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~~X~~ The South African Wool Reserve Price Scheme and its Administration ~~X~~

by

J.D.M. MACDONALD,
General Manager, South African Wool Commission

The following is a brief review of the steps leading to the eventual establishment of the South African Wool Commission for the administration of the Reserve Price Scheme.

SUPPORT OF WOOL MARKET PRIOR TO ESTABLISHMENT OF COMMISSION

The first organised attempt to support the wool market in the Republic was undertaken at the commencement of the 1946/47 wool season, under the Joint Organisation scheme and took the form of a minimum reserve price on all wool offered at auction. The governments of the United Kingdom, New Zealand, Australia and South Africa were shareholders in the Joint Organisation, which was the successor to the British Wool Commission. The Joint Organisation, and its representative in the Republic, the South African Wool Disposals Organisation, were liquidated during 1950/51.

The South African delegation to the London Wool Conference of 1950 was in favour of continuing a minimum reserve price scheme for wool after the liquidation of the Joint Organisation, but considered that such a scheme should be on an international basis and include at least Australia, New Zealand and South Africa as producing countries, and the United Kingdom as consumer country. Also it felt the scheme should be basically similar to that operated by the Joint Organisation.

The Australian authorities, however, rejected the proposed new scheme. Thereupon the South African authorities decided not to establish their own local scheme, as was done by New Zealand. Therefore no minimum reserve price scheme was operated in South Africa until the 5th March 1958, when the South African Wool Board instituted and temporarily administered, a scheme pending the establishment of the South African Wool Commission.

When the South African Wool Disposals Organisation was finally liquidated, a small body of its trained administrative and technical staff were retained by the South African Wool Board, to continue with the statistical and certain other functions, previously undertaken by that Organisation, and also, to form the nucleus of any wool stabilisation scheme, should this become necessary in the future.

The Wool Board was accordingly able to keep a very close watch on world wool price tendencies. In view of the continuous downward trend in wool prices during the 1957/58 season, especially during the beginning of the second half of that season, it decided, after consultation with the Minister, to establish a purely South African wool price-support scheme as from the 5th March 1958.

In view of the urgency of the matter, and the fact that legislation for the establishment of a separate organisation to administer the scheme could not be immediately approved by Parliament, the scheme was provisionally administered by the Board, as such, until the 30th June 1958, and by the South African Wool Commission as a sub-committee of the Board, as from the 1st July 1958 to 30th June 1960.

In the meantime, the necessary legislation for the establishment of the South African Wool Commission, as a separate corporate body, was approved by Parliament and the Commission was established and commenced operations on the 1st July 1960.

OBJECTS OF THE WOOL COMMISSION

The main object of the Commission is to stabilise wool prices in South Africa. Basically, the Commission does not seek to fix prices or to change long-term trends in prices. Rather, it tries to eliminate violent short-term fluctuations in local market prices by lifting from the sales, wools for which demand is temporarily restricted. These wools are later fed back into the market when conditions are more favourable, and prices for such types have recovered.

This is a two stage operation and has the effect of reducing price movements at both ends of the curve. Firstly, fluctuations downward are reduced by the maintenance of a reasonable floor price, and secondly, fluctuations upward limited by the release for sale of bought-in stocks in limited quantities. The Commission normally re-offers its stocks in a manner and at a time chosen not to prejudice producers' offerings.

POWERS OF THE WOOL COMMISSION

For the purpose of achieving its object viz. to stabilise the wool market in the Republic* in any manner approved by the Minister, the Commission is empowered *inter alia*, to:

- (a) prepare from time to time, a table of minimum prices for all types of wool produced in the Republic and to assess, in accordance with this table, reserve prices in respect of individual lots of wool;
- (b) purchase at its reserve price, any wool at any recognised auction sale in the Republic or the United Kingdom;
- (c) supplement, out of its fund, the sale price of any wool to such an extent as may be necessary to increase it to the minimum price applicable to such wool; and
- (d) scour, recondition or otherwise process wool.

