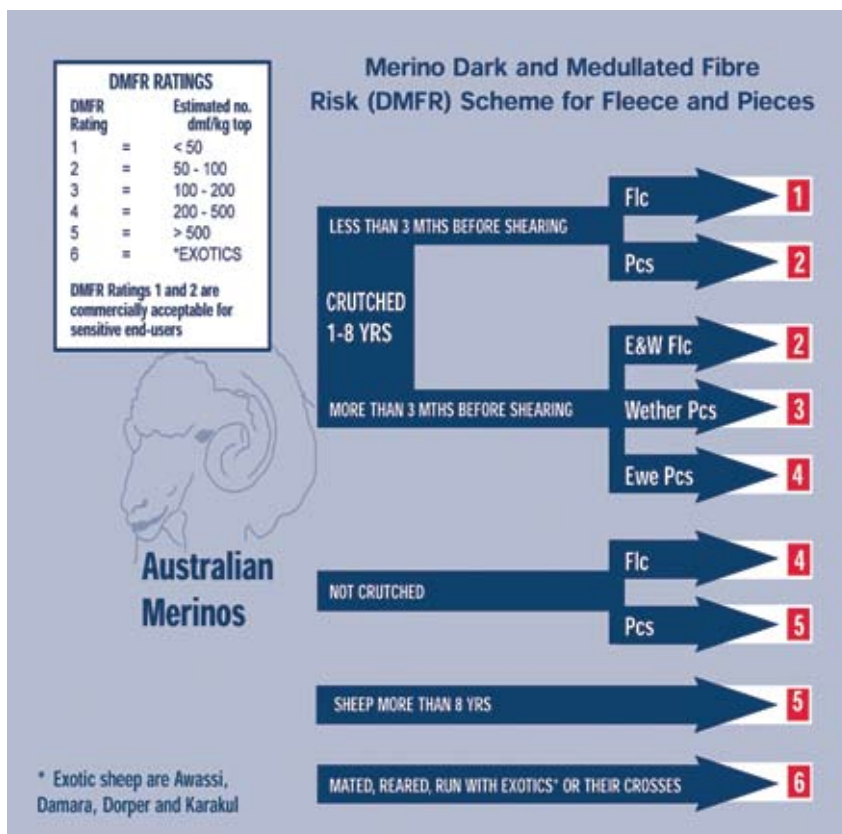
The DMFR Scheme allows:

- Wool producers to promote their clips as white and uncontaminated
- Wool buyers and processors to minimise the risk of buying contaminated wool
- Better analysis of price differences for wools with various contamination risks
- Protection and advancement of Australia’s woolclip reputation as white and non-contaminated.

Merino sheep producers have the option of supplying DMFR information for all, some, or none of their fleece and piece lines.

Non declared wools will be branded “ND” in the Auction catalogue, indicating to buyers that there is some risk associated with these wools.

The diagram (below) shows how the DMFR rating for your wool is determined:





## Tool 2.4

### Planning guidelines for shearing, wool preparation and classing

#### Wool harvesting

Check list for efficient wool harvesting procedures and effective communication pathways at shearing:

- Set up effective communication with the contractor, shearers and shed staff
- Brief the team so they understand your expected standards
- Engage a shearing team known for the quality and reliability of its work and that employs sufficient shedhands
- Give particular attention to the level of shed staffing for sheep handling and wool preparation
- Read and apply the Grower Responsibilities section of the AWEX Code of Practice for Woolclassers
- Provide a better-than-average working environment; ensure that the shearing shed, as a minimum, meets your state's Occupational Health and Safety (OH&S) requirements
- Acknowledge the professionalism of shearers and shed staff; this creates a highly productive and efficient work environment.

Consider the following in the annual stock management calendar:

- Choose a date for shearing that is likely to maximise the potential value of the total clip, in terms of both fibre characteristics (eg, staple strength, position of break) and total wool production
- Crutch within 3 months of the scheduled shearing date to reduce potential stained fibre contamination
- Manage the flock to ensure the sheep are kept dry, not scouring and not stressed by excessive yarding and handling immediately prior to shearing.

#### Wool preparation and classing the clip

Wool offered for sale in Australia is usually prepared by a suitably qualified and registered woolclasser. To be registered with AWEX a woolclasser must have completed and passed a recognised training course in woolclassing/wool preparation.

