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The End of Sixty Years of International Wool Promotion

by Malcolm
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The wool industry played an important role in the early development of Australia, South Africa, and New Zealand; however, since the 1950s wool has declined in relative importance in each country. In part, consumers have switched their purchases from wool to synthetic fibers. Since the early 1950s wool's share of the world apparel market has declined from approximately 15 percent to under 5 percent today. To arrest this decline, the wool industry in Australia, New Zealand, and South Africa tried to boost demand internationally through the operations of the jointly owned International Wool Secretariat (IWS). Founded in 1937, the IWS had a long history of promoting the consumption of wool in international markets, but after the collapse in wool prices in 1991 the IWS was amalgamated with the Australian Wool Promotion and Research Organization. In the process, New Zealand withdrew from the IWS in 1994, followed by South Africa in June 1998.

Over the course of its lifetime the IWS went through phases typical of other collaborative attempts by agriculturalists to promote demand in the face of stiff competition. The IWS conducted advertising and other promotional activity to boost

demand for wool and convince consumers to pay a price premium compared to other fibers. The IWS also conducted market research and technical and scientific research. The IWS, like other organizations which promoted agricultural products, had to raise sufficient funds to finance effective programs but at the same time set levies which wool growers would support. In the case of the IWS, it needed to satisfy not only individual wool growers but also the wool growing organizations and governments of the three member nations. The experience of the International Wool Secretariat provides lessons for other commodity promotion organizations.

The rise and decline of the IWS can be assessed through Down's life cycle model. Downs shows how government bureaus can pass through three phases of growth. In the first phase, bureaus struggle for legitimacy. The second phase is characterized by rapid growth and a surge of creativity and innovation. In the third stage the large size of the organization and subsequent complexity can create coordination problems and reduce flexibility. If an organization cannot break out of this final phase it may lose legitimacy and decline or even die.

The origins of the IWS date back to the 1930s when the wool industry faced a collapse in demand, in part because of first-time competition from synthetic fibers. In January of 1937, representatives of the Australian, New Zealand, and South African wool growing industries met in Melbourne to form the International Wool Publicity and Research Fund. Contributions to the fund were based upon an average quantity of wool exported, which meant that well over half of the funds came from Australia (62 percent Australia, 19 percent South Africa, and 19 percent New Zealand [Australian Wool Board]). A chairman and one representative from each member nation controlled the fund.

In its first year, the IWS established an office in



London and sought assistance from growers and woolen manufacturers in Europe, the United States, and South America. The outbreak of the Second World War halted further development of the IWS, but after the war, growth recommenced. In 1947 it opened offices in France, Italy, and Belgium, and later in other European centers, the United States, India, and Japan. In 1949 its New York office merged with the American Wool Growers promotional and research organization to form the Wool Bureau Inc. This arrangement survived until 1963. The IWS first expanded into Asian markets in 1947 when it opened offices in India and Pakistan. In hindsight it seems strange that the first Asian office of the IWS should be on the Indian subcontinent, with its limited market for wool. This first move into Asian markets was probably inspired more by support for the entry of India and Pakistan into the Commonwealth than in anticipation of opening new markets. A more important move into Asian markets came in 1953 when the IWS opened its Tokyo office.

During the late 1940s and early 1950s demand for wool grew strongly as Italy, Germany, France, and Japan re-established their woolen textile industries. Market forces precluded any urgency for promotion of wool sales. Wool prices rose strongly from 1946 through to 1951 and it was only gradually through the 1950s that the threat from synthetic fibers became apparent. During the 1950s the second generation of synthetic fibers (nylon, polyester, and acrylic) came onto the market and substantially increased their market shares. At this time the IWS could only put up token opposition, its small staff in the branch offices being occupied mainly in press and information work, public relations, consumer education, and tightening of textile legislation in several countries.

Up until the late 1950s the IWS spent relatively little on promotion (figure 1). At this stage wool growers still questioned the need to finance the organization—a feeling encouraged by high wool prices in the decade after the war. In this first phase of its life the IWS had to establish its legitimacy. Falling wool prices in the late 1950s (figure 2) and the increasing share of synthetic fibers in the world fiber market sounded an alarm. Wool interests in the three nations knew they needed a much greater effort in wool promotion and research. In response to this threat to wool, the IWS was reorganized to give control of its board to the appointees of the Australian wool authorities. This new control gave the Australians the confidence to allocate greatly increased funds to the IWS (figure 1). South Africa and New Zealand willingly conceded control because they felt that survival of their wool industries hinged on an increased promotional effort.