The operations of the Commission are at present confined to items (a) and (b) of the above powers, and while (c) has not yet been used (d) was used in the 1959/60 season when certain of the Commission purchases were scoured in South Africa, and sold in the scoured state.

Repacking has also been carried out of bales under 200 lb weight purchased by the Commission, to simplify resale.

CONSTITUTION OF THE COMMISSION

The Commission consists of five members appointed by the State President, and of whom:

- (a) three are producers of wool, nominated by the South African Wool Board;
- (b) one is a wool broker, nominated by the South African Wool and Mohair Selling Brokers' Association;
- (c) one represents the Government of the Republic and is nominated by the Department of Agricultural Economics and Marketing.

Further legislation now makes provision for an additional member representing the National Wool Growers' Association, to be elected to the Commission.

CAPITAL FUNDS OF THE COMMISSION

Producers have been paying a levy on all wools sold since the 1946/47 season.

Originally the levy was designed to finance 50 per cent of the total cost of the South African Wool Disposals Organisation and all the costs of the Wool Board, and to ensure that the Government would not lose when the wool stocks, accumulated during the war years, were finally liquidated.

* In terms of the principal Act, the term Republic as used in this context, shall be taken to include the territory of South-West Africa.

These stocks were in fact disposed of sooner than anticipated and realised a total profit of £15 million (R30 million), half of which accrued to the South African Government. Legislation was introduced whereby producers, who had sold their wools under the arrangements in operation during the war years, were to receive a *pro rata* share of the £7½ million (R15 million) which accrued to South Africa.

Certain beneficiaries were not traceable and the amount in question, practically £1 million (R2 million) was in terms of Act 12 of 1959, paid over to the Wool Board, for the purpose of undertaking or promoting research in connection with sheep and wool.

Meanwhile, the South African wool producers had decided that the unappropriated balances of wool levies paid by them during the period 1st July 1946 to 30th June 1951 should be retained in the Wool Levy Fund.

This fund was placed under the control of the Secretary for Agriculture, and was intended to ensure that the necessary finances would be available should some or other scheme be decided upon later.

In terms of Act 57 of 1955 the Wool Levy Fund, together with any interest accrued thereon, was transferred to the Wool Stabilisation Fund and placed under the control of the South African Wool Board. The Board could, with the approval of the Minister of Agriculture, use the Fund for any purpose which, in his opinion, would promote stability in the wool industry.

At the time when the Wool Levy Fund was transferred to the Wool Stabilisation Fund, it amounted to approximately £6 million (R12 million), plus nine large wool stores taken over from the Joint Organisation. Any interest accruing from the investment of the Fund had, in terms of the Act, to be credited to the Fund.

The Fund was further augmented from 1st July 1955 by approximately £500,000 (R1,000,000) per annum - the proceeds from a special levy paid by producers, and profits from sales of wools purchased were added to the Fund.

The advent of the Wool Commission in 1960 did not alter the rates of levies promulgated, except that the special levy now became the Commission levy.

When the South African Wool Commission commenced operations it had at its disposal a capital fund amounting to approximately £10½ million (R21 million). At the end of June 1967 the capital fund, including reserves exceeded R34 million.

Table 1 illustrates the levy rates applicable since 1st July 1955.

It can be seen from Table 1 that from August 1964 the Commission reduced its levy, while that of the Wool Board was raised, to meet the Board's increased expenditure. Finally, in September 1966, the Wool Board increased its levy to the maximum of 1.5c allowed under the Act, and the Commission, for the time-being, renounced all levies for its own account.