In preparation for shearing,

- Provide the classer with a breakdown (preferably written) of flock structure with regard to mob sizes, ages and the order that they will be presented for shearing
- Provide the classer with previous years' clip results
- Consult with the classer on the preparation of the clip prior to shearing
- Agree on the code of practice, particularly in determining the number of lines, observance of bale weight limits (195 kg is recommended, 204 kg is maximum) and guidelines for describing the wool in each bale.
- For the classer's stencil to be applied to the bale of classed wool, the classer must adhere to the industry benchmark for wool clip preparation, the AWEX Code of Practice for Woolclassers.

- In smaller shearing sheds (four stands or less), the classer may assist wool handlers with clip preparation but in larger sheds the classer must concentrate wholly on classing and shed management.
- Visit your woolbroker's showroom floor to inspect sample boxes and discuss your own clip's preparation, test results and presentation. Ask about lot valuations and types. Take the time to inspect the classing and preparation of other clips of similar wool types from comparable regions.
- Actively seek and obtain feedback on the lots that sold well or below expectations or valuation. Enquire how the buyers typed and valued your clip. Keep a record of who buys your wool and where it might go for processing.

### Further sources of information

The following sources provide information on best practice for shearing, wool preparation and classing.

**Shearing Shed Guidelines** – AWI provides guidance on planning new shearing sheds or renovating old sheds. Access the AWI home page ([www.wool.com.au](http://www.wool.com.au)) and click on 'wool harvesting', then select 'shearing shed guidelines' from the menu.

The guidelines will help you improve productivity in the shearing shed and meet OH&S standards. From the same menu, you can gain some indication of the potential costs if these standards are not met, by selecting 'shearing and OH&S'.

**AWI Wool Handling and Shed Skills DVD** – A Training DVD for wool handlers covering throwing, skirting, rolling and other shed responsibilities. To order your free DVD, call the AWI helpline on 1800 070 099 (free call within Australia).

**The AWEX Code of Practice grower responsibilities** – AWEX home page ([www.awex.com.au](http://www.awex.com.au)) click on 'wool classer' and scroll down to code of practice. You can download the 'grower responsibilities' section of the code of practice from the website, or contact AWEX (02) 9428 6136 for a copy of the complete code of practice.

The code of practice provides guidance to wool classers on the standards required by customers of Australian wool. If your registered wool classer follows the Code you can be assured that:

- The processor will receive lines that are uniform in terms of visible characteristics
- There is minimum risk of contamination
- The documentation is accurate

**On Farm Fibre Measurement (OFFM)** – Go to the AWI website ([www.wool.com.au](http://www.wool.com.au)) and access 'testing and handling', then select 'on-farm testing'.

OFFM is a valuable tool in accelerated breeding from superior animals (see tool 9.10 in *Gain from Genetics*) and culling of low-value animals. In addition, there are occasions when producers of superfine wool (below 18 micron) have found OFFM helpful in compiling homogenous sale lines of finer wools if OFFM quality assurance guidelines are followed. Ensure that the potential fibre diameter premiums outweigh the likely additional costs.

Analysing a typical wool clip over five years (2000-2005), OFFM can return per sheep net profits\* of between \$3.04 (20 micron flock) and \$5.56 (18 micron flock), primarily by improved selection and breeding. (\*Source: OFFM Calculator).

The OFFM Calculator was developed by Dr Kevin Atkins and Steve Semple from NSW Department of Primary Industries with funding from AWI, the Australian Sheep Industry CRC, and the International Fibre Centre.

Your wool broking team can supply support and information on best practice for shearing, wool preparation and classing.



## Tool 2.5

### Specifications for environmentally assured wool

Recent AWI international consumer research shows a mass trend toward a lifestyle of health and sustainability, with approximately one in three consumers preferring natural/organic fibres for their clothing. This means demand for organic (or otherwise environmentally assured) food and fibre is quickly growing from niche to mainstream markets. At the retailer level, AWI research has confirmed that major brands and manufacturers are widening their interest in the production and marketing of organic/eco friendly apparel.

Wool is well positioned to meet this growing market with excellent 'natural' credentials – it is a natural, renewable, biodegradable protein, produced in extensive grassland ecosystems. However, assurance of these environmental credentials at finished product stage requires proof of compliance to certain standards through the supply chain. There are two major emerging standards: certified organic/biodynamic, and the EU Ecolabel.

#### Organic wool

'Organic' food and fibre is produced to a set of standards related to issues such as chemical use, animal welfare and sustainability. The principle behind organic farming is to produce food as 'naturally' as possible. Biodynamic farming is a form of organic farming, using preparations made from farm-sourced materials to enhance soil structure and nutrient cycles, hence improving plant and animal growth and development.

