The Australian Journal of Agricultural and Resource Economics, 45:1, pp. 95–115

The politics and economics of wool marketing, 1950–2000†

Bob Richardson*

The history of marketing, research, development policies and intervention in marketing of the wool clip is reviewed from the perspective of an insider. The overall theme is that politics took over comprehensively from clear economic policy advice on wool marketing in the past 50 years and woolgrowers paid a high price for this. The idea of 'integrated marketing' including an export monopoly, a buffer stock scheme and coordinated promotion and R&D, collectively a strong interventionist philosophy, has waxed and waned. Having borne most of the costs of these failed policies, remaining woolgrowers can now look forward to a market less distorted by political interference.

1. Introduction

The latter half of the twentieth century saw both the heyday and the nadir of the wool industry. In price terms this included the *pound a pound* high of 1952 and the low of 381 cents per kilogram for the market indicator in April 1993. In policy terms the wool market in Australia went from near zero intervention in the 1960s to various failed schemes in the 1970s and 1980s and back to close to zero intervention at the end of the twentieth century. During the 1990s there was a significant decline in global consumption of wool and the protracted sale of 3.7 million bales of stockpiled wool as a result of the collapse of the reserve price scheme. As the new millennium

† In writing this article, I have been selective rather than exhaustive, focusing on economic and political factors I saw during the making of policy decisions by the various Ministers and the Australian Wool Corporation and successor Boards. This is acknowledged to be a subjective process. From 1978 to 1991, I was involved in providing economic input to the Australian Wool Corporation Board and the Wool Council of Australia and also had a role in planning and management on wool research and development and the Australian Wool Corporation involvement in the Board of the International Wool Secretariat. Over the period 1991 to 1999, I served as Managing Director of the Australian Wool Realisation Commission and then CEO of Wool International. I acknowledge the helpful comments of Jack Lewis and anonymous reviewers on an earlier draft, although I am responsible for the many subjective judgements that remain.

* Bob Richardson is the Dean of the Institute of Land and Food Resources, University of Melbourne, Victoria 3010, Australia.

commences, many people in the Australian wool industry are questioning the long-term viability of wool growing in many areas of the country.

In this article, the ambitious and necessarily selective aim is to place these developments in the perspective of often conflicting economic and political pressures. While politics has never been far in the background of the wool industry, political intervention in the industry over the 30-year period, 1970 to 2000, has been all-pervasive and its lasting effects profound. Ian McLachlan, former National Farmers Federation President, Liberal Cabinet Minister and woolgrower, recently chaired what many people hope will be the last in a long line of reviews of the wool industry (McLachlan 1999). If the main recommendations are adopted, the reliance of the industry on political fixes may end, allowing the benefits of fuller exposure to underlying market realities to flow to specialist woolgrowers and their customers.

Subsequent sections of this article are structured as follows. The historical background to intervention in wool marketing after World War II is briefly reviewed; the central theme of this, integrated marketing, was addressed by the Philp Committee. Then, the history of the floor price scheme is traced from tentative origins through to an aggressive, risky scheme dominated by industry politics, in which economic and commercial considerations played a progressively more subsidiary role. Economic analysis and its role in policy setting appeared to have little impact, particularly after the government largely removed itself from the process in 1987. Research and development policies are briefly reviewed in the next section and often appeared to be subordinated to promotion. International wool promotion policies on occasions similarly played second fiddle to the reserve price scheme, and this contributed to the discrediting and ultimate breakdown of the International Wool Secretariat. In the penultimate section the political management of the sale of the wool stockpile is assessed. While economic policy analysis of alternative disposal strategies was published in the 1990s, it was never timely and appeared to play little or no role in policy setting, particularly at the time of the Garnaut Report in 1993. Brief conclusions appear in the final section.

2. Historical context

The massive stockpile of 8.4 million bales, accumulated during World War II, was progressively sold over the seven years to 1951. The Korean war boom of 1952 was arguably partly the result of a stockout after years of sales exceeding annual wool production on a worldwide scale. Following this boom in prices, agitation for government intervention in wool marketing grew, despite a woolgrower referendum in 1951 which comprehensively rejected the concept of a reserve price plan for wool. Such agitation appeared to have its origins in wheat grower support for government monopoly

control of wheat marketing and the high failure rate of farmer co-operatives. The apparent success of the Joint Organisation, formed by the governments of major wool exporting countries, in selling the stockpile after the war may also have encouraged industry leaders to believe there were benefits in marketing through government-backed monopolies.

In the 1950s the idea of an integrated marketing strategy for wool gained currency, particularly with farmers', as distinct from graziers', organisations. The International Wood Secretariat (IWS) was already in existence but had limited funds. Wool research was being conducted at the CSIRO, in State Departments of Agriculture and at various universities. It was argued by many wool industry leaders that a combination of more stable prices, expanded international promotion, and increased research and development would generate greater long-term prosperity in the woolgrowing industry. Pressures for a floor price plan, which was perceived to be the missing link, thus built up towards the end of the 1950s as real wool prices fell. The Government appointed Sir Roslyn Philp to head the Committee of Inquiry into wool marketing which ultimately reported in February 1962 (Philp 1962).

The central recommendation of the Philp Committee was to oppose adoption of a floor price for wool. The Committee concluded that shifts in demand were the main cause of fluctuations in wool prices; this assessment was analytically confirmed by Powell and Campbell (1962). In considering the costs and benefits of a floor price to offset demand shifts through supply management, the Philp Committee argued that the risks and uncertainties and the 'hidden' effects were significant, not merely the more known likely costs. This conclusion was also based on initial results of a simulation study by Duloy (later published by Duloy and Parish 1964) presented to the Committee. It led the Committee to conclude that there were not likely to be net hidden gains from more stable prices.