TABLE 1 - Levy rates on wool producers

Period	Merino		Karakul	
	Ordinary	Special	Ordinary	Special
	per lb			
1/7/55-30/6/56	3/8d	3/8d	1/4d	1/4d
1/7/56-30/6/57	3/8d	3/8d	1/4d	1/4d
1/7/57-30/6/58	3/8d	3/8d	1/4d	1/4d
1/7/58-30/6/59	3/8d	3/8d	1/4d	1/4d
1/7/59-30/6/60	3/8d	1/2d	1/4d	1/4d
1/7/60-30/6/61	3/8d	1/2d	1/4d	1/4d
	Wool Board	Commission	Wool Board	Commission
	c	c	c	c
1/7/61-30/6/62	.33	.4	.2	.2
1/7/62-30/6/63	.60	.4	.3	.2
1/7/63-31/7/63	1.00	.4	.3	.2
1/8/63-31/7/64	1.00	.4	.5	.2
1/8/64-31/8/64	1.40	.1	.5	.05
1/9/64-31/8/65	1.40	.1	.5	.05
1/9/65-30/9/66	1.40	.1	.5	.05
1/10/66- ...	1.50	-	.55	-

DETERMINATION OF MINIMUM RESERVE PRICE

In determining the average reserve price for the South African wool clip, all factors affecting world wool prices in general, were considered, and the average reserve price for the South African clip as a whole, was fixed in March 1958 at 34 pence per pound greasy, which was later adjusted to its nearest equivalent of 28 cents per lb.

This reserve price has remained unchanged up to and including the current season, although slight adjustments in prices for certain types of wool had of necessity to be made at the beginning of each season, to take into account any change in the pattern of demand or production, or both.

PROCEDURE TO APPLY MINIMUM RESERVE PRICE

The determination of a minimum reserve price for each and every lot of wool offered for sale by public auction, necessitates the inspection and assessment of every lot by experienced wool appraisers. They determine the type and clean yield of each lot, and calculate the minimum reserve price for each in accordance with the prepared table of minimum reserve prices.

The magnitude of this task is shown by the fact that during the 1960/61 season, the Commission's wool appraisers had to examine and assess no less than 307,355 lots of wool, with an average of 3.4 bales per lot.

Although the average reserve price determined for any particular season is made public, the minimum prices for individual types of wool are not disclosed.

On the auction sales the Commission declares its reserve price on each and every lot of wool for which a similar or higher bid is not made by any buyer. After the Commission has declared its reserve price, any buyer has the right to replace it by bidding the same price.

Should the Commission's bid not be replaced, the owner of the wool still has the right to refuse, or accept, the price declared by the Commission for his wool.

Provided the lot is not sold outright to the Commission in the sale-room, the owner is given time until immediately before the commencement of the next sale in that port, to decide whether he is prepared to sell his wool at that price. Alternatively, he may re-offer his wool at a subsequent sale during the same season and is guaranteed the same minimum price, subject to re-assessment of the wool if deemed necessary.

OPERATIONS ON THE WOOL MARKET

Table 2 details purchases, sales and stocks of the Wool Board and the Commission since March 1958.

TABLE 2 - Wool Board and Commission's purchases, sales and stocks (including U.K. and S.W.A.)

Period	Quantity purchased	Per cent of total offerings	1) Disposals	Stock on hand
	bales	%	bales	bales
5/3/58-30/6/58	49,621	20.00	-	49,621
1/7/58-30/6/59	91,998	8.60	114,846	26,773
1/7/59-30/6/60	702	0.10	26,970	505
1/7/60-30/6/61	104,917	10.00	102,557	2,865
1/6/61-30/6/62	666	0.05	3,210	321
1/7/62-30/6/63	103	0.01	424	-
1/7/63-30/6/64	-	-	-	-
1/7/64-30/6/65	9,040	0.89	46	8,994
1/7/65-30/6/66	211	0.02	9,169	36
1/7/66-30/6/67	17,503	1.70	157	17,382
	274,761	2.60	257,379	

1) Includes adjustments due to repacking and processing.

