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## The relocation of the international market for Australian wool

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## The relocation of the international market for Australian wool

### Abstract

The marketplace for Australian wool relocated from London to the Australian capital cities in the half century after 1880. This represented a major institutional shift that underpinned the development of the Australian economy and made Australia the centre of the international wool market. We analyse the principal demand and supply changes underlying this market shift. Consolidation of worsted manufacturing, demand diversification, improved transport and communications, Australian dominance of international wool production, and the growth of the small grazier shifted the relative market efficiency in favour of Australian auctions.

### Keywords

wool, Australia, wool exports, commodity markets, economic history

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# THE RELOCATION OF THE INTERNATIONAL MARKET FOR AUSTRALIAN WOOL<sup>1</sup>

BY SIMON VILLE

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**The marketplace for Australian wool relocated from London to the Australian capital cities in the half century after 1880. This represented a major institutional shift that underpinned the development of the Australian economy and made Australia the centre of the international wool market. We analyse the principal demand and supply changes underlying this market shift. Consolidation of worsted manufacturing, demand diversification, improved transport and communications, Australian dominance of international wool production, and the growth of the small grazier shifted the relative market efficiency in favour of Australian auctions.**

Very early in the history of Australasia, small quantities of wool were sold by the growers before shipment...but this business remained an insignificant one until about twenty-five years ago. Its rapid growth of late, a growth that is registered by the increasing importance of the auctions at Melbourne, Geelong, Sydney, Adelaide...now seriously threatens the business in London.

(Clapham, *Woollen and Worsted Industries*, p. 94.)

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<sup>1</sup> I thank Professor Paul Robertson, Dr S. R. H. Jones, Dr Malcolm Abbott, two anonymous referees, and participants at the annual conference of the Economic History Society of Australia and New Zealand at University of Wollongong, December 2000 for their helpful comments. An earlier version appeared as a working paper in Economics (02/14) at the University of Wollongong in 2002.

## INTRODUCTION

London was the location of the main international wool market in the mid-nineteenth century and the natural overseas outlet for the growing Australian wool clip, which was largely consumed by British mills. However, by the 1880s Australian wool was increasingly sold locally, initially in Melbourne and Sydney. Prompted by large woolbrokers, small graziers, and a diversity of buyers, within forty years local auction selling had spread around the port capitals of Australia where almost all wool was sold before being exported. Australia thus established itself at the centre of the international wool market. The development of a nationwide system of marketing and distribution for a leading commodity constituted a major institutional innovation and provided one of the foundations of the structural transformation of the Australian economy in the twentieth century.

A great deal has been written on the wool industry in light of its central role in Australian economic development. Much of this has focussed on wool production,<sup>2</sup> although several major contributions have focussed on the wool trade particularly those of Barnard, Ville, Tsokhas, Keneley, Fyfe, and Abbott.<sup>3</sup> Of these only Barnard discusses the relocation to Australia in detail but his analysis ends in 1900 before the transition had been completed without analysing emerging factors such as the Japanese market.<sup>4</sup> The peak year of London wool sales was 1895 and it was not surpassed by Sydney until 1922.<sup>5</sup> Ville's briefer treatment is largely restricted to analysing the contribution of stock and station agents to the

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<sup>2</sup> In particular see G. Abbott, *Pastoral Age*; Munz, *Australian Wool Industry*; Morrissey, *Pastoral economy*.

<sup>3</sup> Barnard, *Australian Wool*; *ibid* Wool buying; *ibid*, A century and a half; Ville, *Rural Entrepreneurs*; Tsokhas, *Markets, Money*; Keneley, *Woolgrowers, brokers*; Fyfe, *Bale Fillers*; M. Abbott, *Promoting wool*.

<sup>4</sup> In addition, he does not provide precise or complete statistics of the relocation neither does he address broader issues associated with this institutional innovation.

<sup>5</sup> Rees, *Commodity markets*, p. 327.

relocation.<sup>6</sup> The transition is mentioned in general terms in several studies of the Australian economy including those by White, and Dyster and Meredith.<sup>7</sup>

We trace the relocation of the wool market, focussing upon the half century from 1880, provide the first comprehensive data on the trend, analyse the demand and supply changes underlying this movement, calculate the cost savings yielded, and examine the relative roles of the Australian growers and woolbrokers and overseas buyers. It will be argued that consolidation of woollen manufacturing, the diversification of demand, improved transport and communications, the growing Australian dominance of international wool production, and the emergence of the small grazier shifted the relative market efficiency criteria in favour of Australian auctions. It should be noted that New Zealand was also experiencing a similar trend towards domestic auctions, although this took longer and was less complete. South Africa, Argentina, and Uruguay relied more heavily upon a mixture of the London market and local sale by private treaty.<sup>8</sup> We conclude by examining the broader economic and political implications of the adoption of local Australian sales.

## THE GROWTH OF AUSTRALIAN WOOL OUTPUT AND EXPORTS

Pastoralism was one of the earliest industries to develop in Australia. The local demand for meat and the climatic and geological suitability provided the conditions for an expansion in sheep numbers from 6,000 in 1800 to around 100,000 by 1821.<sup>9</sup> Sheep farming was pioneered by several members of the New South Wales army corps, particularly John Macarthur, and pardoned convicts including Samuel Terry. As many free migrants arrived and settlement radiated across southeast Australia, sheep numbers grew rapidly to 13 million

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<sup>6</sup> Ville, *Rural Entrepreneurs*, pp. 126-34. Some of Ville's analysis has also been revised and developed.

<sup>7</sup> White, *Mastering risk*, pp. 145-6, Dyster and Meredith, *Global Economy*, pp. 58, 62-5, 92-3, 100.

<sup>8</sup> Bureau, *Statistical Handbook*, pp. 152-5.

<sup>9</sup> G. Abbott, *Pastoral Age*, pp. 23-4; G. Abbott, *Pastoral industry*, p. 239.

by mid century.<sup>10</sup> Their numbers had far outstripped the local demand for meat and thus attention turned to wool production, which reached an output of 19 million kilograms by 1850, 210 million by 1890, 350 million by World War One and 446 million by 1939.<sup>11</sup> Given the small Australian population, most wool was exported. Improved sheep breeding with merinos, particularly from the late 1820s, enabled exports of high quality Australian wool to grow rapidly and compete with the output of other nations.<sup>12</sup> Stud breeders improved upon imported breeds, such as the Saxony and the Rambouillet, to produce large merinos with a long staple and dense wool.<sup>13</sup>

The first wool exports from Australia to Britain occurred around 1807-8 and by the 1830s were increasing by 32 per cent per annum.<sup>14</sup> Wool production and export dominated the embryonic economy. Butlin estimated that pastoral exports, predominantly wool, accounted for more than 90 per cent of exports by value in the 1840s.<sup>15</sup> Table 1 confirms wool's domination of Australian exports: from the 1860s to World War Two it accounted for a third to a half of the total. In turn, Australia became the largest wool producer and exporter in the world, as we shall see below. Unsurprisingly, staple theory has been applied to the study of Australian economic development, although its relevance has been challenged in more recent historiography.<sup>16</sup>

[TABLE 1: AUSTRALIAN WOOL EXPORTS, 1861-1939]

## THE DEVELOPMENT OF A WOOL MARKET IN AUSTRALIA

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<sup>10</sup> Vamplew, ed., *Australians*, p. 107.

<sup>11</sup> *Ibid.*, pp. 82-3.

<sup>12</sup> Morrissey, *Pastoral economy*, pp. 56-8.

<sup>13</sup> Munz, *Australian Wool Industry*, pp. 23-4.

<sup>14</sup> Abbott, *Pastoral Age*, p. 35; Jackson, *Economic Development*, p. 53.

