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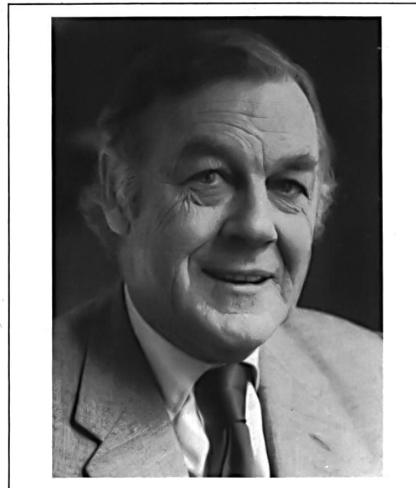
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SURVEY OF WOOL DEMAND AND PRICES

*Address of Mr Kenneth C. Clarke
on the occasion of his first official visit to
Switzerland as the new Managing Director of
the International Wool Secretariat.*



Kenneth C. Clarke
the new IWS Managing Director



I am very much aware that I take up my new post of managing director of the IWS at a critical time for the wool producing and processing industries. In the wool-selling season to June 30, 1973, raw wool prices rose very substantially. This was a complete inversion of their 1969-71 position, when wool was at the bottom of a 30-year price trough, and the growers of the wool fibre were in some cases being put out of business very rapidly indeed. In Australia at that time, the more sheep you owned, the more money you were losing. So how have these dramatic price changes come to pass? What do they mean for the processor, the retailer and the customer? In the few minutes

available, I can try to give a quick outline sketch. World economic activity more or less regularly goes through a cyclical swing, and in the textile industry—because of the nature of the business—this swing is always rather more exaggerated than the general movement. Late in 1969, economic activity in general took a downward turn. Synthetic fibre interests had planned on a continuing boom in most parts of the world, and had installed capacity accordingly. Surplus capacity developed, with a quite severe price war between them. This weakened wool prices, already affected by the economic downturn. Moreover during this period, high interest rates,

major fears about currency parities, and certain quotas and restrictions imposed by the US on imports, all combined to magnify the hesitations of the wool industry.

Stocks were cut to a minimum, and the unsold wool accumulated into a substantial stockpile in the hands of the Southern Hemisphere woolgrowers authorities.

Wool has a very long pipeline from Southern Hemisphere grower through a complex industry to the retailer and the consumer. The effect of reduced orders and reduced stocks amplifies, as it feeds back through this pipeline. Hence the level to which prices sank.

Woolgrowers, in order to survive, sold and slaughtered part of their flocks; and their ability to produce was reduced significantly. Then during 1971, world economic activity bottomed out, and started to improve. At the end of that year, the most acute currency problems were resolved, at least for the moment.

Demand for raw wool, and raw wool prices, immediately began to improve. Fashion trends, partly encouraged by ecological considerations, swung heavily in the same direction. At those price levels, wool was extraordinarily attractive. Orders generated very quickly.

Moreover, by mid-1972 it became apparent that the world raw wool production was down. It proved to be 5 per cent lower for 1972-73. In Australia, the biggest exporter, it was down 12 per cent. Meanwhile the industry not only required wool to meet a new demand; it also required stocks proportionate to that surge of activity. By September last year, the accumulated grower stockpiles were exhausted, and buyers became frantic in some cases.

The policy varied from country to country. Western Europe reacted rather defensively, tending to substitute a greater percentage of other fibre perhaps, and still to keep stocks as low as possible in a difficult situation.

Japan, somewhat better off than most countries in terms of its new currency parity, took a positive and indeed quite aggressive attitude to the problem. In Japan, you know, employees cannot be made redundant. They stay with their firm for life. So it becomes absolutely vital to have adequate raw material stocks. Japan decided to buy the wool it needed, even at the expense of higher prices.

The rapid economic growth and progress in Eastern Europe and the USSR resulted in increased needs for wool for their mills, and they purchased strongly in the latter part of the season.

We should also remember that wool was not alone in experiencing a price boom in this period. Developing currency problems, combined with growing demand for basic raw materials and persistent inflation, encouraged many people to get out of currency into commodities.

Thus the Reuter-index for commodity prices in Britain almost doubled in the year ended June 30, and the Economist index of world commodity prices rose by more than 80 per cent. This whole movement also affected wool.