Table 2 shows that, with the exception of the four months in 1958 when the scheme was originally launched -

- (a) the maximum carry-over from one season to the following was less than 27,000 bales or 2.5 per cent of the annual clip, due to the fact that practically all wool purchased during any season, was re-offered and sold during the same season;
- (b) total wools taken over by the Commission during just over 10 years, amounted to 2.6 per cent of total offerings during that period;
- (c) the Commission was during no season called upon to take over more than 10 per cent of the total quantity of wool offered during that season, and reached that figure only during 1960/61, when the market was at its lowest point in many years.

hardened during November 1960, the Commission's purchases dropped to 5.5 per cent of offerings, but with the weaker market during December 1960 and January 1961, the percentage of purchases again increased to 17.3 per cent and 12.8 per cent respectively. Thereafter as the market hardened, the Commission's purchases dropped to practically nothing.

A further analysis of the operations during 1960/61 reveals that 88 per cent of total purchases were made during the first five months of the season when the Commission had to bid on more than 50 per cent of wool offered. Thereafter, as prices improved, the rate at which wools had to be taken over decreased, and with the stronger market, practically all wools purchased were again fed back to the market.

OPERATIONS OF THE COMMISSION

The season 1960/61 is chosen as it portrays the activities of the Commission, through a period when the market fell to Reserve Price limits, and rose again in the same season to the extent that the Commission was able to dispose of practically all its stocks. It was a remarkable season.

As the market weakened or improved, the percentage of Commission purchases increased or decreased e.g. during September and October 1960, when the market was at its lowest point, the Commission had to take in approximately 17½ per cent of total offerings. When the market

ANALYSIS OF SEASONAL OPERATIONS

Annexure "A" details the extent to which the South African Wool Commission was called upon to support the local market since its inception in July 1960. From this table it will be seen that during 1960/61 the Commission had to protect approximately 392,200 bales, or 37.5 per cent of the 1,045,300 bales offered for sale, by declaring its reserve prices thereon. Of this quantity the Commission eventually purchased 104,692 bales, 10 per cent of total offerings, whilst the balance of approximately 287,500 bales, or 27.5 per cent of total offerings, was taken over by the trade or retained by brokers.

TABLE 3 - Monthly operations of the Commission, 1960/61

Month	Total offerings	Lots on which Commission bid		Purchases	
	bales	bales	Percentage of total offerings	bales	Percentage of total offerings
<u>1960</u>					
September	149,095	79,394	53.3	25,775	17.3
October	144,340	74,938	51.9	25,173	17.4
November	151,264	53,542	53.4	8,387	5.5
December	106,692	56,206	52.7	18,429	17.3
<u>1961</u>					
January	114,104	56,344	49.4	14,584	12.8
February	130,441	47,631	36.5	8,844	6.8
March	104,267	23,483	22.5	3,451	3.3
April	52,155	542	1.0	34	0.1
May	92,975	132	0.1	15	-
	1,045,333	392,212	37.5	104,692	10.0

Further study reveals that approximately only 27.5 per cent of the wool on which the Commission had to declare its reserve prices, was eventually taken over by the Commission, whilst the balance of 72.5 per cent was either taken over by the trade at the declared reserve prices or higher, or was retained by the brokers. In the seasons 1964/65 and 1966/67 the Commission was also required to intervene actively in support of the market.

GENERAL

The success of the Commission in the attainment of its objects is amply proved by its operations during the years of its existence. During the first twelve months of its life it had to lift a fair amount of wool from the market and was thereafter in a position to feed the market gradually when demand improved.

Most striking perhaps was the fact that during the 1959/60 season, when market prices throughout were higher than its reserve prices, it nevertheless had to step in during February 1960 and lift from the market some 600 bales of wool, for which there was a temporary lack of demand. Immediately thereafter, the market again recovered and it was not called upon to make any further purchases during the rest of the season.