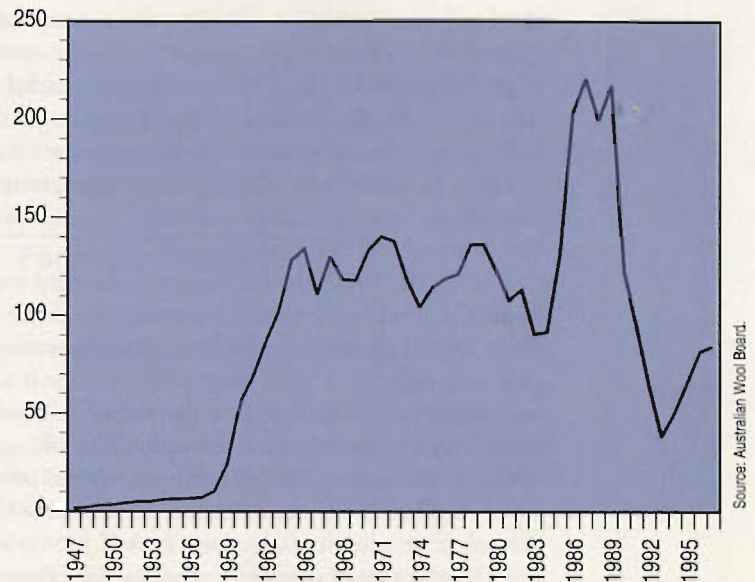


Figure 1. IWS promotional expenditures, constant 1989 U.S. \$ million

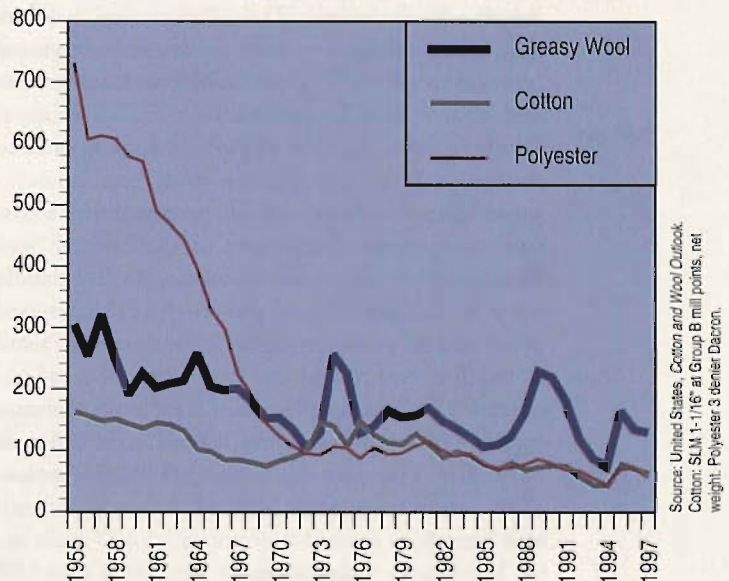


Figure 2. Fiber prices in the United States, 1955–97, constant 1989 U.S. cents per lb

This second phase in the life of the IWS, beginning in the 1960s, was one of rapid expansion (figure 1), innovation, and creativity. The IWS greatly increased technical and product development staff and established extensive laboratory and pilot-plant facilities to develop and disseminate improved products and processes. A new technical center for product and process development opened at Illkley in Yorkshire, England, in 1965. The IWS undertook a major expansion of advertising and promotional activity, including the introduction of a new international symbol, Woolmark, which was launched in October 1964 and registered as a certified brand name. Products bearing this symbol were guaranteed to contain 100 percent wool. Additional funds to finance expansion of the IWS came from the Australian government and increased levies in the

three member countries. Despite the substantially increased funding for promotion, wool demand sagged throughout the 1960s and prices tended to fall (figure 2). By the late 1960s criticism of the IWS grew as wool growers faced a revenue crisis. Growers criticized the Woolmark on the grounds that many manufacturers preferred to use wool blended with other fibers.

During the 1970s the IWS entered the third stage of its life. It was now a substantial, mature, international organization with offices in over thirty countries. It conducted a wide range of promotional and research activities. But despite the size of its operations, wool prices continued to be unstable, and once again the efficacy of the IWS came under scrutiny. The Australian Industries Assistance Commission undertook a detailed investigation of wool promotion in 1976 as a part of a more general study of government financing of rural promotions (Industries Assistance Commission). The Commission concluded that "although quantitative evidence is weak...the promotion of wool is profitable to wool growers" and that "wool is underpromoted." During the 1980s, a joint Bureau of Agricultural Economics-Australian Wool Corporation study used household survey data and records of IWS expenditures to measure promotion effectiveness in the United States. This study also reported favorably, stating that "returns to Australian wool-growers from the extra expenditure on promotion may have exceeded costs by as much as two to one and that there appeared to be scope for expanding promotional effort in that country" (Bureau of Agricultural Economics). Another Australian Government report in 1988 supported IWS activities (Department of Primary Industries and Energy).