<sup>15</sup> Butlin, *Colonial Economy*, p. 192.

<sup>16</sup> McCarty, *Australia as a region*. See White, *Mastering Risk* for a sceptical view.

The earliest sale of Australian wool used mostly unsystematic or speculative methods. These included sales by private contract in country towns or on the road into Sydney or Melbourne. Larger run holders arranged for direct shipment of their wool for sale in London.<sup>17</sup> General colonial merchants consigned wool to England on the grower's behalf or purchased it themselves with the intention of reselling at a profit in London. In the 1840s about 50 per cent of the clip was sold locally, 10 to 20 per cent was shipped directly by larger growers, and the remaining 30 to 40 per cent was consigned by merchants. While Australian wool was initially sold in London as a minor addition to European sales, by 1835 it was given greater prominence through separate auctions and developed a reputation for quality merino. By the 1860s around 80 per cent of Australian wool was consigned for initial sale in England.<sup>18</sup> Movement to the London market was facilitated by the provision of seasonal finance and international marketing functions by emerging specialist wool consignors and importers, in return for a commission of several per cent of the sale price.

While most wool continued to sell to foreign buyers, the point of sale shifted to Australia from the late nineteenth century, in the form of a national system of auctions that developed under the aegis of specialist wool brokers.<sup>19</sup> Less than 30 per cent of total wool exports had been sold in Australia at the beginning of the 1880s, but this grew to an average of 53 per cent in the following decade, and continued to rise sharply to 76 per cent in the first decade of the twentieth century and 93 per cent in the second.<sup>20</sup> The relocation occurred earliest amongst Australia's reputable merino wools. By 1907 94 per cent of the Victorian,

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<sup>17</sup> Some shipments were sold in Liverpool.

<sup>18</sup> Barnard, *Australian Wool*, p. 47.

<sup>19</sup> 5 to 10 per cent of wool continued to be sold privately in Australia.

<sup>20</sup> Figures are taken from a variety of sources including *Australasian Insurance and Banking Record* [hereafter *AIBR*]; *Dalgety's Annual Wool Review* [hereafter *DAWR*]; *Australasian Pastoralists Review* [hereafter *APR*]; Goldsbrough, *Statistical Summary*; This is a somewhat more advanced transition than suggested by Barnard, *Australian Wool*, table 17, p. 147 of 50 per cent by the end of the century and 70 per cent by World war One.

86 per cent of the South Australian, and 83 per cent of the New South Wales merino clip was being auctioned locally.<sup>21</sup>

[FIGURE 1: AUSTRALIAN AND LONDON WOOL SALES, 1881-1939]

As Figure 1 indicates, relocation occurred in a reasonably linear fashion between the 1880s and World War One, but with some year-to-year fluctuations. Growers chose between London and Australia particularly according to changes in relative and absolute prices between the two markets. Arbitraging occurred as speculators bought in Australia and resold in London, reflecting the latter's generally higher prices during the early phases of the transition.<sup>22</sup> As wool volumes and types sold grew, more buyers ventured to Australia leading to price convergence.<sup>23</sup> Changes in absolute prices affected the short term choice of market: 'when high prices rule preference is given to local selling in order to obtain a quick realisation, but when they are low, and the demand is sluggish, shipment for realisation in London is often preferred'.<sup>24</sup> Since the wool auctions were located at the major ports, decisions of whether to ship or sell could be taken at a late stage; indeed wool could be offered locally and, if a sufficient price was not reached, be shipped unsold to London.<sup>25</sup>

The pattern changed markedly during World War One and its aftermath. There was a temporary decline in the Australian market share in the early war years as Continental European buyers accustomed to purchasing in Australia were excluded. The monopoly local purchase of all Australian wool by the British government under the Imperial War Purchase Scheme, 1916-20, raised the market share up to 100 per cent. There was a temporary decline

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<sup>21</sup> Elders 102/97, correspondence.

<sup>22</sup> *AIBR*, 19 July 1902, p. 547.

<sup>23</sup> Barnard, *A century*, p. 485.

<sup>24</sup> *AIBR*, 21 July 1908, p. 557. In the hope of gaining a satisfactory price and perhaps expecting prices to recover in the interim.

in the Australian market share in the early 1920s as a consequence of the organised disposal of the wartime surplus on the Australian and London markets under the aegis of the British Australia Wool Realisation Appraisalment (BAWRA) scheme.<sup>26</sup> Thereafter, the Australian share rose quickly in the interwar period.

Overseas consignment never entirely halted, although it constituted only about two per cent of Australian wool output after World War Two.<sup>27</sup> In years of particularly low prices, sale in London was still considered by some growers. Woolbroker Dalgety's identified three types of grower who still shipped to London: some who, through inertia, have always sold there; those located in a distant outpost far from the Australian auctions; and those who believed they could get a quicker sale in London at certain times of the year given the seasonal differences.<sup>28</sup> Brokers were also alert to small British buyers lacking Australian branches and of those who wanted a supply of a specific type of wool at short notice.<sup>29</sup> Apparent even-handedness buttressed attempts by the London consignment houses to relocate the market back to Britain, and helped the brokers retain valuable shipping agencies through their control of freights of unsold wool.<sup>30</sup>

Australian auctions were concentrated at the major port cities from which the traded wool was then exported. The railway and river systems provided radial connections from the pastoral areas. Tapered rail freight rates reduced the unit costs of shipping wool from inland farming areas.<sup>31</sup> The initial dominance of wool production by the south-eastern states meant that the earliest regular auctions were mostly held at Melbourne/Geelong, Sydney, and Adelaide. Regular auctions commenced at Brisbane in 1898-9, Hobart in 1902-3, and

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<sup>25</sup> Fyfe, *Bale Fillers* p. 256.

<sup>26</sup> See Tsokhas, *Markets, Money*, pp. 45-7.

<sup>27</sup> Bureau, *Statistical Handbook*, p. 152.

<sup>28</sup> Noel Butlin Archives Centre, Dalgety 100/1/55/15, correspondence.

<sup>29</sup> Elders 89/11/2, London reports, 1950.

<sup>30</sup> Noel Butlin Archives Centre, Dalgety 100/1/66/4, Managers' conference, 1953. Fyfe, *Bale Fillers*, p. 257.

Fremantle in 1904, reflecting the secular expansion of wool production in Queensland, Tasmania, and Western Australia. There were eight auction centres in Australia by the early twentieth century, which constituted a national marketing and distribution network. Several smaller regional auctions were subsequently established, for example at Albury and Launceston.

## HISTORICAL CHANGES IN SUPPLY AND DEMAND

A series of changes in demand and supply conditions in the international wool market, discussed below, shifted the relative efficiency criteria in favour of Australian sales.

### **Consolidation in the English woollen industry**

The pattern of demand for Australian wool was changing significantly. The English woollen industry, the traditional source of demand for Australian wool, was undergoing significant alterations in its size and structure in the second half of the nineteenth century. The rapid expansion of worsted production in mid century, due to changing fashions and new machine technology, drew heavily upon long merino wools from Australia.<sup>32</sup> The simultaneous growth in scale and concentration of worsted manufacturers enabled them to by-pass wool merchants to buy directly. This was especially the case for the largest firms who also vertically integrated backwards into top making, merchanting, and sometimes wool buying. Some firms established offices in Australia or contracted with buyers to purchase on their behalf particularly from the 1870s.<sup>33</sup> In addition, the severe and extended depression of the British textiles industry from about the mid 1870s prompted a search for cheaper sources

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<sup>31</sup> The per mile freight charge reduced as the distance lengthened. Linge, *Geography*, pp. 178, 308, 505-07.

