

## **Sustainability and wool production in North America**

My wife and I began Philosopher's Wool in the mid-1980's as a result of a long drive back from Toronto. We have a small sheep farm here in Ontario and I had taken some lambs to the Christmas market in 1983. That day I topped the market and decided to buy yarn for Ann, who was happily spinning our Dorset ram's wool but much preferred knitting to spinning. The sign on the counter of the yarn store offered me a 20% discount if I spent \$200 or more that day, an offer I felt I couldn't refuse.

During my long ride home in the midst of a snowstorm, there was plenty of time to think. I had received a cheque for our fleece wool from the cooperative, netting 32 cents a pound for fleece that had cost us some 70 cents a pound to shear. Meanwhile I had just spent more than \$22 a pound for this woollen yarn on sale. I was unable to reconcile this with my fundamental belief in free and fair markets.

The 1980's in farmland Ontario was a period very much like the debt crisis today. Farmers had been encouraged to expand their operations, in the belief that bigger farms would capture efficiencies of scale. As the high interest rates of the period helped to destroy inflation by deflating land values, loans were being called because debt-to-asset ratios were under water, even when farmers were current in their payments. Sheep farmers were no exception to this, although for many, debt was not a significant problem because sheep farmers tended to be among the poorest of the farming community and were unable to raise significant debt capital.

Nonetheless, we did not receive sustainable values for our produce, wool included. At the time, I was still building our farm. I had been a graduate student in philosophy when I built our farm house while simultaneously writing my master's thesis. I estimated that my dissertation would take a very long time and that I should build a farm to sustain our lives during that period. I was married with two children and was unlikely to find a teaching job for about 20 years, until some of the older members of our young university system began retiring. So I decided to spend that time in a self-funded research programme. Building a farm was critical to that plan because I would then be able to provide food and shelter. Farm income would cover essential payments, such as utilities and taxes.

It was a surprise to me that the university would not approve a plan of such duration. I was given a choice of completing a Phd. in a more reasonable time or leaving. I chose to leave. In addition, it took far more time to build a farm than I had imagined. During this period, I would occasionally go with our shearer to other flocks. We talked incessantly both among ourselves and with other farmers about the dismal price we received for wool. Our lamb markets here are strong, and even stronger when we market lambs directly to customers as I did. By doing so, I averaged more than \$50 extra per lamb than I would have received through the auction market.

Selling lamb directly to customers taught me that it is possible for everyone to win in a commercial exchange. I win, of course, because I was paid substantially more for our lamb. Our customers win too because I was able to demonstrate to them that they could have more lamb for roughly the same price when purchasing a lamb that was slightly older. Instead of buying 30-45 pound carcasses, they

would be buying 55-65 pound ones. The lamb at this weight is in my opinion actually superior to new crop lambs. Because the lamb is heavier, it can be sold at a lower cost per pound. My customers included a local grocery store and a restaurant. By maintaining a constant price, their customers could budget to buy lamb and, in relatively short order, we sold all of our lamb locally and far more profitably. An additional benefit to our farm was that I was able to allow the lambs to grow more slowly. In this way we reduced our feed costs because these lambs could eat pasture and hay instead of the high-priced grains I had to use to grow new crop lambs.

Wool was a different story. It was only after I bought yarn on sale for my wife that I believed we could be paid much more for our fleece. With a 20% discount, I had paid about \$22 a pound for yarn when I was paid just 32 cents a pound for our fleece. If farmers were paid \$2 a pound that would not even work out to the standard retail price for the yarn.

But what a difference this would make to the farm community.

I knew absolutely nothing about the woollen business or about how to sell yarn. In this sense, I had a distinct advantage over people who knew lots about it. Every industry creates habits, and habits of thought especially. Farmers thought it normal to be paid nothing for their fleece because that is the way it has been. People who studied the problem looked at the industry as it is, with all the competition and costs. They too could see no way around the low prices for fleece.

I just asked the simple question: if Philosopher's Wool paid \$2 for wool, how much would the yarn cost? I chose this value somewhat whimsically. During the American Civil War, farmers made \$2 a pound. I believed that if farmers could have been paid this much then, a similar value could surely be earned today for fleece wool.

