

# **Australian wool industry overview**

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# History of the Australian wool industry

Since the early days of settlement the wool industry has played a dominant role in Australia, both from an economic and social perspective.

The story of the rise of the Australian wool industry to world leadership is one of vision, courage, resourcefulness, occasional strife, and triumph over appalling difficulties. It is a drama in which many men and women have played many parts. Each has added something to the value of the achievement. Some of these names are known and honoured, but most are unknown. Known or unknown, their work is their memorial.

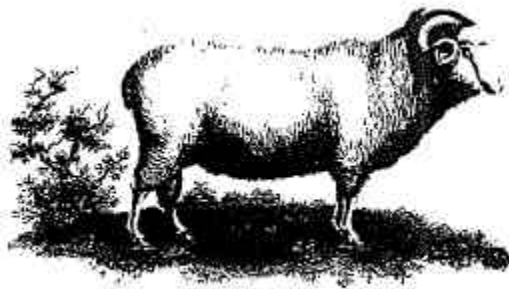
The first sheep came to Australia with the First Fleet in 1788. They had been obtained by Governor Phillip from the Cape of Good Hope. With their hairy fleeces and fat tails, they were suitable mainly for food, not for wool production. Additional small lots of these Cape Fat Tails came subsequently, but the few that survived the voyages often died from a continuous diet of coarse coastal grasses. Later, other coarse wool types began to thrive.



## The coming of the Merino

The Merino breed, which was soon to make Australia dominant in wool production, was introduced from South Africa at the end of the 18th century. Two British ships from the new settlement at Sydney Cove sailed to the Cape of Good Hope (Cape Town) in 1797 to buy cattle and other supplies. By a stroke of fortune, it was in the troubled period when the former Dutch Cape colony first came under British rule. A small flock of Spanish Merinos, descended from a gift from the King of Spain to the Dutch government, was being disposed of by Mrs Gordon, widow of the Scot who had governed the Cape on behalf of the Dutch East India Company.

The Merino was a unique Spanish breed with heavy fleeces of unusually fine wool. They were the result of probably more than 2,000 years of breeding and Spain kept a strict monopoly on them, except for a few either given as Royal gifts or smuggled through Portugal. The dispatch of Cape Merinos - which had thrived in southern Africa but not in damper Holland - to Australia, occurred early in the Merino's move onto the world stage.



Spanish Merino

Mrs Gordon gave three each to Governor King and his Lieutenant-Governor, Colonel Paterson, who were on their way to England aboard *Britannia*, which was in Table Bay (the Cape harbour) at the same time. She offered the remainder for sale to the Commissary of the new settlement, who declined to buy them without an authority from Sydney. Captain Waterhouse and Captain Kent of the supply ships bought them, however. They secured 13 each – a lucky number in the history of the Australian wool industry! They paid Mrs Gordon four guineas (\$8.40) each for the sheep. Most of Kent's sheep were lost on the trip back to Australia on the *Supply* and those presented to the Governor and his assistant also died. However, most of those transported on the *Reliance* with Waterhouse survived and he sold them to landholders in the new colony, including officers in the New South Wales Corps, which policed and guarded the colony.

Among these were Captain John Macarthur, the chaplain, Rev. Samuel Marsden, William Cox and Captain Rowley, all pioneers of Australian Merino breeding. Claims have been made that Macarthur had commissioned Waterhouse or Kent to buy sheep for him at the Cape. Waterhouse, in a letter to Sir Joseph Banks in Britain nine years later, made no reference to such an agreement. Some years afterwards Macarthur himself said that he had requested the captains to 'enquire if there were any woolbearing sheep at the Cape'. Whatever the exact circumstances were, the first Merinos thus came to Australia from the Cape. Macarthur obtained four ewes and two rams. We know little about the quality of these Merinos. However, it is believed that they were the Escorial type, the finest wool strain, owned by the Spanish Royalty. As early as 1794 Macarthur had bought 60 Bengal ewes and lambs, and later added two Irish ewes and a young ram. He had found that by crossing the two breeds, the lambs of the Indian ewes bore a mingled fleece of hair and wool. Thus the idea came to him of producing fine wool. His acquisition of Cape Merinos gave him his unique opportunity.