<sup>32</sup> Barnard, *Australian Wool*, pp. 33-9; Jenkins & Ponting, *British Wool*, pp. 171, 184.

of supply; at this time wool prices were lower in Australia than in London due to fewer buyers.

### **Geographical diversification of demand**

The second major change in the pattern of demand was the growing importance of non-British buyers. The textile industries of Continental Europe, particularly in France, Belgium, Germany, Italy, and the Netherlands, followed a similar pattern to Britain of growth, concentration, and stagnation.<sup>34</sup> The decline in European merinos with the switch to more land intensive farming in the second half of the nineteenth century simultaneously limited domestic supplies. The economic ascendancy of newly unified Germany, with its imperialist pretensions under Chancellor Bismarck in the 1880s, provoked a desire to be free of British intermediation of raw materials and postal services to the South Pacific.<sup>35</sup> Almost all Australian wool went to British buyers in the 1850s. However, by the 1870s some of the Australian wool sold in London was being re-exported to Continental Europe. As Australian auctions expanded in the 1880s and 1890s, Europeans took advantage of the opportunity to buy directly from the source country and soon accounted for the majority of demand.

Although we lack accurate figures on consumption before the late 1880s, Table 2 indicates the rising share of Continental buyers in the final years of the nineteenth century and their dominance in the subsequent period to World War One, accounting for around two-thirds of wool sold.<sup>36</sup> Britain's declining share of total raw wool consumption among the leading textile manufacturers and the diversification of Australian general imports away from

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<sup>33</sup> Jenkins & Ponting, *British Wool*, p. 187; Clapham, *Woollen and Worsted* pp. 131, 139 notes that worsted firms were, on average, two and a half times the size of the woollen, and the largest, of 1-2000 employees, matched the leading cotton factories.

<sup>34</sup> Ostermeyer, Dewez & Co., a coalition of Belgian, Dutch and German interests, was one of the earliest and most successful buyers operating in Australia.

<sup>35</sup> Perkins, German shipping.

Britain both point to a similar conclusion.<sup>37</sup> During and immediately after World War One, the monopoly purchase of Australian wool by the British government distorted the trend but by the mid 1920s European purchasing power was again dominant if somewhat below its pre war share.

The expanded demand from United States, equal fourth consumer by the 1920s, provided further evidence of demand diversification. However, its share rarely rose above 7-8 per cent, tariffs, a large domestic sheep industry, and consumer preferences in favour of cotton, constrained its share.<sup>38</sup> American purchases rose in the early years of World War One as a channel for re-exporting to Germany. However, the imposition of the Imperial Wool Purchase Scheme in 1916 damaged trade relations, which resulted in high import duties on Australian wool that lasted from the 1920s until 1979.<sup>39</sup>

[TABLE 2: CONSUMPTION OF WOOL SOLD AT AUSTRALIAN AUCTIONS, 1888-1935]

The Japanese market proved more fruitful. In 1888 the first known consignment of scoured wool for Japan was shipped from Victoria. Military demand from the Sino-Japanese (1893-4) and Russo-Japanese (1904-5) wars provided the early stimulus, aided by the removal of a 5 per cent import tariff on wool in 1896. By 1909 Australia was the principal source of Japanese wool imports. By 1918 all seven of the leading Japanese general trading companies (*sogo shosha*), including giants Mitsui and Mitsubishi, had established branches

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<sup>36</sup> This data is obtained from final buyers to take account of re-exporting. The distribution between markets varied between Australian auctions; for example in 1897 40 per cent of Melbourne and Geelong sales were destined for the UK but only 14 per cent of Sydney's. *APR* 15 March 1897, p. 43.

<sup>37</sup> Barnard, *Australian Wool*, table 10, p. 219. *Commonwealth Official Yearbook* 14, 1901-20, p. 526.

<sup>38</sup> Wadham, Wilson, and Wood, *Land Utilisation*, pp. 120-1.

<sup>39</sup> Pinkstone, *Global Connections*, pp. 75-6.

in Australia and between them monopolised the export of wool to Japan.<sup>40</sup> In the 1920s and early 1930s, Japanese buyers accounted for a growing market share of over 20 per cent as the third largest consumer of Australian wool. 70 per cent of Japanese wool imports came from Australia, reflecting a concentration of production on worsted products requiring merino wool.<sup>41</sup> A dispute over trade diversion in 1936 and the drift to war led to a sharp drop in Japanese purchases until after 1945 when Japan grew to be the largest importer of Australian wool.<sup>42</sup>

Domestic and regional sources of demand were also on the rise. The expanding Australian woollen textiles industry accounted for a growing volume of wool during this period, for example the number of Victorian factories doubling from 8 or 9 in the 1880s to 17 by 1920/1 with employment and output increasing more rapidly.<sup>43</sup> New Zealand textile firms like Ross and Glendinning sought high quality Australian wool, believing that the age of New Zealand merinos was at an end by 1900 as more farmers turned to mutton production and coarser wool varieties for carpet-making.<sup>44</sup> Domestic buyers consumed six to seven per cent of Australian wool by the early twentieth century.<sup>45</sup> By contrast to the geographically diverse demand in Australia, by the interwar period London largely served buyers from Britain and Continental Europe.<sup>46</sup>

### **Improved transport and communications**

The main attraction of purchasing in Australia was the saving in time, freight costs, and insurance from shipping directly to the consuming nations rather than through the

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<sup>40</sup> Purcell, 'Trading company network', pp. 116-17, 123-4.

<sup>41</sup> Wadham, Wilson, and Wood, *Land Utilisation*, pp. 121-2.

<sup>42</sup> Tweedie, pp. 145-6; Rees, *Commodity Markets*, p. 329.

<sup>43</sup> Linge, *Geography*, p. 365; *Commonwealth Official Yearbook 1922*, p. 427.

<sup>44</sup> I am grateful to Dr Steve Jones for this information.

<sup>45</sup> For example *AIBR* 21 March 1914, p. 191.

<sup>46</sup> Maughan, *Markets of London*, p. 75.

London market. Improved shipping services to continental European countries provided for regular shipments from Australia and mostly at the same freight rate as to London. Mail subventions offered by European governments, keen to extend their influence and contacts in the south Pacific, contributed to the introduction of new steamship services. Messageries Maritimes of Marseilles deployed its vessels to Australia from 1883, as did Norddeutscher Lloyd of Bremen three years later.<sup>47</sup> Deutsche Australische was formed in 1888 to operate from Hamburg via Antwerp and the Cape to Adelaide, Melbourne and Sydney and included among its major shareholders G. E. Harte and Company, German woolbrokers with interests in Australia.<sup>48</sup> As demand increased, British lines also ran direct services from Australia to Continental Europe. Thus, while half of Continental European wool purchases in Australia were shipped via London in 1888, this entrepôt trade had fallen to 5 per cent by the early 1890s.<sup>49</sup> By 1907-8 German shipping carried 30 per cent of Australian wool exports.<sup>50</sup>

Regional British buyers, especially in the Yorkshire woollen industry, likewise benefited from buying in Australia and shipping directly to vicinal ports like Hull or Grimsby, where shipping services from Australia had expanded.<sup>51</sup> Direct shipment to British regions or Continental Europe additionally delivered new season wool more promptly, minimising in-transit deterioration, and yielding savings on the cost of holding inventory stocks either by the buyer or seller.<sup>52</sup> Overall, the expansion of liner services in the late nineteenth century was an important foundation of wool purchase in Australia for many buyers who sought a fast, regular, pre-booked shipment back to Europe.<sup>53</sup> Sailing clippers

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<sup>47</sup> Perkins, German shipping, pp. 50-3.

<sup>48</sup> Bach, *Maritime History*, pp. 143-5, Perkins, German shipping, p. 54.