I spent a year trying to find someone to process our wool into yarn, and to retain the natural lanolin. I was building and working outdoors much of the time. It would be a great benefit to me and others if I could keep this lanolin in the finished yarn. We did finally receive 50 pounds of yarn from a 100 pounds of fleece. In the end, this sold out within 3 weeks at what would become our wholesale price. I had earned \$2.35 per pound for fleece instead of the market price of 32 cents, and made even more, \$2.65, the following year.

We began Philosopher's Wool then with the belief that I could find operating efficiencies that would cover our costs while paying the bulk of our net revenues to farmers for their fleece. In the period since, we have purchased about 426,000 pounds of fleece, paying farmers a total of about \$770,000. This has returned to farmers an average price of \$1.80 per pound while fleece prices in Ontario averaged between 5 and 30 cents a pound.

We were able to accomplish this feat simply.

We focused on our customers because without them, we would not be able to buy wool from farmers. Wherever we had business, we wanted to create business, even when that made our model less efficient. I wanted customers to understand that they could support their own farming community by purchasing our yarns. We used two mills in the US for washing wool and 6 mills

across North America for spinning and dyeing. We have bought fleece from as far away as British Columbia, Oregon and Alberta, proving that proximity to us in Ontario is no handicap to the veracity of our model. In fact, in the late 1990's, we had an interesting opportunity that demonstrates this clearly.

In 1999, we were invited by the Acoma Pueblo in New Mexico to teach their nation to knit. They had seen a friend of ours wearing a sweater we called Southwest. We agreed to do so and drove down with our teaching kit. At the time it had about 30 sets of needles along with a sweater in various stages of completion. This helped us to demonstrate our knitting and construction techniques.

Their subtext concerned wool. Acoma used to have large flocks of fine-woolled sheep and, as in Ontario Canada where we live, used to command a premium price for their wool. Like our shepherds, they now received about 10 cents a pound for their clip of about 5,000 pounds, or \$500 total. After factoring in the cost of shearing, they lost money selling their wool.

We taught a crowd of about 85 to knit, ranging in ages from 10 to 90. Next, we met with their shepherds who described their plight to us. During the teaching session, we had previously agreed to return the next spring and teach a smaller group to knit a sweater. We would provide the wool knitting kits while hoping our needle supplier would do so with the needles. Meanwhile, I would try to work out a strategy to see what could be done with their fleece wool.

When we returned to Acoma, I was able to make them the following offer. Our washing mill had a plant in Texas as well as in Pennsylvania. They agreed to wash the wool in Texas for us and deliver it to Pennsylvania where our Canadian wool was washed. Philosopher's Wool could buy the wool from their pool on our clean finished yield basis as we do in Ontario. Their wool, because of the dry climate and finer fibre, would probably yield in the neighbourhood of 62%. I estimated the pool would be paid 62% of \$3.70, or about \$2.30 per pound. We would attempt to develop a market in the southwest for yarns made from their wool and, in doing so, could develop a sustainable market that would pay their farming community \$11,500 annually. We were also prepared to work with the Acoma to develop fair isle patterns using the thematic designs found on their pottery.

Acoma has a world-famous tourist site at Sky City that draws hundreds of thousands of tourists annually. I suggested that instead of making the wool simply into yarn, their 5,000 pounds would make approximately 500 blankets. The blankets would cost \$65 each, which includes the \$11,500 already paid to their farmers. These queen-size blankets would easily sell at Sky City for \$150, netting the community an additional \$42,500. Now their wool clip would bring them a total of \$53,000, instead of just \$500.

If the Acoma nation took to knitting, the ones we taught could teach others and they would be able to sell thematically-designed sweaters, which we currently sell in the \$700-900 range. Our model was available to them to copy, creating kits for knitters to make these sweaters. Based on our sales on our farm, Ann and I believed they could sell 50 sweaters annually and 1,000 or more kits from their tourist site. 50 sweaters would add a net of \$10,000 after paying their knitters between \$400 and \$600, depending on the complexity of the design. A 1,000 kits would add a net of \$55,000.