## John Macarthur's role

Macarthur's vision, practical experiments and extraordinarily persistent work in London as propagandist for Australian Merino wool have left a name that will always be associated with the industry in this country.

He had realised early in his life in the new settlement – he arrived in 1790 – that, as he put it, 'a petty population, established at so vast a distance from other civilised parts of the globe, could have no prospects of ultimately succeeding, except by raising as an export some raw material which would be produced with little labour, be in considerable demand, and be capable of bearing the expense of the long sea voyage'.

In 1803 he proved, as he was to prove several times in his flamboyant and stormy career, his ability to transform adversity into success. He had been sent to England following a duel with Colonel Paterson, and on arrival immediately set about interesting the authorities in the new wool from the Antipodes. As to the quality of the wool, he did not ask them to take his word; he showed them samples that he had brought. Other samples had been sent

to England earlier. He urged the Privy Council and those directly interested in the wool industry to consider the possibilities of Australia for fine wool production.

He said he had about 4,000 sheep and estimated that in 20 years they would be so increased as to produce as much fine wool as was then being imported into England from Spain and other countries at an annual cost of 1,800,000 pounds (\$3,600,000). His representations had such effect that he was able to return to Sydney in 1805 with authority from Lord Camden, Colonial Minister, to select an area of land for himself, provided he devoted his activities from then on to fine wool production.

He chose the Cowpastures district, south west of Sydney, now known as Camden Park, near the present-day town of Camden. What was even more important, he returned with several Spanish Merino sheep, which he had bought from the flocks of King George III at Kew, near London.

While Macarthur and other flock masters were developing the Australian industry, important changes were taking place in the world wool market. Although previously small numbers of the jealously guarded Spanish Merino sheep had been allowed to go out of the country from time to time (to Sweden in 1723, for instance) no great expansion of the industry outside Spain occurred until 1765, when the King caused 92 rams and 128 ewes, specially selected, to be sent to the Electorate of Saxony a German province. This importation gave a decided impetus to the Saxon industry and with a further importation of 300 sheep in 1774 it went from strength to strength.

The Spanish position was made worse when Napoleonic France invaded Spain. Larger numbers of Merinos were released and dispersed to different countries, considerable numbers going to Saxony and the neighbouring south-eastern German province of Silesia. From 1765, the Germans, with characteristic thoroughness, had adapted the Merino to its new environment with the object of producing the finest of fine wools, which the trade, towards the end of the century, was beginning to demand. Soon German wool set the standard for the whole world. The Spanish export industry was reduced drastically and the German competition began to affect English wool production adversely. Within a few years, wool from Silesia and Saxony, finer and cheaper than even the famed Southdown, had almost ousted the English wools from their own home market. An inquiry by a select committee of the House of Lords and an increase of duty on foreign wools to sixpence a pound (11 cents a kilogram) failed to stem the flood of German wool into England.

A few years earlier, John Macarthur, as stated, had appeared in London as the prophet and vanguard of what was destined to be new and devastating competition. Small quantities of wool, misnamed Botany Bay, began to appear on the English market. Although a buyer at Garraway's Coffee House in London had bid 10 shillings and four pence per pound (\$2.27 per kilogram) for the first bale, which Macarthur had shipped in 1807, the early wools from Australia were generally dirty and scraggy. They improved in quality and increased in quantity, but almost a decade passed before the scepticism of English manufacturers was completely overcome.

## **The trade war**

The year 1822 may be regarded as decisive in the history of Australian wool. In England, the Society of Arts presented Macarthur with two gold medals for importing wool as good as the finest Saxon.

