Order Code RS20896
Updated March 29, 2005

CRS Report for Congress

Received through the CRS Web

Farm Commodity Programs: Wool and Mohair

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Summary

Price support for wool and mohair became mandatory through legislation enacted in 1947 and in 1949. The National Wool Act of 1954 (P.L. 83-690) established direct payments for wool and mohair producers. The act's stated purpose was to encourage production of wool because it was considered an essential and strategic commodity. No similar purpose was stated for the mohair program. Subsequent legislation extended the wool and mohair support programs several times, until a provision in P.L. 103-130 required a phase out, ending with the 1995 marketing year.[1] Subsequently, assistance was provided on an *ad hoc* basis for marketing years 1999 and 2000. Wool and mohair were not funded during marketing year 2001. P.L. 107-171, the Farm Security and Rural Investment Act of 2002, authorized marketing assistance loans and loan deficiency payments for wool and mohair producers for crop years[2] 2002-2007. This report will be revised as circumstances warrant.

Industry Profile

Wool

Shorn wool production amounted to 37.6 million pounds (from 5.07 million sheep and lambs) with a market value of $29.9 million dollars in calendar year 2004. Shorn wool (greasy wool) is cleaned and the natural oils removed to yield clean raw wool. Meat prices determine sheep producers' income, so their decisions about flock size are little influenced by wool prices. By contrast, trends in consumption of lamb and mutton[3] have a large effect on sheep production. Wool production is also influenced by sheep production characteristics which include predator losses, hired labor costs, labor

[1] A marketing year is the year in which a crop is marketed and usually begins with harvest. The wool and mohair marketing year is January1-December 31.

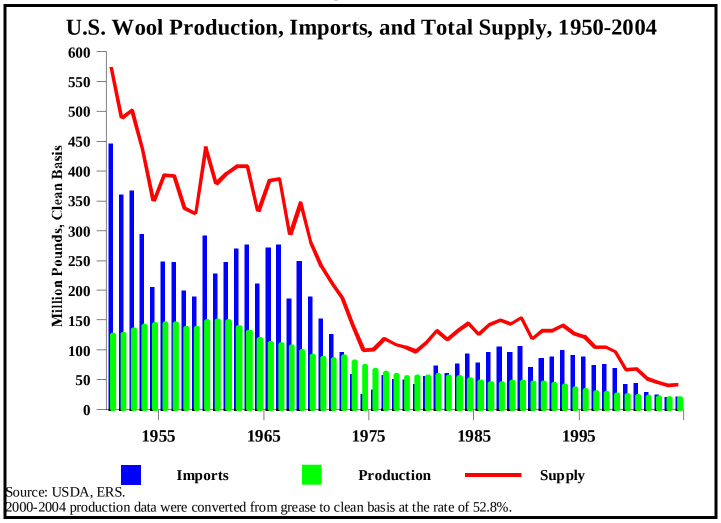
[2] A crop year is the year in which a crop is produced.

[3] Meat is called lamb if sheep are slaughtered between 8-14 months of age and mutton if it is slaughtered after 14 months of age.

shortages, cost of treating sheep for hoof and skin problems, and competition with cattle producers for grazing land, labor, water, and marketing and transportation facilities.

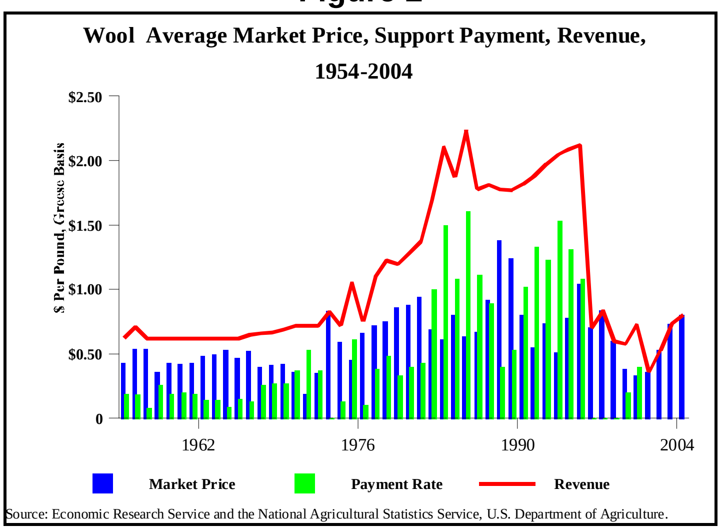
As shown in **Figure 1**, clean raw wool production stayed near 120 million pounds until the late 1960s. Then it gradually trended downward to 19.9 million pounds in 2004, its lowest point. Wool imports totaled 22.7 million pounds in 2004. Imports long have been the primary source of wool for U.S. carpet and textile manufacturers. The major suppliers of wool to the U.S. are Australia, New Zealand, Uruguay, and the United Kingdom. Wool exports for the past 20 years have been much smaller than imports — less than 10 million pounds annually.