The hidden gains and losses argument which played a role in the conclusions of the Committee was more formally outlined by Gruen (1964), and was considered an innovative Australian contribution to public policy debate on the impact of buffer stock schemes. The analysis, while prominent in early policy development, has had a chequered history and has been marginal in the more recent public policy debate. Campbell, Gardiner and Haszler (1980) attempted to quantify the hidden effects, concluding that a 44 per cent reduction in price variability had been achieved at a revenue cost of $139 million. This conclusion did not survive closer scrutiny (see Richardson 1982) as it was based on gross sales revenue and was sensitive to admissible functional forms of the demand function. The Campbell *et al.* analysis was used by Geoff Miller in 1979 at an industry conference in Perth to question the industry benefits of the scheme; however, the credibility of the policy conclusions from the analysis was lost.

While its recommendation against a floor price plan has been widely judged by history as sound policy advice, the Philp Committee should be given a retrospective downgrade for the naivety of its recommendation for the formation of a central authority or board. The Committee envisaged the formation of one central authority 'upon whose decisions Government could confidently rely and which could speak with final authority on all matters affecting the industry' (Philp 1962, p. xxii). The hope was that this authority could integrate promotion and research spending, review marketing and be 'free from the politics of the industry'. This led to the formation of the Australian Wool Board (AWB) and the Australian Wool Industry Conference (AWIC); the latter lobbying group became the self-styled parliament of woolgrowers.

The AWB promptly resumed advocacy of a floor price, which ultimately led to the 1965 referendum in which woolgrowers again voted against such a scheme. Despite this rejection, the lobbying continued with the AWB producing more reports on wool marketing in which emphasis shifted to compulsory acquisition of the clip or *supply management* through the AWB taking over small lots. At the end of the 1960s low prices created a climate of crisis and the government introduced a 'deficiency payments scheme' which gave the interventionists their real chance. The government formed the Australian Wool Marketing Commission (AWMC) on recommendations of Sir John Crawford in 1970 to run a flexible price support scheme; this confirmed the adage that a crisis presents the ideal environment for policy change. A price intervention scheme was thus installed despite two referendums in which a majority of woolgrowers voting opposed such schemes. Economic analyses of policy options do not appear to have played the significant role they did at the time of the Philp Committee.

By the early 1970s the elements of an integrated marketing strategy for wool were established. The IWS had a firm funding base from government subsidies and grower levies and, in 1963, registered the Woolmark as a symbol of pure new wool content. The Woolmark was subsequently used for generic wool promotion. The Wool Research Trust Fund (WRTF) was financing research and development at the CSIRO, the universities, State Departments of Agriculture and elsewhere; as a result, developments leading to pre-sale adoption of objective measurements and the use of new technology in wool processing and manufacture were becoming a reality. Price stabilisation policies were, however, in their infancy in 1970.

3. The floor price scheme

The Australian Wool Corporation (AWC) commenced operation on 1 January 1973, following the Randall Report (1971) on integrated wool

marketing. The AWC combined the previous organisations responsible, among other things, for research and development administration, funding and oversight of the IWS and the new flexible price support arrangements. The underlying idea of integrating various marketing policy instruments was prevalent, yet it appears to have largely escaped the scrutiny of agricultural economists in the early 1970s. Perhaps it was difficult in the early 1970s to attract research funds for analysis of controversial proposals for integrated marketing, particularly from the Wool Research Trust Fund which had been merged into the AWC in 1973. Such constraints had not stopped agricultural economists from questioning other public policies in commodity marketing (e.g. in dairying). One is left with the suspicion that too many of those who might have questioned the wisdom of the integrated marketing strategy were, or hoped to be, recipients of wool research grants, and this may have had adverse effects on their capacity for critical appraisal.

Another problem of timing compounded this lack of professional appraisal. In 1973 the AWC produced proposals for compulsory acquisition of the clip (AWC 1973). The benefits and costs of the proposals were shielded from analytical scrutiny by the substantial delay in release of the appendices in which modelling of inventory management and supply rationing to key users were developed. The appendices (AWC 1974) had been prepared under the direction of Lionel Ward, the AWC Chief Economist in the 1970s. By the time this material was released, the public policy debate among the political leaders had moved on and compulsory acquisition was shelved as too large and too irreversible a policy step. In 1978/79, the AWC Chairman, Alf Maiden declared, at a conference in Perth to celebrate 150 years of European settlement, that 'it is not propitious at this time' to further pursue the acquisition proposals. In formal terms, this was something of a turning point — the wool industry had been unable to mimic the wheat model of monopoly control in marketing.

The real issue of the early 1970s was the establishment of a firm floor price. Rising stocks in 1974–75 seemed to result, in part at least, from destabilising speculation by Japanese merchants. Shipments of wool from Australia to Japan exceeded 2.1 million bales in 1971–72 and 1972–73 then virtually halved to 1.3 and 1.0 million bales in the following two years. This placed huge pressures on the fledgling scheme, doubtless added to by the inability to forecast speculative demand for stocks.

At the start of the 1974–75 season the Whitlam government cabinet decided to lower the flexible reserve price. Two young backbenchers, Bob Whan and John Kerin, both of whom had previously worked in the BAE, were instrumental in the caucus decision to force a reversal of the cabinet decision. It remains one of the great ironies of wool policy that John Kerin was subsequently the Minister formally responsible for the lowering of the

reserve price and the eventual removal of the scheme, despite this early evidence of his support for the principle of such a scheme and advocacy of the floor not being reduced.

In return for the establishment of a firm floor price in September 1974, the government insisted on industry agreement that it be backed by a compulsory levy of 5 per cent of the gross proceeds from the sale of shorn wool. It is surprising in retrospect that, given the diversity of wool enterprises on farms, economic research at the time seemed largely silent on the resource-allocative implications of such a compulsory tax. Only about half of the wool was being produced by wool specialists. The implications for production by those supplying the other half in particular could be considerable depending on relative prices and risks of various production alternatives. In low price periods a tax of 5 per cent of gross proceeds from the sale of wool could easily be a large proportion of net income.