Later, the British Parliament reduced duties on colonial wool, and the wool from the Antipodes was adjudged longer, silkier, softer and more resilient than any but the best Saxon. All this indicated a relentless trade war between the Australians and the Germans for supremacy in the English market, and indeed the world market; and everybody knew it.

Australia had, despite its distance from the markets, a massive advantage in its vast expanses of country ideally suited to year-round grazing, but not sufficiently fertile or well-watered, or too steep, for intensive agriculture. In Germany, by contrast, the sheep had to be hand-fed and kept indoors in the bitter winters and other forms of agriculture offered a ready alternative for the land. However, the Saxons had a highly organised, scientific approach and it took some years for the Australian advantage to drive home.

Imports from New South Wales to Britain rose dramatically. From Macarthur's lone bale in 1807, the figures skyrocketed to 175,000 pounds (79,450 kilograms) in 1821, 400,000 pounds (181,600 kilograms) in 1823, 1,100,000 pounds (499,400 kilograms) in 1830 (after the reduction in duties), 3,693,000 pounds (1,676,220 kilograms) in 1836, 8,610,000 pounds (3,908,940 kilograms) in 1840 and 13,500,000 pounds (6,129,000 kilograms) in 1844.

The Saxons put up a stiff fight, but their preoccupation with fineness had led them to develop an over-bred type of animal, almost a weakling. They had produced a sheep with an extraordinarily fine fleece, but which was lacking in quantity of wool and vigour. They had, in short, overdone it. When, in addition to Australian competition, they were faced with a steep fall in wool prices, at the end of the 1830s wool 'boom', they hastily changed their methods, seeking quantity and vigour as well as fineness. But it was to no avail. By the 1840s Australia's contest with the Germans was over. Their exports to England continued to decline and their sheep numbers diminished, and many turned to cattle and grain production. Their final humiliation came in 1845 when some German manufacturers were compelled to import Australian wool.

## **The industry expands in Australia**

Indeed, fate had loaded the dice against the Germans almost from the beginning. They were not to know that in the Antipodes an expansionist movement so vast, adventurous and incredible that it would make one of the principal chapters in Australian history, was to spell the doom of their great industry.

In the early days of the settlement at Port Jackson, governor after governor had tried ineffectually to put into operation the Home Government's policy of 'concentration of settlement'; that is, restriction of settlement within an area not far from Sydney. The authorities felt that in a country largely unexplored their difficulties would be intensified if it was attempted to run the King's writ too far.

Enterprising, adventurous settlers thought otherwise. If wool was to be the opportunity, then 'further out' lay sheep pastures that were being uncovered by intrepid explorers.

Fanning out from Sydney, the flocks followed the explorers. The crossing of the Blue Mountains in 1813 had revealed ideal pasture lands and a sufficiency of rivers in the west. Soon sheep were grazing there. Southward tramped the men with sheep, then northward. In Van Diemen's Land, as Tasmania was first called, the sheep industry had been established soon after formation of the new settlement in 1803, and when the first Overlanders arrived at Port Phillip from Sydney in 1837 they found that emigration from the island to Port Phillip was on such a scale that about 55,000 sheep had been shipped there in the first 12 months of the new settlement. Earlier, in 1834, the Hentys had settled at Portland Bay in south-western Victoria.



The great sheep drive extended northward into what is now Queensland where, at Moreton Bay, official settlement had begun in 1824; and in 1838 the first Overlanders arrived with cattle at Adelaide, which had been settled two years previously. In 1829, the Swan River settlement had been founded in the west of Australia and grazing began there.

By the late 1830s the sheep industry had been established in every colony of Australia in an amazing series of explorations and settlements. Unbelievable hardships were suffered by many of the thousands who, in unrelenting pursuit of their objectives, traversed wild, rough country, lush after rain, sometimes flooded, harsh in the heat of summer and often bristling with hostile Aborigines. For their success, and indeed for their lives, they had to depend on their own courage and resourcefulness.