There would still be enough wool left over to make 200 blankets, adding another \$17,000. This would bring the value of their wool clip, on an annual and sustainable basis, to approximately \$93,500, instead of the \$500 they received for it. If the amount paid to individual knitters was added in, the community could receive an additional \$25,000, bringing the total value to \$118,500.

And that was just a start. If we were able to brand their woollen kits successfully, and sell them throughout the southwest, they would be able to increase their herd size and produce even more wool to sell. For reasons unknown to us, this plan was rejected.

In Ontario, with our business model, we wholesale supplies to stores across North America. Whenever possible, we offer to conduct workshops in these stores. Each workshop would generate between \$3,000 - \$5,000 in sales for the store. This permits each store to have a beginning inventory of Philosopher's Wool at virtually no cost. As we would travel back and forth to consumer needlework shows, we could support the stores, creating great loyalty both among the shopkeepers and our customers. Our knitting techniques have become a global standard for fair isle knitting and amazingly I have been recognized as one of the top 10 male knitters of all time. While this is certainly a gross exaggeration, it speaks to the profound influence we have been able to have in the knitting world.

On the other hand, the designs that Ann has created are without exaggeration among the best fair isle designs anywhere, ranging from the simple to the complex. Since our kits generally sell at about half the price of similar designs, our customers recognize that our yarns are terrific bargains.

However, cross-border business creates significant problems for a small enterprise such as ours.

Prior to the free trade agreement between Canada and the US, our products entered the US freely. There were duties, but they had simply been ignored. Once discussions began, the duties were collected, and more.

Our wool is washed in the US and we would have to identify the quantity we would bring in for washing. When that was washed, we would bring another load and pick up the previous one. Wool loses both dirt and moisture in washing and drying, reducing its weight. Each January US Customs would send Philosopher's a letter asking when it was going to collect the balance. Both the washing mill and we would explain that the losses were due to being washed, but Customs remained unconvinced. Philosopher's would be invited to tax court in Washington, D.C. to challenge this assessment. Or we could simply choose to pay up.

When the free trade agreement finally eliminated all these charges, brokerage charges took up the slack. After stores order yarn from us, brokerage charges are a great surprise, sometimes surpassing the value of a small invoice. We could, and did, buy a global package but it meant stores could not re-order small quantities of yarn to maintain their inventories.

Finally, the introduction of Homeland Security and its concomitant charges meant that the quantities had to be even larger, effectively destroying the bulk of our US wholesale business. At the retail level and through internet sales, shipments by mail would be delayed for up to five weeks at the

border. Our web hosts have offered to ship for us from their location in the US and we have donated 15% of our web sales to their farm-based charity that provides scholarships to educate South African women in agriculture. We are currently seeking a US distributor of our yarns for the wholesale market as well.

In 2007, our nuclear neighbour, Bruce Power, threatened to sue us if we speak publicly about their fire training activity. This occasionally drops thick black smoke onto our property, making everyone here ill. When this first occurred in 2002, we developed a protocol with Bruce Power that we hoped would prevent further episodes. Without notice or warning to us, Bruce Power decided not to follow that protocol with the result that both Ann and our staff were sickened. I do now travel throughout Canada speaking to communities where Bruce Power wants to build nuclear reactors. I describe what it is and has been like to have the Bruce as a neighbour. To date it has not sued us, but has repeated its threat on each occasion.

In light of these uncertainties, we have suspended purchasing wool from farmers for the moment. We will certainly resume, however, when we find a US distributor of our brand. We have demonstrated that this model is successful on both a micro- and macro-geographic scale and we have longed to be able to demonstrate that sheep farmers everywhere and anywhere can receive significantly superior payments for fleece by linking farmers with end users everywhere. Wool production will always be sustainable whenever this happens, as Philosopher's Wool has proven.

Thank you for presenting us with this opportunity to describe our sustainable model. I am only sorry that we are unable to be here with you personally in Boston today.