Many economists in the 1970s seem to have been caught up in the policy structure of single commodity marketing boards. The BAE, for example, had branches for wool, wheat and beef and other research agencies received commodity-specific funding for wool, wheat or beef research. Farm analysis was mainly surveys of costs of production for each commodity rather than analysis of the impact of pricing and marketing policies. This may have been conducive to a dearth of economic analysis on the implications of single-commodity marketing decisions such as the wool floor price scheme on multi-enterprise Australian farms.

The economic and market environment of the floor price scheme experienced significant changes over its life but the scheme was subjected to only limited published analysis in the 1974 to 1987 period. Perhaps the most important development was financial deregulation recommended by the Campbell Committee (1981). More volatile exchange rates followed government implementation of the recommendations to float the Australian dollar. This increased the already substantial risks of shifts in supply and demand borne by the AWC on behalf of woolgrowers. Given its financial capacity at the time, the AWC could only manage these risks with very conservatively set floor prices.

During the life of the scheme, ABARE regularly produced advice for the government on the level of the floor prices for the following year. These papers were not published, however, their review of factors underlying the supply and demand situation, along with price forecasts for the following year, were published annually at the National Agricultural Outlook Conference. When it came to decisions on the floor price for the following year, ABARE forecasts, like those of economists within the AWC, were often given limited credence with carping reference to past inaccuracies. To complicate economic advice with arguments about the inelasticity of demand

or the accuracy of estimates of producer surplus, important though these matters are, would have been lost on most AWC Board members and federal ministers and politicians who were the policy-makers.

The scheme appeared to stabilise prices in Australian dollar terms over the period 1974–87. This was reflected in research published by Hinchy and Fisher (1988) who concluded that, to the extent that the scheme had resulted in greater stability of prices, there were likely to be benefits to producers. Processors were considered likely to have also gained from the greater price stability. While there is something ironic about the Director of ABARE, whom industry leaders saw as philosophically opposed to the scheme, having published such results, the research was mainly methodological in focus, seeking to model estimates of welfare effects under uncertainty.

A natural adjunct of more stable prices, which some scheme proponents argued had positive effects on demand, was the destabilisation of aggregate throughput of the wool processing and textile manufacturing industries. It is arguable that quantity destabilisation could have adverse effects on raw wool demand to the extent that the presumed risk aversion of mill managers related to stability of processing margins. In addition, quantity destabilisation could actually create uncertainty since there were never explicit stabilisation objectives in the scheme and, while the floor was widely understood, periodic use of flexible reserves to test and pothole the market above the floor created an additional element of uncertainty. Further, there was no ceiling or trigger price and there was capricious use of selling methods.

Alternative mechanisms for managing price risk, including forward physical contracts and a liquid futures market disappeared largely as a result of the operation of the scheme. This also meant that the AWC was absorbing potentially large risks on behalf of woolgrowers, but had no real capability to offset these risks. In the early years there were periodic suggestions of the AWC taking positions in wool futures but these could never be taken seriously given that it was an increasingly illiquid market.

The riskiness of wool production compared with alternative enterprises on Australian farms was reduced, adding to the huge rise in wool production induced by a string of good seasons toward the end of the 1980s. Other serious distortions to market signals also resulted from the scheme, for example, a constant floor price overall and by micron for a season, ignored seasonality of offerings and prices and led to additional costs of intra-seasonal stockholding and trading by the AWC.

Inequities of application of the scheme were also significant. The floor for any type was the same regardless of selling centre and yet there were, and continue to be, significant price differences between selling centres. In particular, higher purchase rates under the scheme at Fremantle, Launceston

and Brisbane in effect involved cross-subsidies from sellers at other centres. Inequities and reduced efficiency of market signals also occurred because the AWC frequently set what turned out to be inappropriate relative prices. The 1974–75 stockpile contained high proportions of 19 micron and finer wool, while the 1989–91 stockpile was weighted toward the middle micron categories. There were, as pointed out by Lewis (1979), further hidden costs of this aspect of the scheme.

These issues were raised in papers presented to the Board of the AWC in the 1980s. In some cases they were publicly aired at meetings of the Wool Council of Australia and at woolgrower meetings. None of this, however, led to policy changes by the AWC Board to mitigate the effects of the scheme. Internal advocates of making the scheme more responsive to competitive market conditions were easier to ignore when the scheme was apparently successful and economic analysts with greater independence or direct lines to government policy advisers applied little or no analytical pressure.

The problems outlined above were serious enough in policy terms to lead some to question the advisability of continuing the scheme. However, such concerns were swamped by its large and increasing overall aggregate market risk. With financial deregulation and the fluctuation of the Australian dollar, the risk that the price would be set too high was greatly heightened. In 1984 an internal review of the scheme by AWC economists led to the conclusion that the floor must be set more conservatively; by this was meant increasing the floor by less than the 5–7 per cent per annum in nominal terms, which had occurred up to that stage. Rejection of this advice set the AWC economists on a collision course with the AWC Board. Subsequently, over the two years 1987 and 1988, the floor was raised 70 per cent from 508 to 870 cents. The probability of collapse rapidly converged on 1.0; only its timing remained uncertain.

This 70 per cent increase in the floor price created incentives for long-term supply response. In 1989, with shorn wool production historically high and seasonal conditions favourable, AWC economists told the Board that a further rise of 5 per cent seemed likely; this forecast, rejected by the Board as too high, proved to be well wide of the mark. Production rose 19 per cent to a record 1,060 m kgs in 1989–90.

On the demand side, serious contractions were in prospect by 1989. Up to that point, unpublished analyses suggested that a wool:synthetic price ratio of 3:1 was roughly sustainable, leading to static market shares. The 70 per cent increase in the floor price locked this ratio in at historically high levels of between 5:1 and 7:1 in major wool textile manufacturing countries. This forced wool yarn prices to levels at which there were strong incentives for substitution of blends for pure wool.