## The boom period and bust

The new country found itself in a boom period. High prices ruled for wool, English capital was coming in and free immigration strengthened the economy. A pattern was set that was to repeat itself more than once in Australian history. Everyone seemed to have plenty of money and extravagance piled on extravagance. Suddenly the situation changed. Wool prices fell with the new decade and the general position was made worse by three years of drought. Men, choosing what they regarded as the lesser of the two evils, left the hungry cities for the drought-stricken country. In 1843, any number of sound sheep could be had for sale at sixpence (12 cents) a head with the 'station thrown in', as was added with grim humour. Bankruptcies became as thick as falling leaves in autumn. Even the Bank of Australia failed.

The severity of the situation was mitigated when the desperate expedient of boiling down starving sheep for tallow was adopted. By the end of 1844, some 200,000 sheep had been boiled down to provide tallow worth sixpence a pound (27 cents per kilogram). The average sheep provided from 12 to 15 pounds (5.5 to 6.8 kilograms) of tallow.

With the recovery of wool prices that eventually took place the remarkable resilience of the Australian pastoral economy was demonstrated, as it was to be demonstrated more than once in the years to come. Trade revived, hope replaced despair and by 1844–45 modest prosperity had returned. Out of this evil came some good. The people generally had learned in the school of experience the virtues of economy.

## Struggle over boundaries

Struggle continued over many years between the wool growers and governments on the question of security of tenure. The stream of settlement, officially unauthorised or only partially recognised, had created many difficulties in the early days, not only between settler and government, but between settler and settler over boundaries.

As authority followed the settlers into the interior a system, or a variety of systems, of control was established. Nevertheless, the problem was tremendous. In the east of Australia during the 1840s, some 700 stations were spread beyond the official boundaries. They were dotted over the land from Moreton Bay to South Australia. In this large area, where the authority of the Government was either absent or only partially exercisable, more than a million sheep and nearly 400,000 cattle grazed.

The only land rights woolgrowers could get were yearly licences, without promise of purchase rights. They sought security of tenure over many years. Eventually, but only after a long and at times bitter fight, they obtained that security, though often on diminished runs cut into for the 'selections' of smaller farmers.

Discovery of gold in 1851 had a marked effect on the pastoral industry. Up until that time it was regarded as essential that shepherds be employed on holdings, each to tend a flock numbering from 400 to 1,000 sheep. But when the gold rushes began, so many shepherds and other employees on stations left their jobs to search for gold that the flocks were left to look after themselves. Amazingly (as it appeared at that time), they did very well and seemed to be no worse for their lack of supervision. This discovery brought about a minor revolution. No longer did the industry need such a big work force, and with their increased freedom, the sheep and the quality of their wool improved. Many more sheep could be run, expenses were reduced and the sheep grew more fleece.

## Fencing the runs

The situation encouraged more fencing, for, notwithstanding their freedom to roam, the sheep had to have a barrier at some point. First came wood fences, followed eventually by wire. With the introduction of fences, several thousands of sheep could graze in the spacious paddocks, with only a boundary rider to see that the fences remained in order, instead of a couple of shepherds and a hut keeper for every thousand sheep.

Another result of the gold rushes was that, with the large increase in population due to immigration, producers found a new and profitable market for mutton and beef. Many settlers who had Merino flocks changed to cattle and some to long-wool sheep. It should be noted, however, that this policy proved disastrous for the indigenous Aborigines, who now found their hunting territories partitioned off by the new fences.

The gold rush period effectively ended an era in Australian pastoral history. The days of Macarthur's campaigns in London, the Overlanders, the march of the sheep men over a continent and the fight for supremacy against German wool were far behind. Sheep-raising and wool-growing had become an industry in the modern sense of the term. It inevitably became more prosaic but, nevertheless, a residue of adventure remained with it, and still does.

Woolgrowers continued periodically to fight drought, fire and flood, as well as an unpredictable overseas market for wool, which sometimes made fortunes for growers and sometimes lost them.