Around 300 tonnes of clean certified organic/biodynamic wool is currently produced in Australia – about 0.06% of the national clip. The major certifications used are the Australian National Organic standard (EU 2092/91 compliant) and USDA NOP standards (US Department of Agriculture compliant).

It costs sheep producers about \$1,000 – \$3,000 to comply, annually. This is due to costs of compliance and certification, changes to sheep management practices associated with disease control and potentially higher sheep mortality as a result. Most organic wool producers in Australia are in the low rainfall areas, as their management practices are highly compatible with the organic standards.

There are currently four certifying bodies for organic wool in Australia. Visit their websites at:

- National Association for Sustainable Agriculture, Australia (NASAA): <http://www.nasaa.com.au>
- Australian Certified Organic: <http://www.aco.net.au/>
- The Bio-Dynamic Research Institute (BDRI): <http://www.demeter.org.au/>
- Tasmanian Organic Biodynamic Producers Inc: <http://www.tasorganicdynamic.com.au/>

#### EU Eco-label compliant wool

There is an increasing probability that chemical residues left on wool at sale will lead to loss of markets, price penalties or both. At present, only the European Union has published environmental standards for chemical contaminants. These took effect in October 2007. It is expected that environmental standards similar to those of the EU will gradually become a feature of other export destinations.

On the positive side, there are opportunities to capitalise on wool's natural image by exploiting 'eco' marketing niches. The European Union Eco-label provides one such voluntary opportunity. The EU Eco-label is a scheme by which products are certified for their 'kindness to the environment'. In the case of wool products, this includes chemical residues on raw wool falling below certain prescribed levels.

The EU Eco-label provides a set of standards for greasy wool that wool producers can aim to meet by following some simple rules about chemical use. There is no compulsion to try to meet these standards, but they may provide a small price premium if wool is sold through a supportive broker. Wool can also be tested by CSIRO to provide objective evidence of compliance. The cost is around \$130/sample for the “E1 Wool residue testing (a) AWTA greasy or scoured core samples” test. To find out more about this testing service, visit CSIRO Services: <http://www.csiro.au/services/ps1s5.html>

The AWI-funded pesticide residue survey of sale lots in Australia estimates that 40% of the national clip is potentially compliant with the EU Eco-label, although currently only 1% of the national clip is tested to demonstrate compliance.

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**Producing wool compliant with the EU Eco-label**

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Wool is not compliant with the EU Eco-label if:

Sheep have been treated with:

- any synthetic pyrethroid product
- any triflumuron product
- any diflubenzuron product

at any time since last shearing.

Or, if sheep have been treated with any diazinon product within the 7 months leading up to shearing.

Wool is compliant with the EU Eco-label if:

Sheep have not been treated with an external parasite product since last shearing.

Or, if sheep have been treated only with:

- any cyromazine product
- any dicyclanil product
- any spinosad product
- any macrocyclic lactone product
- any magnesium fluorosilicate product

at any time since last shearing.

Or, if sheep have been treated with any diazinon product, provided treatment was more than 7 months before shearing.

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**Notes:**

- Australian wool harvesting intervals (WHIs) must still be observed.
- Wool harvesting interval (WHI) has replaced the term “wool withholding period” (WHP). The definition of WHI remains the same as for WHP: “the time from application of a chemical to when the wool is shorn”. Wool producers are advised to contact their wool broker regarding market requirements relating to residues.

Wool producers can also declare the residue status of their clip at sale by completing a voluntary vendor declaration in the woolclasser’s specification. This declaration, however, provides only minimal information to the buyer, with the only options being ‘Nil’, ‘Low’, ‘High’ and ‘Not applicable’ in reference to residue risk.

A properly audited broker’s scheme or objective residue test is more likely to attract serious buyers of low-residue wool.

**Landleader**

Landleader is an environmental stewardship program currently under development by AWI and MLA. It will allow sheep producers to assess current management practices against recognised industry ‘best practice’, and track improvements over time. Information collated about on-farm practices will also contribute to improving and promoting the environmental credentials of the wool and red meat industries.

The program looks at the following key areas:

- Sustainable use of natural resources (soil, water and vegetation)
- Stock management
- Chemical use on farm and
- Processing (off-farm, wool only)

The program is voluntary, free and takes about 1 hour to answer a number of survey questions in the on-farm areas. Sheep producers receive individual, customised reports which benchmark against industry best practice, and in time, other sheep producers in their region or sheep producer group, and potentially to specific markets.

For processors, the processing module provides a checklist on how to meet EU Eco-label standards.