It became the accepted dogma in the wool industry that the floor price

was never to be reduced. As the 1980s wore on and the scheme appeared to be successful, over-confidence set in. The rising balance of the market support fund led to arguments for what were considered to be the surplus funds to be returned (revolved) to woolgrowers. When this occurred, it converted the scheme from a price stabilisation scheme to a hybrid price stabilisation/buffer fund scheme, the impact of which was potentially to destabilise post-tax incomes. In 1989–90, for example, when nominal wool prices were above trend, there was a double revolvement in which two earlier years' wool tax payments were returned to woolgrowers and had to be treated as taxable income.

The scheme subtly changed during the 1980s from a conservative floor to a reserve price scheme. This became a market-related reserve, with the notion of a conservative minimum quietly being ditched. Perhaps this was inevitable in industry political terms; the AWC and the Wool Council reached a point where, with what were perceived as large financial reserves and revolving funds, their choice was to cut the wool tax or set the price more aggressively. They chose the latter in the late 1980s, convincing themselves, with IWS assistance, that a new plateau of wool prices had been achieved through worldwide promotion of wool.

The AWC increasingly saw itself as a raw wool marketer, using the scheme as its supply source, albeit an unreliable one sensitive to forecasting errors. They entered confidential relationships with selected trading, processing and textile manufacturing companies to sell from stock. These supposedly commercial deals enabled some companies to make risk-free speculative profits on currency movements, and others involved in commission processing to undercut their customers and convert their companies into merchant topmakers as well as processors. The AWC, as a statutory body in the 1980s, concealed its activities behind claims of commercial sensitivity and certainly these would not have passed any competitive neutrality test.

Throughout its life the firm floor price scheme was financed by a compulsory levy on gross proceeds from the sale of shorn wool. Commonwealth taxing powers and legislation thus provided the compulsion which underwrote the scheme. As a consequence of this, the responsible Minister set the floor price in market indicator terms based on recommendations from the AWC and after consultation with the Wool Council of Australia (WCA) and advice from ABARE. Changes to these arrangements were foreshadowed by Geoff Miller (1984) who, as the Permanent Head of the Department of Primary Industries and Energy, was the principal policy adviser to Minister John Kerin. Miller advocated greater operational independence for statutory marketing authorities. In the consequential rewrite of the Wool Marketing Act in 1987, the AWC was granted the power to set the floor price in consultation with the WCA. The Minister could only intervene if they could

not agree. It is hard to imagine a more powerful incentive for agreement; a political lobbying group had been legislatively empowered in the policy-making process in place of government and yet the compulsory taxing powers of the Commonwealth underwrote the scheme. It is arguable that this was the critical stage at which industry politics clearly and conclusively replaced sound economic and commercial analysis as a basis for the scheme.

4. Research and development

Along with other industries, the wool industry has had a long history of compulsory levies on growers for research and development matched by government contributions. The WRTF financed major programs of production, marketing and textile research, with the CSIRO being the largest recipient of funds. Administration of the Fund was by the AWB then the AWC. In the 1980s closer integration of research and development with marketing and promotion of wool occurred through the formation of a Wool R&D Council. The Wool R&D Corporation existed briefly before the formation of the Australian Wool Research and Promotion Corporation (AWRAP) in 1993.

In the case of wool, productivity improvement in the production process has been elusive. Recent ABARE estimates (2000) are of long-term average productivity gains for specialist woolgrowers of 0.5 per cent per annum compared with 3.6 per cent for the grains industry. While such measures vary between regions and types of sheep enterprise, there is a generally low average rate of productivity gain for wool. This may be partly attributable to the intractable and environmentally susceptible nature of the wool production process in many areas. Genetic improvement of production characteristics of merino sheep in a commercial setting appears to be slow and selection for wool traits seems a long-term process. Woolgrowers lack the environmental and thus nutritional control characteristic of more intensive production and farming systems. While the 'sub clover and super' revolution of the 1950s created opportunities for improvement in productivity in grazing systems, there has probably never been a majority of the Australian merino flock grazing regularly improved and fertilised pastures. The economics of more intensive wool production have generally been unattractive, except perhaps in the early years of fertiliser subsidies in the 1950s.

Over the years research and development priorities have sometimes been subservient to industry political agendas. The most outstanding example was the expenditure, over the period of 20 years, of around A$15 million on research into robotic shearing of sheep. This expenditure seemed more driven by efforts to keep shearing rates down than by realistic probabilities of success in cost effectively matching or exceeding the performance of the

existing technology. Conclusions from repeated economic analyses of likely benefits and costs from 1980 onward were rejected in favour of continued expenditure on wool harvesting research.

A significant proportion of wool research and development funding has always been directed beyond the farm gate. This was partly motivated by a desire to improve the efficiency of the raw wool marketing system. The major success in this regard was the pre-sale objective measurement of wool which was made technically feasible by research, mainly by the CSIRO, on wool measurement technology. Adoption of pre-sale measurement in the wool industry has, however, been a long, slow process, often impeded by failure to achieve commercial acceptance between parties fundamentally opposed in the marketplace. Consequently, nearly 30 years after the initial adoption of pre-sale measurement there is still very little wool traded sight-unseen by description or electronically. Perhaps the most exciting prospect on the new millennium horizon is the potential to use 'laserscan' to cost effectively test individual fleeces in the shearing shed for mean and coefficient of variation of micron, enabling wool to be objectively classed for fibre diameter in the shed. This could lead to increased direct selling and to the generation of efficiencies in the marketing system by separating physical handling from transaction activities in space and time.

Substantial research and development funds have been directed to textile research projects in the processing and manufacturing of wool products. A major success in this area has been Sirospun, a simple device for integrating the production and folding together (combining) of single wool yarns. Many other technical achievements have occurred in altering the processing, performance and measurements of wool intermediate products. A recent development, the Optim technology, which involves stretching and setting wool in top form to reduce fabric weights by altering measured average micron of wool, may have important commercial implications in the future.