The years 1868 and 1885 were particularly notorious for drastic falls in the wool market, accompanied by declining values for sheep and pastoral properties. After the 1885 slump, 200 industry representatives met in Melbourne to plan a Use More Wool campaign and consider opening mills in China. Wool prices rose again the following year. However, it was another half century before the ideas took effect with establishment to the Australian Wool Board, a predecessor of the Australian Wool Corporation.



## The 1930s depression

The worst depression in the history of the industry began in 1929–30. Never before had wool values fallen so suddenly or so far. In the previous year Australian wool exports were valued at 66 million pounds (\$132 million) in gold. In 1929–30 the figure fell catastrophically to 36.5 million pounds (\$73 million) and in 1930–31, notwithstanding that the Australian price was then sustained by substantial exchange premiums, wool exports fell further to 32 million pounds (\$64 million). During the four years ending 1931–32, the value of wool exports fell by 34 million pounds (\$68 million) in Australian currency and by much more in gold value.

Prices for other commodities fell drastically also, but halving of the prices of Australia's biggest export product was a prime cause of the calamitous economic depression that affected almost the whole community in the early 1930s. Wool provided nearly half of Australia's income from exports before the crash in 1929 and around a third in the depressed years of the early 1930s. In 1936 wool represented more than 45% of the value of Australia's total exports and was directly responsible for the welfare of up to 20% of the Australian population.

In the early days Australian wool was shipped to London for sale. Local selling on a small scale began when merchants bought the clips of some of the smaller growers for re-sale in London. The first sales of Australian wool were held in London in 1821. In 1843, Thomas Sutcliffe Mort began wool auctions on a fairly regular basis in Sydney, and in 1848, Richard Goldsbrough founded a wool selling business in Melbourne. Gradually, with Australian wool continuing to dominate the principal consuming centres, representatives from Britain and Europe, and later from the United States and Japan, came to attend the local sales. These sales became increasingly important and the policy of local selling was in time firmly established. The method of sale was via an 'open cry' auction system, which remained virtually unchanged through to the 1970s and handled virtually all of the wool produced in Australia. Buyers and sellers were loosely brought together under agreed selling arrangements.

## The Merino story

The story of the development of the Australian Merino accompanies that of the industry as a whole. The early phase of the industry was typified by the Macarthur and Mudgee (William Cox) fine wools, which gained for colonial wool its world supremacy. In succeeding years experiment and experience led to the evolution of different strains suitable for different climates and pastures; but despite modifications, they remained true Merinos.

All originated from Spain, although nearly all came by circuitous routes. At various periods Australian breeders imported breeding stock from all the different flocks that had been established from the Spanish Merino: the English flocks of King George III, the Dutch flock from the Cape of Good Hope, the flocks of Saxony and Silesia, the French flock from Rambouillet and the Vermont flocks of the United States of America.

From 1910 a period began in which plain-bodied sheep with a large frame gradually replaced the wrinkly type, which had been popular earlier.

The net result of more than a century and half of skilled breeding is that the Merino has developed amazingly. It produces much more and better wool than its forebears. In 1800 the average cut of a purebred Spanish ewe was about four pounds (1.8 kilograms) greasy and slightly less than three pounds (1.4 kilograms) scoured. Rams cut from six to eight pounds (2.7–3.6 kilograms) greasy. In the heyday of Saxony's Merino wool production, the average fleece was about six pounds (2.7 kilograms). Today, the ewes at most of the great studs of Australia will yield more than 15 pounds (6.8 kilograms) and the rams more than 20 pounds (9.1 kilograms). Australian Merino wool also has in marked degrees the virtues

of density, length of staple, good colour and elasticity. Good Australian Merino wool is the world's best.