This program has been trialed with sheep producers, and is expected to roll-out in 2008. For more information, visit [www.landleader.com.au](http://www.landleader.com.au).

### **Further sources of information**

Landcare Australia and Elders have joined forces to support Australian farmers under Landcare Farming. Visit: <http://www.landcareonline.com/partner.asp?partnerid=71>



## **Tool 2.6**

### **Guidelines for reducing chemical residues**

It is desirable for the wool industry to use chemicals in a more targeted way to control external parasites (lice and blowflies) to:

- Maximise the cost-effectiveness of treatments for lice and blowflies
- Minimise the environmental consequences of chemical treatments on-farm
- Minimise any harmful impacts of chemicals on farm workers
- Ensure wool is suitable to be sold into any residue-sensitive market (including its eligibility for EU Eco-label certification)
- Ensure sheepmeat will not contain chemical residues that could affect its suitability for safe human consumption
- Ensure sheepmeat for export adheres to current export slaughter interval standards of the purchasing country.

### **Minimising on-farm chemical use**

More targeted chemical management starts with looking for opportunities to use chemicals as little as possible.

Tick the box that best describes the overall approach to chemical management on your farm. There are a number of options available to assist in the control of blowflies and lice that could be applied to your wool enterprise, depending on which box/es you tick.

- |  |                       |
|--|-----------------------|
|  | ✓                     |
| 1. Never use chemicals and am an accredited biodynamic sheep producer                              | <input type="radio"/> |
| 2. Never use chemicals and am an accredited organic sheep producer                                 | <input type="radio"/> |
| 3. Never use chemicals but am not an accredited organic sheep producer                             | <input type="radio"/> |
| 4. Use chemicals as little as possible, because I prefer to live without them                      | <input type="radio"/> |
| 5. Use chemicals infrequently, because the environment doesn't generally require them              | <input type="radio"/> |
| 6. Use chemicals quite often, even though I don't like it, because lice and flies are big problems | <input type="radio"/> |
| 7. Use chemicals quite often and not concerned about it  | <input type="radio"/> |

**Non-chemical options (boxes 1-4)**

For lice minimisation, quarantine introduced sheep (including rams), maintain good fences, minimise split shearings, only treat when lice are identified (and deemed economically important) and aim for eradication at the next shearing after lice are found.

**Reducing chemical use (boxes 4-7)**

Reduced chemical use minimises costs and reduces the risk of resistance developing. It also reduces the risk of environmental damage on the farm and adverse health effects on people applying the chemicals or those handling treated sheep. Consider adopting some or all of the management options listed under “non-chemical options”.

Measures that aid blowfly control include correct tail docking, breech modification, effective worm control, breeding, flytraps and appropriate time of shearing, crutching and lambing.

**Integrated Parasite Management – sheep (IPM-s)**

Chemical and non-chemical options can be combined in an approach called ‘Integrated Parasite Management’ (IPM). An IPM system still includes the use of chemicals, but they are used selectively and as infrequently as possible instead of being the first and most frequently used option.

See procedure 11.2 in *Healthy and Contented Sheep* and visit the AWI IPM-s web page for guidelines for managing sheep parasites in winter-dominant, summer-dominant and Mediterranean rainfall zones: [http://www.wool.com.au/Animal\\_Health/Integrated\\_parasite\\_management/IPM\\_-\\_sheep/page\\_\\_2244.aspx](http://www.wool.com.au/Animal_Health/Integrated_parasite_management/IPM_-_sheep/page__2244.aspx)

### **Chemical application**

Correct application of the most appropriate pesticide is needed to effectively eradicate or control the targeted pest in a safe manner for the sheep, operators and the environment and to meet meat and wool withholding periods.

To achieve this, read labels closely (and the material safety data sheet, if necessary), take care with preparation and dispensing of the pesticide, correct calibration of the delivery tools, appropriate and effective protective equipment and the correct application of products to well-prepared and contained sheep.

Eradicating lice requires correct treatment – if only a few lice survive, the population will build up again over a period of months and re-treatment will be required. Unfortunately, getting it right is a challenge and eradication of lice often takes several years, even when managed by careful operators. Many labels, especially those on older wet dip products, are complicated and confusing. Also, many dipping facilities on farms are in poor condition and do not do an effective job.

Seek advice from the chemical company, your contract dipper or vet if directions are not clear. If a wet dip is preferred, using a reputable contract dipper is often the best approach.

For the most up-to-date Making More from Sheep information, including web signposts, products, publications and events, visit [www.makingmorefromsheep.com.au](http://www.makingmorefromsheep.com.au)

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