<sup>49</sup> *APR*, 15 July 1892, p. 746.

<sup>50</sup> Perkins, German shipping, p. 56. While a European buyer might expect only to pay the freight costs from Britain rather than Australia if buying on the London market, this shift in costs was factored in to the prices buyers were prepared to pay in Australia.

<sup>51</sup> Burley, *British Shipping*, p. 80. Direct wool imports into Hull rose more than 5-fold, 1895/9-1926.

Millar Smith, *Marketing*, p. 187.

<sup>52</sup> Leach, *Australia v London*, p. 23.

<sup>53</sup> Burley, *British Shipping*, p. 108.

nonetheless remained important in the wool trade until the end of the nineteenth century, providing low cost competition and the opportunity for large buyers to mitigate freight and transshipment charges by chartering entire vessels.<sup>54</sup>

Faster, more regular and cheaper transport and communications encouraged foreign buyers to send their representatives out to the Australian markets.<sup>55</sup> The completion of railway systems across Asia and North America, and the introduction of regular steamshipping lines from many European nations made it much quicker and easier for buyers to get to Australia and halved mail delivery times. The transoceanic cable, which connected to Australia by 1872, enabled foreign buyers based in Australia to keep in regular and almost instantaneous contact with their principals.<sup>56</sup> This mitigated the risks of buying in Australia by enabling buyers to exchange information with their overseas head office on current Australian wool production and sale, and on the state of the London market. By purchasing closer to the source of production, contact with growers and familiarity with the local environment sharpened market signals for the buyers.

### **Australian dominance of international wool production and export**

The southern hemisphere wool producers, notably Australia, New Zealand, South Africa, Argentina, and Uruguay, increasingly dominated world production by the late nineteenth century, accounting for around a 60 per cent share. Australia was the leading producer with about 50 per cent of southern hemisphere production. This group of nations controlled the international wool export trade to a greater degree, accounting for an 80 or 90 per cent share. This is indicated below through their combined share of imports into London before 1900 and their dominance of world exports in the interwar period. Most other

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<sup>54</sup> Leach, *Australia v London*, p. 11.

<sup>55</sup> Oceanic freight rates, including those in the Australia trade, were in secular decline from 1873 to 1908. Angier, *Freights*; Isserlis, Tramp shipping.

significant producers (United States, United Kingdom, Germany, and France) had become net importers. Australia again led the way, with around 40 per cent of world exports and 50 per cent of imports into London. Looked at in another way, Australia typically produced twice as much wool as its nearest rival (Argentina, United States) and exported three times as much as the next nation (South Africa, Argentina). If foreign buyers attended both New Zealand and Australian sales, they were viewing more than half of the world's wool exports; hence the strong incentive for woollen manufacturers to send their buyers to the Antipodes. Australian dominance was greatest in merino wool, demand for which was driving many of the changes discussed above. Merino constituted around 80 per cent of Australian production, which represented around 75 per cent of its international trade.<sup>57</sup>

[TABLE 3: WOOL IMPORTS INTO UNITED KINGDOM BY PRINCIPAL EXPORTING NATIONS, 1870-1900]

[TABLE 4: WOOL EXPORTS BY PRINCIPAL EXPORTING NATIONS, 1924-39]

In the mid nineteenth century, growers had been geographically dispersed among many nations, and buyers were concentrated in Britain. By the late nineteenth century, as we saw above, the situation was reversed: growers had become more geographically concentrated, while buyers were more dispersed, as other nations developed woollen industries in competition with Britain. We would expect to find the point of sale of a commodity where there exists the greatest concentration or clustering of one of the transacting groups, buyers or sellers, due to probable savings in transport costs, transactions costs, and the potential for scale economies. Fewer wool shipments are needed if the buyers,

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<sup>56</sup> Blainey, *Tyranny*, pp. 183-5, 220-31.

come to the point of grower concentration than if sellers seek disposal in multiple dispersed markets. Fewer transactions are needed if there is a single or dominant marketplace, which in turn provides scale economies connected to infrastructure costs. In this case, therefore, the market shifted from the location of consumption to the location of origin, since the most concentrated transacting group changed from buyer to seller.

### **The expansion of the small grazier**

Local selling promised a range of benefits to the wool grower. The earlier local sale meant prompt payment and mitigated the need for short-term finance to cover seasonal outgoings. In the 1880s Western Australian growers had waited five to eight months after shipment to receive payment.<sup>58</sup> Earlier realisation mitigated grower risks since they disposed of their ownership interest in their clip more rapidly and were aware of the realisation amount even where credit was given to the buyer. Being more closely connected to the public market gave growers a greater a sense of involvement and bred competition among them, which encouraged a concentration upon improving quality. Elder's observed in 1907: 'The woolgrower...has a chance of seeing his wool on the show floor, and this is often very instructive, and gives him a chance also of comparing his clip with other clips'.<sup>59</sup> Market signals were more effectively transmitted back to growers, allowing them optimally to adjust their product mix to maximise returns. What made these advantages opportune were the changes taking place to the structure of Australian wool growing, particularly the expansion of the small grower and the popularity of mixed farming, combining arable with livestock production. This created a class of sellers who were anxious to achieve quicker realisation

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<sup>57</sup> *Australian Wool Industry*, p. 52.

<sup>58</sup> Fyfe, *Bale Fillers*, p. 127.

<sup>59</sup> Elders N102/97. Also see Millar Smith, *Marketing*, p. 188.

because of their limited resources. Improved signalling was important for mixed farming units to maximise the benefits of product flexibility.

High land values and interest rates in the 1870s encouraged many large run holders to sell part of their estate. When the boom collapsed in the 1890s, others were forced to sell land to reduce their debts. On the demand side, a growing hunger for small holdings emerged from intending settlers and unemployed artisans particularly when capital intensive methods and mixed farming reduced minimum scales of efficiency.<sup>60</sup> Closer settlement was also consistent with the impact of dairying and refrigeration that required more intensive farming. The growing popularity of mixed farming reflected production synergies such as manure for soils and fodder crops for animals. Mixed farming additionally mitigated operational risks by providing a hedge against the fluctuating price of individual products. Official policy was heading in a similar direction in response to the land hunger, evidence that large portions of major estates were not being utilised, and, in Queensland at least, the invigoration of democratic values following the visit of Henry George to Australia in 1883. Land legislation in New South Wales, Victoria, and Queensland in the following year initiated two decades of land resumption policies and progressive land taxation, directed at large estates and absentee landowners.<sup>61</sup>

Further factors contributed to the growth of the small grazier in the early years of the twentieth century. The expansion of dual purpose crossbred sheep on many small properties drew on the spike in demand for coarser wools used in khaki uniforms during World War One and the secular increase in frozen wool exports. In addition, the breeding of ‘comeback’ sheep such as the Polwarth by crossing a ram with a quarter-bred ewe, first begun in the

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<sup>60</sup> Butlin, *Investment*, pp. 100-1, 108.

<sup>61</sup> Roberts, *Land Settlement*, ch. 28.

