



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

POST-WAR WOOL REALISATIONS - EMPIRE AGREEMENT.

(P. Vaidyanathan)

The World Wool Position.

The end of war both in Europe and the Pacific has focussed attention on one of the major post-war problems - the marketing of Australian wool. The U.K. Purchase Scheme between 1940 and 1945 gave to the woolgrower a stabilised income with the elimination of the risk of marketing and violent fluctuations in prices. The production of wool exceeded 1000 million lbs. a year during the six seasons 1939/40 to 1944/45, the receipts of wool into Brokers' Stores in Australia for the war years being as follows:-

| <u>Year</u> | <u>Bales</u> | <u>Year</u> | <u>Bales</u> | <u>Year</u> | <u>Bales</u> |
|-------------|--------------|-------------|--------------|-------------|--------------|
| 1939/40     | 3,514,260    | 1941/42     | 3,633,760    | 1943/44     | 3,642,286    |
| 1940/41     | 3,508,845    | 1942/43     | 3,517,801    | 1944/45     | 3,085,689    |

Not only was production of wool in Australia maintained at a high level, but production in the other four main wool producing countries was high. Total production in the five main wool producing countries during the war was as follows:

(In Million lb.)

|  | 1934/<br>1938<br>Average | 1939/<br>1940 | 1940/<br>1941 | 1941/<br>1942 | 1942/<br>1943 | 1943/<br>1944 | 1944/<br>1945 |
|--|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Production<br>in the five<br>main wool<br>producing<br>countries | 2,021                    | 2,278         | 2,265         | 2,285         | 2,336         | 2,480         | 2,320         |

Notwithstanding increased production in all these five countries, consumption of wool during the war period in the principal consuming countries was severely curtailed except in the United States where consumption was at a record level. Consumption of wool in the United States rose from 674 million lb. in 1939 to 1018 million lb. in 1941, 1128 million lb. in 1942 and 1118 million lb. in 1943. About 53% of the staple consumed was foreign. This was due to heavy purchases in the U.S.A. for military purposes.

The United Kingdom, which was the biggest consumer of wool before 1939 and the largest purchaser of wool during the war, controlled consumption, restricted severely exports of woollen goods and closed down many textile factories during the period of hostilities. It was estimated by the Chairman of the Aire Wool Company that the scale of activity in the wool textile manufacturing industry in the U.K. fell to about 50% of capacity by the end of 1943.

Continental Europe, which imported on an average about 880 million lb. per annum from the five big wool producing countries and the U.K., was completely cut off from the foreign source of supply. Average production of wool in the Axis and Axis-dominated countries of Europe between 1941 and 1943 was only 295 million lb. Estimated local consumption of wool in these countries, without taking into consideration wool used for the manufacture of goods for export, was roughly 1130 million lb. per annum before the war. Local consumption of wool in Germany and Italy alone was 462 million lb., of which 403 million lb. was imported per annum before the war. Scarcity of wool resulted in a phenomenal increase in the production of synthetic fibres in Europe, especially in Germany and Italy.

Japan, which produces practically no wool, but normally imports 85% of her total requirements which are fine wools from Australia, was forced to curtail her demand for wool to the amounts obtainable from China and Manchuria since she entered the war in December, 1941. Normal local consumption of apparel wool in Japan was 220 million lb. each year before the war. For the time being, at least, Japan has ceased to have any importance as a consumer of wool, and there is a fairly wide impression that the demand for wool in Japan will never recover. During the war, Japan depended on synthetic fibre and cotton to clothe her soldiers. Production of staple fibre in Japan in 1942 was 400 million lb.

#### Estimate of Stocks.

The result, at the end of six years of war, is the accumulation of huge stocks of wool in the principal wool producing countries. Estimate of world stocks of wool in the various countries at the end of 1944/45 wool season is as follows:

|                | <u>Million lb.</u> |
|----------------|--------------------|
| Australia      | 1,600              |
| New Zealand    | 400                |
| South Africa   | 500                |
| Argentina      | 500                |
| Uruguay        | 70                 |
| United Kingdom | 500                |
| U.S.A.         | 560                |
| Total Stocks:  | <u>4,130</u>       |