Research and development results in textile technology are less direct in their effects on the economic outcome for wool producers. Adoption of new textile technology has often been impaired by debates between CSIRO and IWS about strategies for technology transfer, distribution of royalties and the publication imperatives of researchers. A more serious problem in the 1990s has been the increasing take-over of R&D by marketing and promotion decision-makers who often had short-term objectives and have seen R&D as a handmaiden of promotion.

5. Wool demand and promotion

In marketing terms, wool in final product form can be viewed as being in the mature phase of the product life cycle. Its heyday was possibly the

1950s and 1960s when formal apparel outerwear markets were strong and competitive synthetic fibres products were new, expensive and poorly designed. The bulk of the consumption of Australian apparel wool was in the developed economies of Western Europe, Japan and North America. Wool apparel products became strongly associated with fashion houses, and with high quality manufacturers and retailers of renowned brands.

By the 1980s the USSR and China had become more important markets and there was increased penetration of lower priced and quality ranges of developed economy markets by products manufactured in developing economies. This latter trend was particularly evident in knitted and woven woollen products and occurred despite the best protectionist endeavours of developed economy governments under the Multi-Fibre Arrangements (MFA), the main effect of which was to slow the rate of international relocation in the global textile industry.

In the 1980s and 1990s textile clothing markets were increasingly internationalised and consumers faced wider choice with strong price competition. Dressing styles became more casual and this did not favour wool. Recent attempts to have wool included in sport-related attire, in blends with cotton for jeans and in stretch woven fabrics with lycra, while laudable, seem unlikely to offset falling wool consumption in pure-wool formal-wear markets. This is particularly so in value terms because the formal-wear markets are in high quality and high unit value end uses. Wool consumption has also shifted more to developing economies where traditional trading methods and vertical links in the textile industry are no longer used. For most of the 1990s wool consumption has been falling in Western Europe and Japan, the major high quality, high unit value markets, with a minor offset in rising consumption in the United States. This latter market is a much lower quality market, with high concentration on blended worsted and cheaper woollen products. While generalisation about countries is risky and there are exceptions, it is not too strong a wool statement to refer to the United States as a nation of bad dressers.

The IWS was a partnership of wool exporting countries including Australia, New Zealand, South Africa and Uruguay which generally worked well until the 1980s. The key strategy of the IWS was generic promotion of wool on world markets, based mainly on the Woolmark after its formal launch in 1963. The partnership came under great pressure from the implementation of price stabilisation schemes in the partner countries and the increasing demands of grower-country boards to demonstrate value for money to their growers. As a result, the partnership was progressively dissolved in the 1990s with the departure of Uruguay, then New Zealand and finally South Africa, leaving only Australia which renamed the IWS The Woolmark Company.

Woolmark is a registered trademark for fibre content, but quality control programs were utilised up to about the mid-1980s to strengthen the product claims for Woolmark merchandise. Commercially it has never had the characteristics of a strong private brand around which an integrated marketing strategy could be built. However, the Woolmark became widely recognised and understood in the 1970s and 1980s as a symbol of quality in pure new wool products.

Efforts were made by economists to evaluate the effectiveness of wool promotion. The IAC (1976) used time series econometric analysis in an attempt to estimate promotion elasticities in an appropriate model of consumer demand. This contributed to the debate at the time about whether the government should continue its promotion subsidy to the wool industry.

A subsequent study of the US market (BAE 1987) utilised a matrix of cross-sectional and time series data which can arguably reveal long-term response parameters for a durable product. The conclusion from this analysis was that wool promotion in the United States over the period (1975–85) was highly effective yielding a net present value of returns of about A$2 for each A$1 of expenditure. These results, while they could not be readily extrapolated to other countries, did much to strengthen the case for continued woolgrower contributions to promotion and specifically to an expanded program of wool promotion in the United States.

Hills *et al.* (1996) reviewed the range of estimates of returns to expenditure on wool promotion, most of which have indicated a statistically significant and positive return. Based on parameter estimates from these studies, Hill *et al.* used an equilibrium displacement model to calculate the impact of incremental expenditure on fibre promotion on returns to producers. This analysis and the underlying literature reflect the substantial investment of economists in research into wool promotion. While much of it is positive about wool promotion in general, it has not produced prescriptive results useful in developing wool promotion strategies.

In the 1970s and 1980s the idea of integrated marketing was periodically revisited, despite the reluctance of successive governments to embrace various versions of compulsory acquisition. Integration of AWC supply of wool from RPS stocks with IWS marketing and promotion thus emerged as a strategy for integrated marketing. The AWC Board held a clear majority of seats on the IWS Board and was in a position to exert considerable pressure on IWS spending priorities. As a consequence, IWS promotion strategies were frequently challenged by the main IWS partner country, Australia. In the mid-1970s this took the form of demands for promotion strategies targeted on fine wool; the Merino Extrafine promotion resulted largely from the high proportion of such wool in the stocks accumulated in

1974–75. By the late 1970s, with large stocks of middle-micron wool, the AWC was pressing the IWS to support low wool content (wool poor) blends in the US market.

Promotion strategies driven by past errors of the AWC in forecasting relative prices in various micron categories were hardly likely to lead to the most effective generic promotion program. More seriously, supply-focused promotion damaged the commercial credibility of the IWS with retailers and manufacturers with whom there were jointly funded promotion campaigns. It also encouraged other partners, particularly the New Zealand Wool Board, to seek special treatment in technical support facilities and in the development of separate non-apparel programs over which they exercised majority control, and ultimately contributed to their withdrawal from the IWS.

Far from there being some positive synergy between the instruments of an integrated marketing strategy for wool, the effect appears to have been destructive. Apart from the developments outlined above, toward the end of the 1980s with AWC stocks rising precipitously, the IWS began to argue that increased promotion spending was equal to the task of reducing stocks regardless of the price level.