1880s, expanded in the early decades of the twentieth century. The benefit of the comeback lay in its being a hardy dual purpose sheep with wool approaching merino quality.<sup>62</sup>

#### THE COMPETITIVE ADVANTAGES OF THE AUSTRALIAN WOOL BROKER

The pioneers of local auctions were Australian pastoral agents who specialised in providing financial, marketing, and technical services to farmers. Thomas Mort brokered small weekly auctions in Sydney from 1843 and Richard Goldsbrough was one of its initiators in Melbourne from 1848. Charles Dennys commenced wool sales at Geelong in 1857 while Thomas Elder had begun regular sales in Adelaide by 1878. They lacked the extensive overseas connections, knowledge, and strong asset base necessary to build a substantial stake in the London wool market or to win market share in the consignment trade to London by providing financial support to farmers. The opportunities that presented by the 1880s to develop a local wool auction system, however, transformed the competitive position of the Australian agents. Now they were able to compete as brokers by offering earlier realisation to small graziers at local sales, thereby mitigating the need to provide seasonal trade finance.<sup>63</sup> They were well placed to recognise the changing structure of the pastoral industry and to receive feedback from farmers about their needs. Indeed, one of the strengths of the local agents was their cultivation of personal and enduring relationships with many of their farmer clients, which produced honest dealing rich in the exchange of commercial information.<sup>64</sup> Reinvestment of brokerage commissions, industry mergers, and a trend to incorporation in the 1880s provided agents with the funds to make market infrastructure

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<sup>62</sup> Munz, *Australian Wool Industry*, pp. 129-34; Alexander & Williams, *Pastoral Industries*, pp. 303-7.

<sup>63</sup> White (*Mastering Risk* p. 146) and Dyster and Meredith, (*Global Economy*, p. 58) believed that access to the London capital market was a source of competitive advantage but this only held for the British agents who did not initiate local sales.

<sup>64</sup> Ville, *Rural Entrepreneurs*, ch. 3 deals with this topic in detail.

investments such as wool stores and showrooms, and in the process diversify and extend their range of services to wool growers and buyers.

A key concern of smaller growers was the delay caused by large infrequent London sales at which buyers did not have the time to inspect many smaller lots.<sup>65</sup> A national sales roster among the Australian wool brokers provided more effective organisation, with an auction in a different centre every four or five days and about one sale per month in each of the larger centres. By the first decade of the twentieth century the winter off-season had been replaced by all-year round sales, putting the Australian auction system at an advantage over London where no sales occurred between October and the arrival of the first Australian wool in January.<sup>66</sup> Growers' wool reached an early sale and buyers could reduce their inventory stocks. Brokers could plan more accurately in advance when wool should be transported to the various selling centres at different times of the year to minimise storage congestion. It additionally gave shipping companies better notice of when sales would occur and, by spreading them throughout the year, helped to mitigate seasonal fluctuations in the demand for shipping.<sup>67</sup> Brokers paid close attention to the many small growers seeking local disposal. Procedures such as binning and interlotting combined into single sale lots the clips of small growers where the wool was of the same grade, which created a larger sale lot and reduced inspection costs.<sup>68</sup> Additional improvements included large, well presented and brightly lit showrooms, enabling most of the lots to be displayed prior to auction, the gradual development of quality symbols as an early form of product branding, and advice to farmers on shed preparation of their wool.<sup>69</sup>

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<sup>65</sup> Fyfe, *Bale Fillers*, pp. 120-1.

<sup>66</sup> Australian Mercantile Land and Finance Company correspondence 1903, 97/36/26/17; NBAC, *DAWR*, 1909/10.

<sup>67</sup> Burley, *British Shipping*, p. 156.

<sup>68</sup> Millar Smith, *Marketing*, p. 176.

<sup>69</sup> In 1936/7 69 per cent of wool being sold through Goldsbrough Mort was displayed., Goldsbrough Mort correspondence, 2A/30/38. Maugham, *Markets of London*, p. 74 notes the inspection delays at wool warehouses caused by London fogs.

A central aspect of the work of the Australian brokers was their growing reputation as woolclassers, a skilled function that became of increasing importance when they took over local wool broking. A good classer had to be highly knowledgeable of the different properties of wool (length of staple, strength, spinning quality, and yield), the locality from which the wool came, the season, and the health of the sheep. Such requirements suited local firms possessing extensive sectoral expertise and local knowledge and networks. The value of the woolclasser increased during the twentieth century with the expanding numbers of sheep breeds: by 1939 more than 1,500 wool types and sub-types were offered for sale in Australia.<sup>70</sup> Divisions into more precise distinctions of quality made the job of the local buyer easier in securing appropriate wool types for different forms of textile manufacture. Brokers also used this expertise to provide advice to farmers on the grades of wool currently in demand and on the correct shed preparation of wool. This was all a far cry from the mid-nineteenth century when Dalgety's had bemoaned the shortage of woolclassers 'who really understand the relative values of wool'.<sup>71</sup> The development of these core technical competencies was a strong source of competitive advantage that was difficult to match in Europe.<sup>72</sup>

The Australian brokers gradually absorbed functions previously performed by independent specialists. A common transactional chain for London sales was grower-consignor-shipowner-importer-broker-buyer. Local sales normally meant grower-broker-buyer.<sup>73</sup> The *Australasian Pastoralists Review* observed, 'functions which, in the Australian markets, are performed by one merchant house are in London discharged by three distinct

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<sup>70</sup> Munz, *Wool Industry*, pp. 103, 133.

<sup>71</sup> National Library of New Zealand, Dalgety, 032-0785, correspondence.

<sup>72</sup> Jones, *Cosmopolitan*, appears to understate the importance of these wool processing and grading skills.

<sup>73</sup> Rees, *Commodity Markets*, p. 323. Sometimes the roles of consignor and importer were combined. Barnard, *A century*, pp. 486-7.

firms'.<sup>74</sup> Internalisation of highly recurrent and standardised transactions within a single governance structure tends to mitigate the costs of exchange, particularly where specialised assets are employed such as those typical of the trade-specific wool brokers.<sup>75</sup> Some of the London selling agents, conversely, also acted as buying brokers but this is suggestive of a potential conflict of interest.<sup>76</sup>

As local selling gained popularity, the British agencies reluctantly followed suit. Some commenced regular local sales in the 1880s including Dalgety, Union Mortgage and Agency, and New Zealand Loan and Mercantile Agency. Although local selling was designed as a competitive move by Goldsbrough Mort, in 1886 their general manager welcomed the entrance of Dalgety, which he correctly predicted would help make Melbourne and Sydney the leading wool markets in the world.<sup>77</sup> The presence of the leading agents would attract more buyers and sellers and yield scale economies in the provision of shared market infrastructure. Barnard argued that the adoption of local sales by the British firms in the 1880s, 'complete[d] the transition from a market centred on London to one located in the colonies'.<sup>78</sup> In fact it was several more decades before they made an enduring commitment to the Australian market. Dalgety noted in 1887, 'it should...be our aim to do all we can to stop any further extension of the selling business...plays the devil with the public sales here' [London].<sup>79</sup> The firm were concerned at the additional costs of participating in separate wool markets. A further consideration was the belief that buyers in Australia received first choice of the clip, the implied inferior quality of London wool may be inferred from the high pass-in rates of unsold wool of up to 25 per cent.<sup>80</sup>

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<sup>74</sup> 16 June 1891, p. 106.

<sup>75</sup> Williamson, *Economic Institutions*, pp. 30-2.

<sup>76</sup> Millar Smith, *Marketing*, pp. 184-5.

<sup>77</sup> Goldsbrough Mort 2/28/A(1), correspondence. Goldsbrough and Mort formally merged in 1888 after working cooperatively for several years.

<sup>78</sup> Barnard, *Australian Wool*, p. 178.

<sup>79</sup> NBAC, Dalgety N8/24.

<sup>80</sup> Millar Smith, *Marketing*, p. 186.

Dalgety continued to monitor developments in Australia. In 1909 their annual report confirmed the continuing subdivision of properties and the preference of smaller farmers for local selling. Australian Mercantile Land and Finance Company [hereafter AMLF] was initially held back by their London Board who were conscious of the extent of their influence and investment in the consignment system.<sup>81</sup> Pressure from Australian farmers, as well as cost disabilities, was acknowledged by their General Manager, Falconer, who noted resignedly in 1898, 'I cannot shut my eyes to the fact that the inclinations of an increasing number of our clients are in the direction of selling locally', and arranged for local sales through Goldsbrough Mort for those clients reluctant to consign to London.<sup>82</sup> They began their own Australian sales in 1903.