When the wool market opened in September 1960, prices for long wools were $12\frac{1}{2}$ per cent lower and medium and short wools 5 to $7\frac{1}{2}$ per cent lower, compared to the closing rates of the previous season. The Commission was required to support the market at certain sales by bidding on more than 50 per cent of the offerings, eventually buying over 20 per cent. However, as the market improved from March, 1961, the bulk of these purchases was fed back into the market and sold. The remarkable thing is that 105,000 bales were bought in and practically all resold in the course of the same season. In the 1964/65 season 12,000 bales were bought in, and successfully disposed of during the next season.

The real value of the scheme to the South African producer cannot, however, be gauged or judged by the quantity of wool the Commission is called upon to purchase, and the final profit it makes on the re-sale of such wools. It should rather be judged by its success, or otherwise,

in holding the market during any temporary recession or short-term fluctuations in market prices.

A further point to be borne in mind is the fact that the Commission enters the market actively only when there is a lack of demand for certain wools, and then prevents the market from falling below its predetermined reserve price level for these types.

It is impossible to state categorically to what low point prices would have dropped had it not been for the fact that the Commission is a strong holder. When operating it ensures that prices do not fall below its reserve prices, for at least the rest of that particular season, unless there is a total collapse of the world wool market.

If it had been possible to ascertain reliably what the actual market price would have been in the absence of the Commission's stabilisation scheme, the true value of the scheme to the producer could have been assessed. It is, however, exceedingly difficult to determine this with any degree of certainty as it cannot be calculated how high buyers would have bid had the Commission not been there.

During 1960/61, a careful analysis was made of the bidding at certain sales in Port Elizabeth and the following conservative estimates made:

1. When trade bidding stopped below the Commission's reserve price and the lot sold to the Commission (or taken over by the trade) at the reserve price, the average increase was 1d per lb;
2. when trade bidding stopped below the Commission's reserve price and bidding carried further after declaration of the reserve price, the average increase was $2\frac{1}{2}$ d per lb from the point where bidding stopped originally.

Based on these estimates, it has been calculated that in the season 1960/61 the intervention by the Commission resulted in an additional R2 million being paid to producers. Over the seven years of its existence this figure is probably in the region of R5 million.

ANNEXURE A

ANALYSIS OF THE OPERATIONS OF THE SOUTH AFRICAN WOOL COMMISSION 1960/61-1966/67

	1960/61		1961/62		1962/63		1963/64		1964/65		1965/66		1966/67	
	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings	No. of bales	Per cent of offer- ings
Total offerings	1,045,333	100.0	1,105,125	100.0	1,031,553	100.0	1,050,253	100.0	1,012,515	100.0	1,102,797	100.0	1,023,358	100.0
Reserve price declared on	392,212	37.5	13,734	1.24	2,222	.21	845	0.08	93,893	9.3	8,624	0.78	55,130	5.4
Sold or declared not sold to Commission	118,726	11.4	739	.06	464	.04	The bulk of these wools were "passed in" on the sale and disposed of private- ly after the sales.		11,999	1.2	658	0.06	15,632	1.5
Taken over by trade at reserve price	98,716	9.4	2,526	.23	522	.05			25,493	2.5	2,112	0.19	16,532	1.6
Taken over by trade at prices higher than reserve price	174,770	16.7	10,469	.95	1,236	.12			56,401	5.6	5,854	0.53	22,966	2.3
	392,212	37.5	13,734	1.24	2,222	.21			93,893	9.3	8,624	0.78	55,130	5.4
Finally pur- chased by Com- mission	104,692	10.0	597	.05	101	.01			9,031	0.9	211	0.02	12,443	1.2
Taken over by trade or re- tained by brokers	287,520	27.5	13,137	1.19	2,121	.20			84,862	8.4	8,413	0.76	42,687	4.2
	392,212	37.5	13,734	1.24	2,222	.21			93,893	9.3	8,624	0.78	55,130	5.4