The above estimate does not include wool in the hands of private owners. In the U.S.A. it was estimated that wool in the hands of private owners at the end of 1943/44 season was about 700 million lb. Allowing for the increase in civilian consumption of wool and the falling off of imports of foreign wool into the U.S.A., it could be safely estimated that stocks in the hands of private owners were about 500 million lb. at the end of June, 1945. Except in South American countries, all the other stocks are owned either

by the U.K. or the U.S.A. Governments, but are held mostly in the Dominions. The total stock of U.K. owned wool is estimated to be 3360 million lb. and that owned by the U.S.A. Government is 200 million lb. Of the total stock of wool owned by the U.K., Dominion wools form the following proportion:

|               | <u>Million lb.</u> | <u>Percentage of Total U.K. Stocks.</u> |
|---------------|--------------------|---|
| Australian    | 2,055              | 61                                      |
| New Zealand   | 570                | 17                                      |
| South African | 640                | 19                                      |
| <b>Total:</b> | <b>3,265</b>       | <b>97</b>                               |

The problem of disposing of this huge accumulation of wool, which is equal to two years' consumption, will be appreciated when we examine the pre-war stocks of wool in the big wool producing countries and the two chief consuming countries. Average carryover stocks at the end of season in the five wool producing countries before the war was 120 million lb. The following table sets out the details:

(In Million lb.)

| Countries     | (30th June) |            |            |           |           |            |
|---------------|-------------|------------|------------|-----------|-----------|------------|
|               | 1933        | 1934       | 1935       | 1936      | 1937      | 1938       |
| Australia     | 13          | 65         | 26         | 23        | 14        | 71         |
| South Africa  | 2           | 24         | 3          | 6         | 4         | 8          |
| New Zealand   | 59          | 26         | 64         | 17        | 11        | 24         |
| Argentina     | 9           | 42         | 13         | 22        | 24        | 41         |
| Uruguay       | -           | 11         | 10         | 11        | 3         | 21         |
| <b>Total:</b> | <b>83</b>   | <b>168</b> | <b>116</b> | <b>79</b> | <b>56</b> | <b>165</b> |

Stocks of wool in the U.K. and the U.S.A. at the end of June were as follows:

|                                   | <u>1935</u> | <u>1936</u> | <u>1937</u> | <u>1938</u> | <u>1939</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| U.K. (in public warehouses only): | 172         | 157         | 123         | 131         | 184         |
| U.S.A.:                           | 144         | 147         | 143         | 139         | 122         |

The stocks at present held are many times above those normally held in the wool trade, and nearly double the stock of 5,509,000 bales on hand in December, 1921. If the present holdings are let loose on the world market without any organised method, nothing short of absolute disaster confronts the wool industry.

Disposal of Stock - Post-War Wool Realisation Scheme.

The problem of disposal of stocks on hand, which should be carefully integrated with the marketing of current clips, is further complicated by the competitive power of synthetic fibres, a factor which was almost absent soon after the 1914-1918 war. Probably the period of disposal will be lengthened very much by this factor.

The London conference of representatives of the United Kingdom and the three wool-producing Dominions in April and May this year recommended to their respective Governments a scheme agreed upon at the conference for the disposal of wool stocks. The Prime Minister of Australia announced the plan in the Federal Parliament about the end of August. The scheme, in which the Governments of the U.K., Australia, New Zealand and South Africa would participate, provides for the continuance of the appraisement scheme for the current season, after which a plan combining appraisement, the auction system and growers' general Reserve Prices will operate till the wool stock is disposed of, probably in the next fourteen years. The four Governments will meet yearly and decide, for the following year, the general level of Reserve Prices for wool, below which sales will not be made either from stocks or from current clips. Arrangements will be made to buy in and hold any wool of current clips which does not find commercial buyers at least at the Reserve Price, and to sell, at appropriate prices, wool now in stock and wool brought in during the operation of the plan.

A Joint Organisation of the four Governments will be formed to dispose of present accumulated stocks of Dominion-grown wool. It will operate on the market for maintaining the Reserve Prices decided by Governments; recommend to the Governments regarding the general level of Reserve Prices for the ensuing year; and co-operate with all bodies concerned with increasing the use of wool.

In addition to the Principal Board of the Joint Organisation, each Dominion will establish an organisation to perform all the active work required in that Dominion. The most important work of the Dominion Organisation will be to apply the Reserve Price to each lot of wool by a system of appraisement prior to its submission to auction.

The war-time flat rate purchase price will operate for the 1945/46 season, and as soon as practicable the grower's Reserve Price will take the place of the flat rate price.