## **The modern industry**

The land used for wool growing has changed greatly over the past century with the expansion in cultivation, especially for wheat growing. About 40 per cent of Australian sheep are now grazed in the Sheep–Wheat Zone, where both activities are usually important on the same farm. There has also been a fairly steady increase in production of sheep meats, including on irrigated pasture, and many sheep farms also graze beef cattle. There has been a swing throughout the last century to cultivation of pastures, with improved grass species and application of fertilisers; nevertheless, the Merino remains supreme. About three-quarters of all Australian sheep are Merinos.

Today, most of Australia's sheep are situated in one great arc on the inner side of the Great Dividing Range in the eastern states, especially in New South Wales. Around 35% of the sheep population is in New South Wales. Around 23% of Australian sheep are in Western Australia, the second largest wool-growing state. The flocks are most numerous in districts receiving between 15 and 30 inches (approximately 375 to 750 millimetres) of rain a year.

More than 70% of all Australian sheep are Merinos. Most of the others are Crossbreds, which have been derived from carefully crossing the Merino with breeds of British origin to produce a heavier carcass for meat production. Crossbred wool, however, is coarser than Merino wool. Australasian breeds such as the Corriedale and Polwarth have also evolved from crossing the Merino with British breeds and combining some of the attributes of both meat and wool producing breeds.

From a few coarse sheep 150 years ago, Australian sheep numbers built up to more than 170 million head in 1990, grazing on one-quarter of the area of the whole continent. Numbers subsequently fell to a little over 100 million by 2005 as a consequence of the collapse in wool prices in the early 1990s, better profitability for farmers from beef, grain and fat lamb production, and drought.

Australia is still the world's largest supplier of apparel wool, growing more than one-quarter of all of the world's wool and more than one-half of its Merino wool.

## **Recent history of the Australian wool industry**

The face of the wool industry changed dramatically in the early 1970s with developments in the auction selling system, including introduction of objective measurements (scientific testing) to describe Australian wool's technical and quality parameters, sale by sample and the adoption of a market support scheme – the Reserve Price Scheme (RPS). Alternatives to the auction system emerged in the form of private treaty trading, sale by tender and trials of electronic selling. With this came more formalised selling arrangements required for selling by sample along with wider quality control issues, market reporting and increased research and promotion, all controlled by a statutory marketing authority, the Australian Wool Corporation (AWC).

# Australian Wool Production, Trade Clearances and Stocks

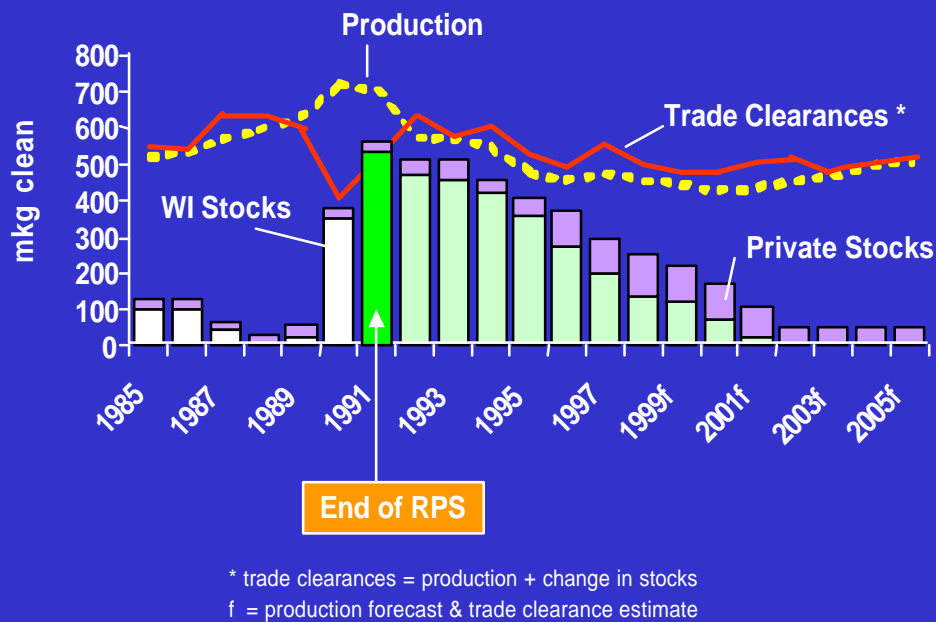


Figure 1: Supply and Demand for Australian wool (and the RPS) 1985–2005.