By the early decades of the twentieth century, therefore, wool sales in Australia were dominated by the leading five Australian and British pastoral agents: between them Dalgety, New Zealand Loan and Mercantile Agency, AMLF, Elder Smith, and Goldsbrough Mort brokered half of the wool sold and were among the largest businesses operating in Australia.<sup>83</sup> This enabled them to marshal their resources to organise nationwide wool sales, and to internalise a full range of marketing services for the farmer and buyer, effectively a one-stop service. The small number of enterprises facilitated cooperation and cost sharing among brokers, in spite of initial Anglo-Australian rivalries.<sup>84</sup> While these large enterprises lacked the close networking relationships with local farmers and communities of their nineteenth-century counterparts, the National Council of Wool Selling Brokers and the Woolgrowers Council, both formed at the end of World War One, worked cooperatively as

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<sup>81</sup> Bailey, *Pastoral Banking*, pp. 174-5.

<sup>82</sup> Australian Mercantile Land and Finance Company 97/36/26/6, correspondence.

<sup>83</sup> Ville and Merrett, *Large scale*, p. 34.

<sup>84</sup> See Ville, *Rural Entrepreneurs*, ch. 9.

the Joint Wool Conference to organise, support and extend the local wool market. In the interwar period this included opposition to government plans for market regulation.<sup>85</sup>

## MARKETING STRATEGIES AND COSTS

In Table 5 we judge the relative merits of Australian versus British wool sales, using five efficiency criteria based on our discussion in the previous sections. In each case the Australian market is preferable to London, namely: lower transaction costs, shorter realisation times, improved brokerage services, better market signalling, and lower marketing costs. In the case of marketing costs we can quantify the benefits of Australian wool sales.

[TABLE 5: ALTERNATIVE MARKETING STRATEGIES]

All parts of the wool trade were keenly interested in the relative costs of the London and Australian markets. While lower prices initially attracted many buyers to Australia, it was the lower cost structure that sustained the market in the face of price convergence. Two brokers, Goldsbrough Mort and AMLF, debated the issue in 1894 but their results were coloured by a preference for one or other market. The *Australasian Pastoralists Review*, which published their exchange, undertook its own calculations and expressed an editorial view that total costs ‘borne by the wool’ were lower in Australia. It emphasised that all costs were included, not solely those of particular groups. It distinguished four main cost categories: sale commissions; warehouse, insurance, and storage charges; sea carriage; and overland haulage. It concluded that wool destined for British buyers incurred additional charges through sale in London rather than Australia of 2s 8d per bale. The differential was greater for wool destined for France and Belgium at 4s 4d, and Germany and the USA at 6s

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<sup>85</sup> *Australian Wool Industry*, pp. 29-34; Barnard, ‘Woolbrokers’, p. 14.

5d.<sup>86</sup> As a consequence, the Australian auctions had saved the trade £123,016 in the 1893/4 season. Below we apply the *Review*'s data, correcting a couple of mistakes, and treating insurance charges separately from warehouse and storage.

[TABLE 6: PRINCIPAL COST SAVINGS OF SELLING IN AUSTRALIA, 1893-4: UNITED KINGDOM, CONTINENTAL EUROPEAN, AND AMERICAN BUYERS]

For Bradford, Yorkshire, the location of many of the leading British woollen manufacturers, the dominant saving from sale in Australia lay in rail haulage charges from London to Bradford. Wool could be shipped directly from Australia to the port of Hull close to Bradford at the same freight rate as for London, leaving only a short rail haul to Bradford, compared with the much longer rail haul for those shipments passing through the London market. The buying broker's commission was higher in Australia than London, normally 1.5 as against one per cent of sale price, to reflect the greater time and expenses to purchase in Australia. Where the buying firm represented itself in Australia, the higher notional charge remains to reflect the firm's own increase in time and expenses compared with buying in London. Warehouse charges were slightly lower when the wool was presented for sale in Australia, reflecting differences in land prices and fewer delays, congestion, and interruption, common in London at the centre of the maritime and international trading world.<sup>87</sup>

The greater cost savings on wool destined for markets other than the United Kingdom comprised partly lower freight charges by avoiding London and therefore the necessity of a second international sea passage. Wool could be shipped from Australia to the European continent at the same freight rate as to London. Interestingly, the additional sea freight from

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<sup>86</sup> All currency is in Australian pounds. 12d (pence)=1s (shilling). 20s=£1 (pound). All examples involve wool exported through Melbourne.

London to France or Belgium was less than the rail charges to Hull. That total savings were greater on direct shipments to the Continent than to Yorkshire was due to additional savings in insurance and transshipment costs.<sup>88</sup> Cost savings to the United States were at least as great as for Germany, the freight rate from London to either country being double that to France or Belgium while the direct rate from Australia to Boston was ‘a shade lower than to London’.<sup>89</sup>

The full savings to the trade have been calculated as £136,753. The significance of these savings is more clearly understood by expressing them as a percentage of total marketing costs to sell on the London market: 6 per cent for British bound wool, 11 per cent for French and Belgian, and 16 per cent for German and American purchasers. That 81 per cent of these savings were yielded on non-UK sales is indicative of the importance of demand diversification discussed earlier.

[TABLE 7: SAVINGS TO THE WOOL TRADE OF THE AUSTRALIAN SALES, 1893-4]

The detailed discussion of costs in 1894 is not repeated subsequently but the available evidence points to a continuing and probably widening cost differential between the London and Australian markets. By 1901 West Australian growers had begun to favour sale in Melbourne rather than London because of its lower cost.<sup>90</sup> In 1930 direct selling costs per bale, excluding transport, were estimated by AMLF to be 7s 2d lower in Sydney than London.<sup>91</sup> A further comparison in 1934 estimated direct selling costs in Brisbane as 5s 5d

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<sup>87</sup> Elders 8/4/2 and 8/106/1, correspondence 1912-15 cites congestion and industrial unrest in the port of London.

<sup>88</sup> Lower insurance costs derived from avoidance of a second sea passage but also to alleged lower insurance rates on cargoes from Australia to Continental Europe than to London, the former being more commonly carried in faster steamships the latter in ageing sailing clippers in the early 1890s. Bach *Maritime History* pp. 144-5 cites several contemporary observers of the preponderance of non-British steamers including those receiving government subsidies.

<sup>89</sup> *APR* 15 September 1894.

<sup>90</sup> NBAC, Dalgety, correspondence.

<sup>91</sup> Goldsbrough Mort 2A/208-3 memoranda regarding wool storage.

below London.<sup>92</sup> The importance of additional savings in sea freight, and the rapid expansion of Japanese purchases, where savings would be higher than to most nations in the 1894 example, strongly suggests rising average and total savings to the interwar period.

The large increase in the scale of Australian auctions by the 1930s and of the volume of wool handled by each selling broker yielded external and internal economies of scale. Australian sales grew 5-fold from 0.5 to 2.5 million bales between 1890 and 1930 (Figure 1) with the big five brokers maintaining their market share and therefore increasing their average throughput in proportion.<sup>93</sup> The leading brokers shared some overhead costs, for example centralised sale rooms, and kept their capital fully employed by extending the selling season throughout the year.<sup>94</sup> The brokers' internal average costs were reduced by spreading the fixed costs of company showrooms, warehouses, and skilled employees such as wool classers across a larger volume of sales. The existence of scale economies can be illustrated by reference to a comparison of a broker's own cost structure between Australian auction centres conducted by Goldsbrough Mort in 1933. The broker was keen to judge the future direction of the trade and to mitigate the impact of the interwar slump. It found that Sydney with the highest turnover (136,106 bales) had the lowest cost of 7s 7d per bale while Perth with the lowest volume (19,265) had the highest cost of 15s 5d. Consistent with this pattern, Melbourne fell between the two in terms of cost (11s 9d) and sales (68,876). Perth was the only centre making a loss but was retained by the company because of an expectation of growth and a desire to maintain the advantages of being an early entrant.<sup>95</sup> The belated trend

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<sup>92</sup> NBAC, Dalgety 100/3/180/93.