In 1988–89 the IWS senior management put huge effort and expenditure of millions of dollars into developing a volume-based strategy in the so-called 'middle market' (in terms of product price points at retail and product quality) of each major end use of wool. This formed the basis for a claim that the aggregate global wool demand curve could be shifted significantly to the right at a modest cost. These claims were never subjected to the independent scrutiny they richly deserved, even though they were ultimately not accepted by the Australian government. Their introduction into the policy debate did, however, seriously delay the decision of the Minister to intervene to reduce and then remove the RPS, adding hundreds of millions of dollars to the ultimate debt.

Within the IWS, professional economic advice periodically played a role in developing promotion strategy and objectively assessing wool policy advice to industry and government. As Director, Corporate Planning, then Director, Long Range Planning from 1971 to 1979, Jack Lewis was never responsible for economic advice or analysis for the IWS and yet he became the economic conscience of the place. When it came to advice on matters to do with the economics of wool marketing, economists at the IWS, like their counterparts at the AWC, were politically challenged and undermined (see Lewis 1981).

By the start of the 1980s the quality and standing of economic input at the IWS appeared to be waning. There was a tendency as the 1980s wore on for the IWS to take the credit for rising consumption and prices and attribute

the downturns to events beyond their control. This habit progressively stretched their credibility with thinking woolgrower leaders almost to breaking point. Economists at the AWC went beyond breaking point when it became clear that IWS 'estimates' of world net domestic consumption (NDC) of wool, on which they had come to rely, were no longer credible. Their estimates of NDC of apparel wool over a 12-year period exceeded estimated world production of apparel wool by two average Australian clips (i.e. about 8 million bales!) and clearly many times the initial levels of commercial plus industry stocks.

6. Wool marketing unravels

The collapse of the RPS, first through reduction of the floor from 1 July 1990 and then the removal of the scheme on 11 February 1991, was an untidy affair (Watson 1990). It marked the formal end of the integrated marketing model for wool, with the legislative creation of three separate statutory authorities: the AWC II, the Wool R&D Corporation and the Australian Wool Realisation Commission (AWRC). This followed a review of future marketing arrangements led by Sir William Vines, former Managing Director of the IWS. The Vines Committee (1991) had recommended such a structure and a series of government assistance measures and a trigger price mechanism for release of the stockpile. These latter proposals were never considered as serious policy options by the government.

While the precise numbers are debatable, the upfront cost to Australian taxpayers and to a minor extent Australian consumers (whose apparel wool purchases average under 3 per cent of the clip) resulting from the RPS collapse probably approached A$1.0 billion. Components of this included the supplementary payments scheme, the flock reduction scheme, provision of a government guarantee of debt and three years of additional wool promotion subsidies. This may partly explain the persistent refusal of governments in the 1990s to directly pay off wool industry debts.

The AWRC was charged with selling the 4.75 million bale stockpile to achieve a 7-year debt reduction schedule. This schedule was expected to progressively remove the debt which started at $2.8 billion and was backed by a government guarantee. The initial debt reduction schedule gave the liquidator some flexibility to maximise value for the stockpile, but the requirement in the AWRC Act not to sell at 'unduly low prices', a term that was not and could not be defined, tied its commercial hands. The AWRC Board set up an arbitrary mechanism to achieve its interpretation of this requirement; it was that stockpile sale price indicators by micron category had to be at or above a 4-month moving average of latest auction quotes.

This seemed a reasonable if arbitrary rule which could be readily communicated to and understood by customers; at the same time it enabled the AWRC to sell into a strengthening market and progressively removed it from a falling market. The policy appeared to have the support of major raw wool buyers and processors as it minimised uncertainty about what the AWRC would do in a range of price circumstances.

After sales of 600,000 bales in 1991–92 in a market strengthened by restocking of the wool textile pipeline to more normal levels of transactions stocks, the pricing rule operated as intended and severely constrained selling rates as auction prices fell in 1992–93. Sales for that season from the stockpile were just over 120,000 bales.

While stockpile sales were insignificant in overall market terms, there was a rising crescendo of political lobbying about low prices. This encouraged a perception that the AWRC plan could not be achieved. Despite the AWRC making minimal sales, it copped most of the political blame for low prices and the new Minister, Simon Crean opted for another review, this time led by Professor Ross Garnaut.

Changing the debt reduction schedule and subsequent policy changes intensified the sovereign risks faced by wool customers. Sovereign risk, broadly defined as the uninsurable and incalculable risk of arbitrary and non-commercial policy changes by governments, has been a serious problem in the wool industry. A major international wool textile manufacturer, for example, claimed to have lost A$40 million as a direct consequence of the floor price being removed, shortly after being told it was 'immutable'; as a consequence this company refused to have anything to do with anyone from the IWS, AWC II or the AWRC for over two years. In the early 1990s, with raw wool demand generally shrinking and processing company profitability low, even by woolgrower standards, the risks of dealing in a politically managed market were high and establishing sound commercial relationships with wool customers was very difficult. This hamstrung both the AWRC and IWS, reducing their effectiveness.

At the time of the Garnaut Committee considerations in the second quarter of 1993, economic analysis of the options for repayment of the stockpile debt re-emerged. ABARE prepared an analysis for the Committee of five options which was subsequently strongly criticised by Haszler *et al.* (1996) for its use of a price elasticity of demand approximating −1. Haszler *et al.* argued that empirical estimates are that the demand for raw wool is price inelastic and that the policy option selected by government was inferior. They advocated a policy of taxing growers to fund the financing and repayment of the debt and 'denaturing' the stockpile; this was found in simulations using an inelastic demand function to be likely to produce a higher producer surplus than other alternatives.