As world economies grew strongly throughout the 1980s and commodity prices improved, the price of wool also increased towards the end of the decade. In response to this rapid rise in prices, the level of the reserve price was raised 27% in 1987–88, and then a further 35% in 1988–89 to 870 cents per kilogram (c/kg). The high prices and favorable seasonal conditions led to a marked increase in production.

In 1989–90 prices declined in response to the over-supply and problems in two major consuming markets, China and the former Soviet Union. As a result, AWC stocks rose rapidly and the floor price was consequently lowered from 870 c/kg to 700 c/kg in June 1990. Trade confidence in the floor price scheme was destroyed by this move: the market continued to fall and stocks continued to rise. The scheme was eventually suspended in February 1991 and abolished in July the same year. By this time stocks had risen to more than the equivalent of one year's production and the market had fallen to 428 c/kg – less than half its level two years previously.

<b>Year</b>	<b>Reserve price (c/kg clean)</b>	<b>Market indicator (c/kg clean)</b>
1974–75	250	256
1975–76	250	262
1976–77	234/284	300
1977–78	284	303
1978–79	298	335
1979–80	318	395
1980–81	365	411
1981–82	410	432
1982–83	422/454	445
1983–84	470	485
1984–85	470	528
1985–86	500	533
1986–87	508	626
1987–88	645	1003
1988–89	870	980
1989–90	870/700	870
1990–91	700	628

*Table 1: Historical summary of the Reserve Price Scheme, 1974–75 to 1990–91.*

With the abolition of the Reserve Price Scheme came the removal of many of the AWC's powers and a significant reduction in government involvement. Since that time, the market price has ranged between 400 c/kg and 800 c/kg. Reduced retail demand in Western Europe, Japan and the United States has led to a decline in wool product sales, while the former Soviet Union and Eastern Europe are still recovering from economic reconstruction and are unlikely to achieve their previous substantial level of purchases. However, China has emerged as the world's largest wool buyer, consumer and market for Australian wool, growing from around 2–3% of sales in the early 1980s to around 60% by 2005.

Much the wool industry's focus since the end of the RPS has been on the relative merits of promotion and research and the best type of organisational structure to manage these activities. Responsibility for research and promotion was initially separated into different bodies, re-integrated (through the establishment of the Australian Wool Research and Promotion Organisation) and subsequently separated again into two bodies: Australian Wool Services (The Woolmark Company) and Australian Wool Innovation (AWI).

There is no longer any form of price intervention by a wool industry organisation, although many wool growers establish their own reserve prices and if auction bids do not meet these reserves, the wool is 'passed in' for sale at a later date.

## **Economic significance and world position**

In 2004–05 Australia produced around 475,000 tonnes of greasy wool. This equates to export earnings of around \$2.5 billion. In 2004, about 80% of this wool was exported in the greasy state. The 20% balance is exported after early-stage processing, which effectively doubles the value of the greasy wool product. Combined with sheepskin exports of about \$100 million, the total value of wool exports is in the order of \$ 4.9 billion. This figure is well down on the value of wool exports in the 1988–89 season when they reached \$6 billion, the highest ever achieved. At this time wool made up 14.5% of the national export income. By 1991–92 this figure had fallen to 6.6%. However, wool remains one of the country's top six export earners.

Wool currently accounts for less than 5% of the world textile market, with Australia supplying 35% of world wool production. In the apparel market, Australia produces well over 50% of the world's total wool requirements and is still the world's largest producer, although China now has the largest sheep flock.

