



**Rabobank**

**Media release  
November 24, 2014**

## ***Walking a 'fine line' – the fine wool dilemma***

Fine wool premiums in Australia in 2013/14 fell by up to 96 per cent from their 2001 highs, with rapidly increasing supply and lacklustre demand resulting in a structural oversupply in the global market, according to a recently-published industry report. And this is presenting a dilemma for the fine wool industry into the future.

In its report ***Walking a fine line – the fine wool dilemma***, agribusiness banking specialist Rabobank says Australian growers who transitioned into breeding for finer micron – in an effort to remain profitable after the reserve price scheme ended – now face accumulating risks to sustainable fine wool production.

According to report author, Rabobank analyst Georgia Twomey, the question as to what will drive profitability for the wool industry in the future remains.

“The current pressure on fine wool premiums has been exacerbated by the unfortunate set of market circumstances and timing rather than poor strategy,” she says.

Seasonal conditions and structural change leading to an oversupply of fine wool, a period of global economic insecurity, heavy centralisation of processing in China and specific product trends have all compounded to lead the wool industry to its current dilemma.

“These current circumstances are likely to limit upside for fine wool prices in the short term, as there is little sign of imminent change,” Ms Twomey says.

“Longer term, however, there is a more constructive view for fine wool, as the current perfect storm subsides and some balance to both the supply and demand factors applying pressure to the industry returns.

“While there are challenges around the super fine supply and demand fundamentals, we believe this is a far broader issue than micron alone, and any successful solution would need to consider long-term shifts in processing and consumer demand, as well as various on-farm factors.

“As a niche fibre in the global textile market, the importance of fibre quality and relevance for end products will become increasingly important to recognise in order to extract greater value.”

The report says the wool processing sector will also undergo rationalisation and eventually meaningful diversification. However, these shifts are not likely to be rapid.

Ms Twomey says a focus on China and a strong trade relationship will be essential to maintain a healthy wool pipeline and security for wool growers in the short to medium term.

“Wool’s inclusion in the recent China-Australia FTA agreement with a duty free country-specific quota is a crucial step in further underpinning the strength of our wool trade



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relationship,” she says. “Wool remains Australia’s largest rural export to China by value with 75 percent of the Australian clip exported there in 2013.”

As the world transitions out of a period of economic instability, which may yet be some time away, Ms Twomey says, wool has a “fantastic opportunity as a fibre already naturally aligned with key demand trends”.

“Broadening the product segments in which fine wool participates and presenting it as a luxury, high-end differentiated fibre will be a key factor in the future sustainability and profitability of the industry. These downstream dynamics – as they have during the past two decades – will continue to play a critical role in on-farm profitability for wool growers,” she says.

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**Rabobank Australia & New Zealand is a part of the international Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 110 years’ experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 41 countries, servicing the needs of approximately 10 million clients worldwide through a network of more than 1600 offices and branches. Rabobank Australia & New Zealand is one of Australasia’s leading rural lenders and a significant provider of business and corporate banking and financial services to the region’s food and agribusiness sector. The bank has 93 branches throughout Australia and New Zealand.**

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