While this argument seemed clear-cut in economic terms, its appears not to have been seriously considered by the Garnaut Committee. The prospect of high wool taxes being imposed on current woolgrowers shortly after the 1991–92 season in which the wool tax was 12 per cent of gross proceeds simply would not have been politically acceptable. If denaturing the stockpile combined with high taxes was considered an option, denaturing fresh wool should also have been included. A further alternative of production controls or marketing quotas on fresh wool could have been considered which would avoid high taxes at the inefficiency cost of regulatory and bureaucratic intervention with all of its inequities. These latter policies were shown also to be clearly politically unacceptable with their attempted introduction by the AWC in 1990.

At the time of the Garnaut Review other academic papers were being prepared on the issue of how best to dispose of the stockpile. Examples include papers by Bardsley (1993) and Hertzler (1994), both of which were in forms that seemed unusable for policy purposes in 1993. Hertzler in particular contemplated a range of policy rules other than a fixed schedule, favouring a model of optimal production and disposal combining elements of the payments in-kind program used in the United States, and individual transferable entitlements. While the administrative practicality of this approach may have been questionable, its attractive features of reliance on a market-based solution appeared to play no part in the thinking of the Garnaut Committee about policy options for disposal of the stockpile.

It is concluded that debates in the 1990s about the best policy for stockpile and debt disposal were mainly between economists. Regrettably for woolgrowers, they rarely seemed to involve policy-makers in the wool industry, the relevant statutory authority or political decision-makers. While he was constrained by a very short period for his review (only 3 months), Garnaut could and should have done much more to promote serious economic analysis of the consequences of various policy alternatives for stockpile disposal.

Following the Garnaut Report, the government accepted the main recommendation of a fixed release schedule for the sale of the stockpile. This seemed to be politically expedient advice for another policy fix which reflected little credit on its main proponent. The fixed quantity rule suffered from all the same deficiencies as the fixed price rule that created the problem in the first place. As subsequent events demonstrated, picking the right quantity is every bit as difficult as picking the right (i.e. conservative low risk) price had proved to be. The underlying hypothesis of the fixed schedule, that the world wool market could be managed, was naive and was inevitably quickly found wanting. Negative reaction by customers to the new policy was close to universal, prompting the President of the Australian Council of

Wool Exporters, Don Booth, to remark in frustration that a 'unique feature of wool marketing policy is that the customer is always wrong'.

The new statutory authority, Wool International (WI) was, as a consequence of the fixed release schedule, soon to be denied the opportunity to get on with the job. In 1994–95 the wool market indicator rose above 800 cents and remained there for a sustained period, but WI was not permitted to deliver more than 192,000 bales per quarter. While forward selling enabled WI to capture some additional value from the temporarily high prices, the opportunity to sell an extra 500,000 to 1,000,000 bales was lost. In previous price spikes, stockpile sales of a million bales had occurred and, while there would have been adverse effects on current and subsequent prices from such sales, this was always going to occur at some stage and a major opportunity was missed. Prices in nominal terms have not returned to the levels of 1994–95 since and at the start of 2000 a million bales of stockpile wool remained. This wool has, in the decade since its purchase, consumed all its likely sale value in interest and storage costs. It is the legacy of a fixed release policy which has probably cost woolgrowers hundreds of millions of dollars.

The replacement for WI, a private company named Woolstock Australia, continues to try to manage the wool market with a gradually declining stockpile of 10-year-old wool. In 1999–2000, although allegedly freed from political constraints, Woolstock managed to sell only 250,000 bales from the stockpile. This is a sale rate little more than one-third that of WI. Woolstock is still apparently anxious to speculate, with woolgrowers' money, on a large rise in the price of middle-micron wool. As with WI, they seem to face the political dilemma that now never seems to be the right time to get on with the job.

In the 1990s the impact of stockpile sales on the wool market were greatly exaggerated, usually for political effect. While there is no escaping the reality that the sale of the stockpile would depress prices, just as its purchase had raised them, the fact remains that the main causes of poor woolgrower returns have been falling demand for formal outerwear and intensified price competition from other fibres. Synthetic fibre manufacturers have been able to partly offset the effect on them of falling prices by high rates of productivity gain and by developing new products that are marketed through integrated control of product quality, price, distribution and targeted promotion. Such control is simply unavailable to woolgrowers and cannot be achieved through the Woolmark Company which has only ever had control over one marketing instrument, its own promotion expenditure.

The IWS and subsequently the Woolmark Company faced significantly contracting real budgets throughout the 1990s. This resulted from the falling revenue base of fresh wool sales and the departure of New Zealand and then

South Africa from the partnership. In several rounds of redundancies and through the departure of experienced staff, the corporate knowledge of global wool markets was eroded and with it the credibility of the promotion body. The supposed commercialisation of the Woolmark by charging licensees an annual fee further devalued its main asset; many of the preferred manufacturing and retailing partners of the IWS, owners of strong visible brands, reacted adversely to the slight of being asked to pay a fee when real promotion spending was falling and services of the contracting IWS were declining in value. On the other hand, licensees at the lower end of the product quality spectrum paid up readily, perceiving that the Woolmark might help their products gain market access. The net effect was to shift the Woolmark down-market, despite licence revenue claimed to be A$15–18 million per annum.

7. Conclusion

In the last 30 years of the twentieth century, professional economic advice appears to have played a generally diminishing role in the affairs of the wool industry, with political expediency taking over. This occurred despite the efforts of some economists involved in the wool industry over the period. Wool marketing policy came to rely increasingly on industry politics as a basis for change and woolgrowers were usually the losers.

Agricultural economists cannot entirely escape a share of the blame for large-scale policy failure in the wool industry and some appear to have contributed to it. People who were prominent members of the profession at some stage of their careers advocated, supported or implemented price stabilisation policies in the wool industry. Others worked hard within the industry bodies to point out the need for objective analysis and market-sensitive policies, too often with limited impact. Perhaps in some cases they should have taken greater personal professional risks to precipitate better quality debate in the wool industry.