The costs of operating the plan as it relates to Australian wool will be borne half by the industry and half jointly by the United Kingdom and the Australian Governments. The Australian Government is assuming half ownership of the Australian-grown wool at present owned by the British Government,

and the two Governments will share equally in the financing of all further purchases of wool during the operation of the plan. The initial capital investment of Australia is £stg. 40 million, but additional investments in the future purchases of wool at Reserve Prices may be necessary.

The half share of the industry in costs of operation will be provided through the contributory charge. The amount of this charge will be added to the grower's Reserve Price, and it will form the Reserve Price to be placed on that wool at auction.

#### Some Observations on the Plan.

The wool industry at the present moment is on the defensive, and unless it is protected by an inter-governmental organisation like the present one, it is likely to break down under severe competition from synthetic fibres. Unlike after the end of the last war, when production of synthetic fibre was negligible, production of synthetic fibre since 1930 has been phenomenal as the following table will show:

(In Million lb.)

| Year | Rayon Yarn | Staple Fibre | Total |
|------|------------|--------------|-------|
| 1929 | 435        | 7            | 442   |
| 1935 | 938        | 144          | 1,082 |
| 1936 | 1,023      | 302          | 1,325 |
| 1937 | 1,200      | 620          | 1,820 |
| 1938 | 992        | 984          | 1,976 |
| 1939 | 1,145      | 1,082        | 2,227 |
| 1940 | 1,150      | 1,350        | 2,500 |

The big consumers of wool, Great Britain, the U.S.A., Japan, Germany and Italy, are also the large producers of artificial fibres. In 1938, these five countries produced 97% of the world output of staple fibre.

It cannot be denied that synthetic fibres have been developed to such a degree that they could seriously prejudice the wool industry. At a recent inquiry before the Tariff Board in Melbourne, the British Rayon Federation stated that synthetics would co-operate with wool by mixing one with the other. Such blending of wool with synthetics will only result in the lowering of the demand for wool.

The cost of production of synthetic fibre is far cheaper than wool. Moreover, with synthetics the difference in prices between fine and course types is very narrow compared with the

wide variation in price between fine merino wool and coarse crossbred wool. Superfine merino (scoured) sold in London at an average of 40d. (stg.) before the war. In the U.S.A., without taking into consideration the duty, average prices for supervino morino and good merino were 68 cents. and 51 cents., respectively. Staple fibre made by the Viscose process sold at 10d per lb. in England and 25 cents. per lb. in the U.S.A. for some time before the war. Some special wool-like types are slightly dearer. Recently, both in England and America, staple fibre has appeared on the market in the form of tops, and they sell at 2d per lb. above normal fibre price. Hence the price difference between 'wool-like' types of synthetic fibres and the natural product may have an influence on the Reserve Price to be fixed by the Joint Organisation under the present wool realisation scheme. However, it is very gratifying to note that the wool-grower will have a minimum price to depend on as the Reserve Price at auctions will be actually the floor price.

Apart from the competitive power of synthetic fibres, there are other factors which will affect the price of wool if a minimum price such as the scheme envisages is not fixed from year to year. If the demand for wool in the world market recovers at all, it will take a few years at least for it to recover. Peoples of impoverished Europe and defeated Japan will take a long time to recover sufficiently to have the purchasing power to buy wool fabrics. Meanwhile, the possibility of synthetic fabrics invading the field should not be overlooked. For a few years the outlook for wool will be gloomy but during this period control of the wool market through minimum price fixation could save the woolgrower.

The official report of the London Wool Conference states in connection with the disposal of existing wool stocks that world consumption of apparel wool might increase to a level 12% above pre-war. This would represent an increase of 20% in the consumption of Dominions' and South American wools over pre-war levels. On this estimate the Report bases the fact that accumulated stocks, together with current clips, might be disposed of in about 12 to 15 years. For reasons stated in connection with the competitive power of synthetic fibres, it is doubtful whether the stocks of wool could be disposed of in fifteen years.

Even if the stocks of wool are cleared in that period, and the present wool scheme comes to an end, the question arises whether the wool industry would be sufficiently strong to enter a free competitive market. Probably the answer is that some type of wool stabilisation scheme may have to be devised at the end of the present wool scheme to protect the small wool-grower from the ravages of violent fluctuations in wool prices. It would appear that the pre-war auction system should never again be reintroduced without some measure of control as exists in the present wool scheme.