<sup>93</sup> DAWR, 1930. Millar Smith, *Marketing*, p. 175 notes the far greater number of 'dealers' (brokers) involved in the sale of the much smaller American clip.

<sup>94</sup> By 1892 in Melbourne, Geelong, and Sydney wool sales were organised in a central salesroom. Barnard, *Wool Market*, pp. 110, 154-5; Dennys Lascelles 62, 12, Conran, out-letters, 1892. NBAC, Dalgety 100/1/55/13, correspondence, 1960.

<sup>95</sup> Goldsbrough Mort 2A/206, wool, miscellaneous figures on consumption.

to local sales in New Zealand was believed to be due to ‘the want of one great centre’ from which scale economies could be derived.<sup>96</sup>

#### BROADER IMPLICATIONS OF MARKET RELOCATION

The development of a local wool market had broader implications for the domestic economy and Australia’s international trading and political relationships at the beginning of the twentieth century. It established a sophisticated marketing and distribution network in Australia, which was concentrated upon and connected the different state capitals. As such it helped to maintain the urban focus of Australian economic development of the nineteenth century through its linkage effects to a range of localised activities, and it initiated the nationwide building of domestic economic institutions in the twentieth century upon which a much wider range of industries would draw.<sup>97</sup> The local wool market spurred direct bilateral trading relations with a number of nations, particularly Germany and Japan, that diversified into many other goods and services in the course of the twentieth century.<sup>98</sup> Ironically, therefore, the local wool market helped establish the organizational and relational foundations for a much broader economic structure that would increasingly supersede the pastoral sector, a process Sinclair has ably described.<sup>99</sup>

These new trading relationships occurred within an environment of growing Australian self-determination in the face of the United Kingdom’s traditional role as the imperial power and intermediary in Australia’s economic and political relations with the rest of the world. As other major nations began to challenge British economic and political

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<sup>96</sup> AIBR 19 October 1899, p. 699.

<sup>97</sup> White, *Mastering Risk*, p. 146 argues that these strong domestic linkage effects moderate the staple theory thesis of Australian development. Elders believed that the auction system, with its accompanying national and international connections, had lifted South Australia ‘out of provincialism’. Elders N102/9, correspondence, 1925.

<sup>98</sup> Pinkstone, *Global Connections*, pp. 356, 382 tables 30 and 54.

<sup>99</sup> Sinclair, *Economic Development*, chs 6, 7.

hegemony, the fostering of direct relations with an increasingly self-assertive Australia was one means to this end. Emerging textile industries with the cost structure to challenge British leadership was one of the earliest manifestations of this shifting international political economy. Australia's declining reliance upon the British market for its wool exports and its newly-acquired control over marketing and distribution was an important part of the shifting relative power between the two nations. In his study of the political economy of the international wool trade, Tsokhas cites the brokers as a key part of government-led coalitions that negotiated effectively with the British over the Imperial Wool Purchase Scheme and BAWRA.<sup>100</sup>

The establishment of the Australian wool market reflected broader trends in international commodity trades during the twentieth century, particularly their shift in many cases from the main point of demand to the principal source of supply. With transport and communications no longer slow and unreliable, there was a diminished need to locate markets close to centres of consumption to ensure regularity of supply.<sup>101</sup> Furthermore, it reflected the geographic diversification of demand for foodstuffs and raw materials including tin, rubber, and fur from a growing group of industrializing nations. By contrast, natural resource considerations constrain the geographic dispersion of supply sources. Wool supply in fact became more geographically concentrated upon Australia. The siting of a major commodity market in distant Australia additionally contributed to the forces of international market integration and the first phase of globalisation, which occurred in the late nineteenth and early twentieth centuries.<sup>102</sup>

Wool remained a physical auction rather than an exchange market throughout the relocation, futures markets only being established at London in 1953 and a larger one in

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<sup>100</sup> Tsokhas, *Money, Markets*, p. 9.

<sup>101</sup> Rees, *Commodity Markets*, p. 410.

<sup>102</sup> See O'Rourke and Williamson, *Globalisation*.

Sydney in 1960 inspite of the known volatility of prices. This is generally attributed to the heterogeneous nature of wool in the face of increasing demands for homogeneity from its machine use in worsted production, and thus inspection was important.<sup>103</sup> However, the relocation might be seen as providing an efficient compromise between inspection needs and risk hedging: the buyer's Australian office could inspect the wool beforehand, aided by the local broker's classing skills, while the long sea journey from Australia created a forward delivery or arrivals market during which time limited hedging, based on the physical commodity, could take place.<sup>104</sup>

## CONCLUSION

In the half century from the 1880s to the 1930s the point of sale for Australian wool shifted decisively from Britain to Australia and with it the principal international wool market. Beginning in Melbourne and Sydney, wool auctions had spread to all of the Australian state capitals by the early twentieth century. Underlying this relocation was a series of shifts in the conditions of demand and supply that altered the efficiency criteria for the existing institutional arrangements, notably consolidation in the English and European worsted industries, the geographical diversification of demand, improved international transport and communications, the growing international dominance of Australian wool production, and the evolution of the small grazier. Together, they provided opportunities for Australian pastoral agents to compete as wool brokers and wrest a major share of the wool trade from the control of the London trading houses. A dominant group of large brokers emerged that developed important transaction and production cost properties by internalising many of the functions of the wool market and shifting its location to Australia. Through their

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<sup>103</sup> Millar Smith, *Marketing*, p. 189; Rees, *Commodity Markets*, pp. 413, 415.

<sup>104</sup> Rees, *Commodity Markets*, pp. 416, 433-45 provides an excellent description of a futures market and distinguishes it from forward trading.

local knowledge, producer contacts, and trade specialisation they developed core technical competencies, particularly expert wool classing and a national auction system, that were difficult to match in Britain. Australian graziers, especially the growing breed that practised small scale production and mixed farming, benefited from the lower transactions costs of the trade, quicker sale realisation, stronger market signals, and a broader range of broker services. Relocation of the wool market represented a major institutional shift affecting the key sector of the developing Australian economy, with broad implications for that economy's future development.