To sum up, the high prices were produced by a situation which combined a reduced supply with new peaks of demand, in a currency situation which encouraged people into commodities.

What is likely to happen next? Well, no-one can conceal the uncertainties which exist; at this moment, the evidence is not in. But some things are quite clear.

Firstly, the increase in prices has not yet had time

to reflect itself in higher production of raw wool. Estimated world production in 1973-74 will be down a further 1 per cent. This, combined with the reduction in carry-over stocks in the producer countries, means that wool supplies will be about 3 per cent down on last season.

If wool prices maintain levels which offer a reasonable investment to growers, this will be a short-term phenomenon, with a more plentiful supply for the years ahead.

That's supply. What about demand? At consumer level, the peak prices have not yet reached the shop counter, so we're guessing the reaction. In all major world markets, fashion is still strongly pro-wool. Our own market research studies suggest that price increases will have to be appreciable—well over 20 per cent—before they put a significant brake on purchase of wool goods. People still want our product.

In terms of industrial demand, however, the market situation of the past year is already having an effect, notably in Western Europe. There are some indications of slackening usage. And that was inevitable, in the light of a reduced clip combined with higher prices.

Moreover, the Japanese appear to have purchased more than their immediate wool requirement—their stocks of wool are up by a substantial 88,000 metric tons. It follows that lower stocks must be held elsewhere.

The outlook, therefore, is not clearcut. It will depend partly on the final extent of synthetic fibre substitution for wool, especially in Western Europe. And partly on the level of Japanese buying in the new season. It will also depend on the level of East European and Soviet purchases, which played an important part in recent fine wool prices.

From an IWS viewpoint, however, the situation is quite simple. It's our job to provide the maximum effective support for wool processors and retailers in a difficult situation, and to sustain their long-term interest in a superb fibre.

Equally, it's our job to make sure that consumers are fully informed and protected, and that they get the best possible merchandise—in short full value for their money.

This the IWS is pledged to do and we have been given additional resources by our sponsor countries so that we can tackle this job effectively. But there will be no dramatic or fundamental changes in IWS policies. Since the woolgrowers backed their faith in their fibre by launching the Woolmark in 1964, the development of the IWS has followed a logical progression.

The Woolmark was established and developed into a force in world textile markets; our research and technical resources were expanded so that they could make a real contribution to improved product performance and manufacturing efficiency and

our promotion and technical activities have been closely integrated so that we can give valuable support at every stage of the processing, manufacturing and distribution of wool products.

Having taken part in this process of evolution, I believe that our long-term marketing strategies have proved their worth and my objective will be to maintain these strategies and endeavour to sharpen their effectiveness.

The IWS therefore will continue to devote its major effort to the promotion of pure new wool products. There are suggestions from a number of sources that in view of the market situation, IWS should switch substantial funds to promote wool majority blends across the whole range of our major end products. Indeed there has been considerable pressure to do this from the German industry and others which are less favourably placed economically than Japan to cope with higher raw material costs.

We are realistic in IWS. We know that in view of higher prices and shortage of supply there is bound to be a shift of wool usage towards blends and some end products in some markets. We know too that wool production cannot expand sufficiently to maintain wool's share of the total fibre market. But we do not believe that it is our job to stimulate such trends on a lasting basis and weaken the identity we have created for Pure New Wool products. This is especially so as such funds could only be found by lessening support for manufacturers who choose to stay with Pure New Wool. We shall continue to give support, under our Woolblendmark programme, to those few end uses such as—in Japan—the kimono where the addition of other fibres offers definite technical and styling advantages. But we do not propose to support blends simply for the sake of achieving a cheaper product.

Looking ahead, there will—as I said before—probably be some reduction—estimated at around 3 per cent—in the total wool supply available in the forthcoming season. But I believe that, if prices stay at levels which offer the woolgrowers a reasonable return for his investments, we can anticipate a more plentiful supply in the years ahead.

So I am confident about the future of wool—sufficiently confident to believe that the best interests of producers and processors will be served by IWS continuing to encourage and assist the production of clearly identified wool products which are fashionable and well made and which offer the consumer satisfaction in performance and good value for money.

To do this, we must continue to work closely with the people who make and sell these products and to end on a personal note, I very much value the strong and close relationship which has been established between the IWS Swiss branch and the Swiss wool textile industry.