The higher wool prices of the 1970s and 1980s (figure 2) helped to maintain wool grower and government faith in the IWS, but skepticism arose about financing the IWS at its greatly increased size. By 1984, the financing issue had become acute, not only because of the magnitude of IWS expenditure but also because of the lower value of the Australian, South African, and New Zealand currencies against those of major economies. From the beginning of 1984-85, a new system of funding was devised whereby each partner independently established the level of promotional expenditure it wanted to contribute. Part of that contribution went to a core budget to cover administration, planning, and economics. The remainder of each country's commitment was then assigned to the marketing programs that they specified. This allowed New Zealand's contribution to fall from 28 percent in 1983-84 to 13 percent by 1991-92.

The IWS constitution required that its promotion not specify the wool's country of origin. How-

ever when member countries pressed to encourage sales of particular types of wool the IWS occasionally departed from its policy. For example in 1967, New Zealand's accumulation of coarser wool stocks prompted the IWS to increase its promotion of woollen carpets. Ten years later, when the Australian Wool Corporation found itself with large stocks of fine and superfine wool, the IWS was pressured to increase promotion of worsted fabrics.

The changes in the early 1980s were designed to give the IWS greater flexibility in its fund raising and the direction and type of its promotional activities.

In 1987 the IWS celebrated its fiftieth anniversary, fairly confident about its future. As it turned out, however, the next ten years were to be the most traumatic in its history. High wool prices in the late 1980s meant that wool levies raised large sums for the IWS. In real terms the IWS's expenditure peaked at an all time high in 1988-89 and remained close to this level until 1990-91 (figure 1). Despite the generally favorable reports during the 1970s and 1980s and the strong support given by the Australian Vines Committee Report in 1991, funding for the IWS fell sharply in 1992. The cause of the fall in funds seems to have been the crisis in the wool industry created when wool prices collapsed after 1990, and Australia and New Zealand terminated their wool reserve price schemes in 1991.



The collapse in wool prices meant that the normal levies raised from woolgrowers fell proportionately. In addition, woolgrowers had to make payments on the debt acquired by the Australian Wool Corporation. The Australian Wool Corporation accumulated debt when it supported prices by buying and stockpiling wool. Grower payments to the Corporation left little discretionary cash for IWS promotion and research. In real terms, the IWS cut its budget by more than 70 percent between 1990–91 and 1994–95. Staff numbers fell by about one-half, and some branch offices closed.

As a result of another Australian government report, the Garnaut Report, and a review by the Boston Consulting Group, the institutional bodies of the Australian wool industry were reorganized in mid 1994. The IWS merged with the Australian Wool Research and Promotion Organization. The merger anticipated that consumers would rather deal with one organization. An important consideration must also have been, however, that the single institution would save on administration costs, in a time of financial stress. The reduction in funding of the IWS and its integration with the Australian wool body caused New Zealand to withdraw in 1994–95. The 1994–95 annual report of the Australian Wool Research and Promotion Organization announced that all members of the IWS supported the merger of the two organizations. However New Zealand apparently held some opposition because it announced its intention to withdraw. New Zealand growers seem to have been dissatisfied with spending through the interior textile budget of the IWS. Most of this budget was financed by New Zealanders, but the IWS allocated it primarily to Europe and the United States rather than to Asia where New Zealand sent most of its wool. New Zealand has now set up its own promotional agency, integrating the Interior Textile staff of the IWS with the New Zealand Wool Board. This new organization is called Wools of New Zealand.

In 1997 the South African government decided to terminate many of the country's statutory agricultural marketing boards, and at the end of the 1997–98 financial year it abolished the South African Wool Board and terminated its membership in the IWS. Faced with a combination of reduced funds because of the exit of the South Africans and falling wool prices in 1998, the IWS was renamed the Woolmark Company in July 1998, and its activities were greatly reduced. Whether the IWS's successor organizations—the Woolmark Company and Wools of New Zealand—survive will depend

upon their ability to effectively boost demand and prices for wool while at the same time keeping levies at acceptable rates. Even if the organizations survive, there seems little chance of any large-scale international wool promotion like that which occurred in the 1960s, 1970s, and 1980s. ■

■ For more information

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