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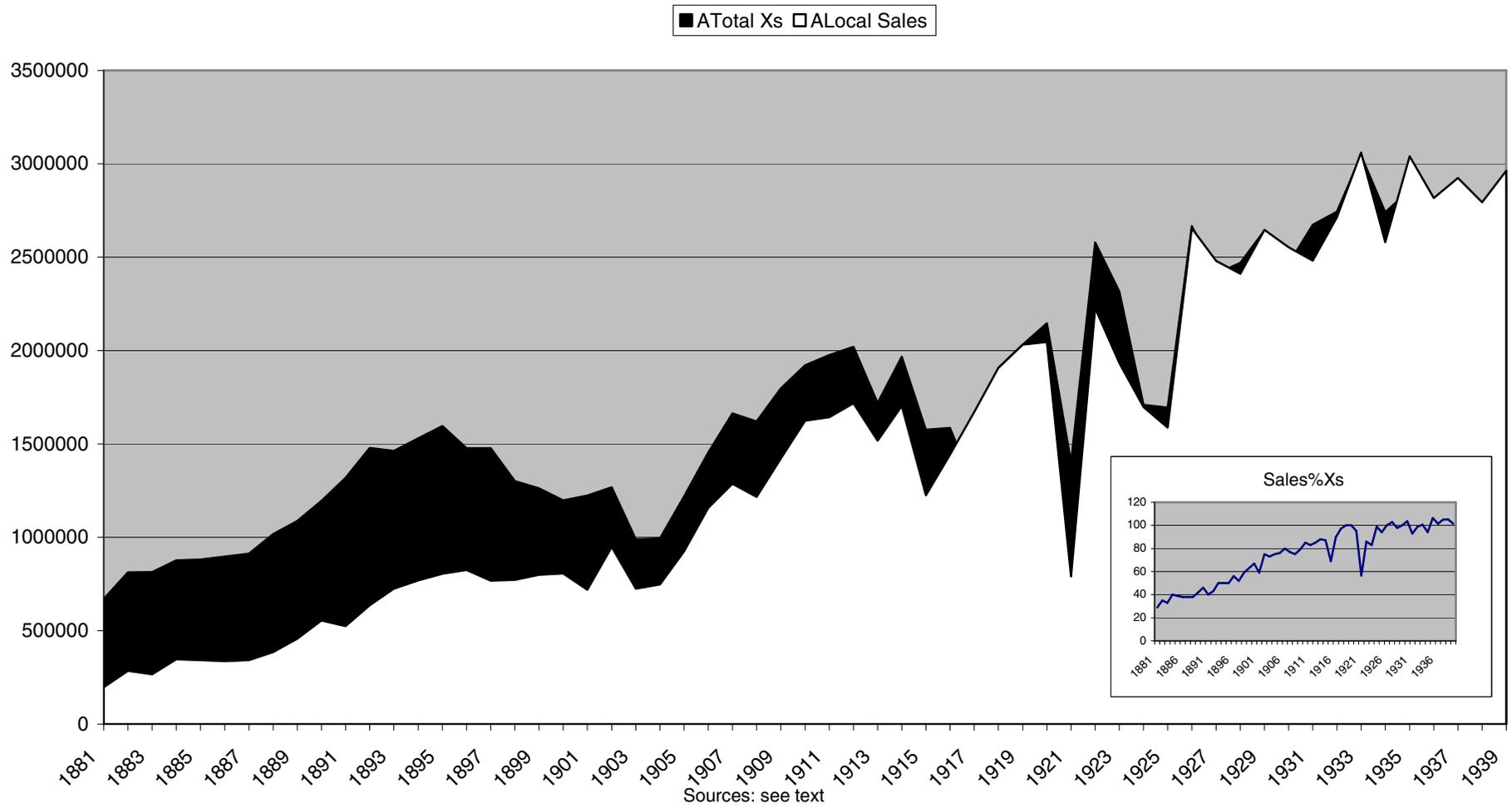
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Figure 1. Australian and London Wool Sales, 1881-1939 (bales)



**Table 1. Australian wool exports, 1861-1939**

	Wool (£m)	Total (£m)	Wool % total
1861 – 70	6.3	19.1	33
1871 – 80	11.7	24	49
1881 – 90	15.1	27.3	55
1891 – 1900	16.1	37.4	43
1901 – 10	20.8	59	35
1911 – 20	27.4	80.5	34
1921 – 30	54.6	136.1	40
1931 - 39	40.1	115.5	35

Note: Decennial averages. Excludes transshipments before 1901

Source: Vamplew. *Australians*, pp. 188, 194-5.

**Table 2. Consumption of wool sold at Australian auctions, 1888-1935 (percentages)**

	UK	Cont Europe	North America	Far East
1888		23	5	
1889		29	7	
1890		43	1	
1891	28	46	4	
1892	32	48	6	0.4
1893	24	56	5	0.2
<u>1894</u>	<u>25</u>	<u>60</u>	<u>3</u>	<u>0.2</u>
1896	19	62	8	
1897	29	56	8	
1898	23	62	7	
1899	26	64	2	
1900	20	70	4	
1901	43	42	5	
<u>1902</u>	<u>32</u>	<u>55</u>	<u>4</u>	
1909	26	64	7	1
1910	22	66	7	1
<u>1911</u>	<u>26</u>	<u>65</u>	<u>2</u>	<u>1</u>
1913	27	66	1	2
<u>1914</u>	<u>19</u>	<u>70</u>	<u>5</u>	<u>1</u>
1922	41	37	8	9
1923	31	72	10	9
1924	28	49	6	9
1925	28	45	7	13
1926	28	50	8	8
1927	25	53	5	10
1928	23	52	3	14
1929	24	54	3	13
1930	22	55	2	13
1931	23	48	3	21
1932	29	39	1	23
1933	24	45	1	21
1934	22	46	1	22
1935	31	36	1	23

Notes: Since sales cross calendar years, the year stated is the end year. Far East is mostly Japan.

Sources: *AIBR*; *APR*; *DAWR*.

**Table 3. Wool imports into United Kingdom by principal exporting nations, 1870-1900**  
(million lbs)

Year	Australasia	Germany	S.America	S. Africa	Total UK imports	Australasia % of total
1870	175	4	13	33	263	67
1880	301	7	10	51	464	65
1890	419	7	11	87	633	66
1900	386	5	36	32	559	69

Note: Australasia includes New Zealand. Australia typically accounted for around 80 per cent of this total, suggesting her share of UK imports as slightly above 50 per cent.

Source: Barnard, *Australian Wool*, p. 218

**Table 4. Wool exports by principal exporting nations, 1924-1939** (million lbs)

Year	Australia	New Zealand	S. Africa	Argentina	Uruguay	World
1924	555	206	175	270	100	Na
1929	765	235	273	284	113	1991
1935	912	223	252	301	110	2088
1939	723	277	187	329	108	1875

Source: Abbott, 'Promoting Wool', p. 260.

**Table 5. Alternative marketing strategies**

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Point of Sale	Transaction Costs	Realisation Speed	Market Signalling	Marketing Costs	Brokerage Services	TOTAL
<i>Australia</i>	1	1	1	1	1	5
<i>Britain</i>	0	0	0	0	0	0

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*Notes:* Scores are 1 for a positive facet and 0 for a negative and are based upon the foregoing discussion in the text. Thus the highest score represents the preferred strategy.

**Table 6. Principal cost savings of selling in Australia, 1893-94: United Kingdom, Continental European, and American Buyers**

Cost Item	Australian Sale Costs Compared with London (per bale)		
	Bradford, UK	France/Belgium	Germany/USA
Buying commission	+1s 3d	+1s 3d	+1s 3d
Insurance, transhipment	-	-2s 8d	-2s 8d
Sea freight costs	-	-2s 1d	-4s 2d
Rail freight to buyer	-4s 0d	-	-
Miscellaneous	+1d	-10d	-10d
<b>Net Savings</b>	<b>-2s 8d</b>	<b>-4s 4d</b>	<b>-6s 5d</b>

Note: Miscellaneous differences include warehousing, cartage to ship, duties, postage, currency exchange.

Source: *APR* 15 September 1894, pp. 353-57

**Table 7. Savings to the wool trade of the Australian sales, 1893-94**

Destination	Wool Sold in Australia (bales)	Reduced Cost per bale	Total Savings (£)	Saving as % London Marketing Costs
UK	194,000	2s 8d	25,867	6
France/Belgium	313,000	4s 4d	67,816	11
Germany	126,000	6s 5d	40,825	16
USA	7,000	6s 5d	2,245	16
Total	640,000	4s 3d	136,753	10

Note: The total calculated in the source below was £123,019. The UK figure was incorrectly cited as 94 000 bales.

Source: *APR* 15 September 1894, pp. 353-54