Throughout the period reviewed in this article, politically compromised forms of an overall vision of 'integrated marketing' of wool lay behind the industry policies adopted. The most spectacularly unsuccessful element of this, the reserve price scheme, was not subjected to timely, credible and relevant analysis after its introduction in 1974. Papers were published in professional journals and ABARE analyses doubtless influenced ministerial decisions; however, industry politics really took the running. In the 1980s, the policy-making process was increasingly privatised to industry lobbying groups, making it easier to dismiss economic arguments about the consequences of alternative policies.

Through a decade of public debate about how to sell the wool stockpile,

economic analysis of policy options contributed very little and was largely ignored by political and industry leaders. In the end politicians came up with the Pontius Pilate rationale for privatisation; wearied by the conflicting political lobbying of various wool industry groups, the Commonwealth Government opted to privatise WI as a way of ridding itself of the problem. This will doubtless be part of the logic leading to the privatisation of Australian Wool Services (the proposed replacement for AWRAP) even if, like WI, it has no sustainable business.

The recent report by a committee chaired by Ian McLachlan has performed the valuable, if difficult, task of lowering woolgrowers' expectations of what can be achieved collectively by intervention in the wool market. This is the same message that woolgrowers had twice delivered to the politicians by voting against intervention in the wool market in 1951 and 1965, creating an interesting, if coincidental, symmetry of viewpoint.

For the future, woolgrowing should and will return to an era of minimal intervention by government. Following the grower vote of early 2000, the compulsory wool tax seems likely to be set at 2 per cent. This is a level more than sufficient to fund a sound research and development program with some follow-on technology adoption strategies, areas in which the strongest 'market failure' case for public intervention can be made. Individual woolgrowers must now move to an era of self-reliance and productivity improvement if they are to remain viable; in this respect at least, although not in terms of profitability, the new millennium will initially be similar to the environment of the 1950s when government authorities were not involved in wool marketing.

References

ABARE 2000, 'Farm performance — managing risks', paper presented to Outlook 2000, Canberra, February–March 2000.

AWC 1973, *The Marketing of Australian Wool: Report by the Australian Wool Corporation*, Australian Wool Corporation, Melbourne.

AWC 1974, Appendices to *The Marketing of Australian Wool*, Australian Wool Corporation, Melbourne.

BAE 1987, *Returns from Wool Production in the United States: An AWC-BAE Analysis*, Occasional Paper Number 100, AGPS, Canberra.

Bardsley, P. 1993, 'Optimal management of the wool debt and the wool stockpile', paper presented at the Australian Agricultural Economics Society Conference, Armidale, February.

Campbell, J.K. 1981, *Report of the Committee of Enquiry into the Australian Financial System*, AGPS, Canberra, September.

Campbell, R., Gardiner, B. and Haszler, H. 1980, 'On the hidden revenue effects of wool price stabilisation in Australia: initial results', *Australian Journal of Agricultural Economics,* vol. 24, pp. 1–15.

Duloy, J.H. and Parish, R.M. 1964, *An Appraisal of a Floor Price Scheme for Wool*, New England Marketing Studies No. 1, University of New England, Armidale, NSW, December.

Garnaut Committee 1993, *Wool: Structuring for Global Realities,* Report of the Wool Industry Review Committee, AGPS, Canberra, August.

Gruen, F.H. 1964, 'Some hidden gains and losses of a wool reserve scheme', *Australian Journal of Agricultural Economics*, vol. 8, pp. 181–8.

Haszler, H., Chisholm, A., Edwards, G. and Hone, P. 1996, 'The wool debt, the wool stockpile and the national interest: did the Garnaut Committee get it right?', *Economic Record*, vol. 72, pp. 260–71.

Hertzler, G. 1994, 'Coordinating production and disposal of commodity stockpiles with application to Australia's wool industry', *Australian Journal of Agricultural Economics*, vol. 38, pp. 49–76.

Hills, D.J., Piggott, R.R. and Griffith, G.R. 1996, 'Profitability of incremental expenditure on fibre promotion', *Australian Journal of Agricultural Economics*, vol. 40, pp. 151–74.

Hinchy, M. and Fisher, B.S. 1988, 'Benefits from price stabilisation to producers and processors: the Australian buffer stock scheme for wool', *American Journal of Agricultural Economics*, vol. 70, pp. 604–15.

Industries Assistance Commission 1976, *Financing Promotion of Rural Products,* AGPS, Canberra.

Lewis, J. 1979, 'Floor prices and wool promotion: some further hidden costs', *Review of Marketing and Agricultural Economics*, vol. 47, pp. 131–9.

Lewis, J. 1981, 'The Woolmarkable world of wool promotion', paper presented to the Australian Agricultural Economics Society Annual Conference, Christchurch, February.

McLachlan, I. 1999, *Report of the Wool Industry Future Directions Task Force*, AGPS, Canberra.

Miller, G. 1984, 'Economic organisation of Australian agriculture', paper presented to the National Agricultural Outlook Conference, Canberra, January.

Philp, R. 1962, *Report of the Wool Marketing Committee of Enquiry,* AGPS, Canberra, February.

Powell, A.A. and Campbell, K.O. 1962, 'Revenue implications of a buffer stock scheme with an uncertain demand schedule', *Economic Record,* vol. 38, pp. 373–85.

Randall, R. 1971, *Enquiry into the Wool Industry,* AGPS, Canberra.

Richardson, B. 1982, 'On the hidden revenue effect of wool price stabilisation in Australia: initial results — a comment', *Australian Journal of Agricultural Economics,* vol. 26, pp. 63–5.

Vines, W., Miller, F. and Davis, J. 1991, *The Australian Wool Industry: Recommendations for the Future*, Report to the Minister for Primary Industry and Energy by the Committee of Review into the Wool Industry, AGPS, Canberra.

Watson, A.S. 1990, *Unravelling Intervention in the Wool Industry*, Centre for Independent Studies, Policy Monograph Number 17, November, Griffen Press, Netley, SA.