Figure 1



The average price of shorn wool increased from 73¢ per pound in 2003 to 80¢ per pound in 2004. As shown in **Figure 2**, until the 1970s the average market price of wool remained stable at around 50¢ per pound and the national average federal program payment rate for wool remained near 20¢ per pound, so wool producers received revenue of approximately 70¢ per pound. From 1982-1986 and 1990-1995 the average payment rate greatly exceeded the average market price of wool. The wool (and mohair) program ended after the 1995 crop (by mandate of P.L. 103-30). Support was restored for marketing years 1999 and 2000, but the program was designed differently. For marketing year 1999, Section 204 of P.L. 106-224, directed that payments of 20¢ per pound be made to producers, and for marketing year 2000, Section 814 of P.L. 106-387, directed payments of 40¢ per pound (compared to the historically low average market prices of 38¢ and 33¢ per pound respectively). There was no funding for the 2001 marketing year. For crop years 2002-2007, the Farm Security and Rural Investment Act defines the payment rate as the difference between the loan rate and the repayment rate.

Figure 2



According to the Census of Agriculture, in 2002 there were 46,255 farms with sheep and lambs used for wool production. There are two types of wool: territory and fleece. Territory wool is used to make better quality apparel and is produced in "territory wool states," which include Texas, South Dakota, the Rocky Mountains, and the Pacific Coast states. The flock size typically ranges from 150-400 sheep, although some producers may have several thousand sheep. According to USDA, approximately 70% of all U.S. sheep are located in "territory wool states." Fleece wool is used to make coats, blankets, and sweaters. It is produced in "fleece wool states," which include Virginia, West Virginia, Pennsylvania, states north of the Ohio River, and the Great Plains area. The flock size ranges from 20-50 sheep and typically is only a small part of a farm that may also raise cattle, hogs, and field crops.

The demand for wool is affected by fashion, relative fiber prices, price variability, and the economy. Consumers' acceptance of manmade fibers began in the mid-1950s. Manmade fibers, which are sometimes mixed with wool, are fashionable and offer conveniences such as drip-dry washing, no shrinking, and no moth damage. The U.S. textile industry started using noncellulosic manmade fibers (e.g., nylon, polyester, acrylic) due to price and durability. Textile mills dislike price variability. U.S. sheep and lamb prices and foreign supply and demand cause price variability because the U.S. has a small share of the wool market and textile mills import over 50% of the wool they use. However, manmade fiber production has minimal price variability and does not depend on biological lags and annual shearings. Also, the quality does not vary, and since it is manufactured domestically, foreign supply and demand has little effect on U.S. prices.

201 Lamb Meat. In February 1999, the U.S. International Trade Commission (USITC) (15 CFR 2014) ruled 6-0 in the section 201 trade case on lamb meat that the "recent surge of low priced imported lamb meat caused the threat of injury to U.S. producers." In light of the USITC's ruling, the Clinton Administration on July 22, 1999, established tariff-rate quotas (TRQs) and increased duties on imports of fresh, frozen, or chilled lamb meat. A three year (July 22, 1999 - July 31, 2002) $100 million assistance package for sheep and lamb farmers was established for production improvements, market promotion, animal health and domestic purchases.

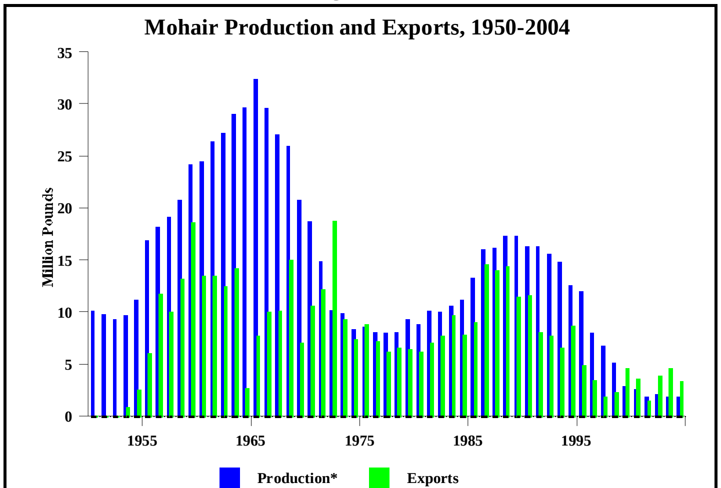
Production improvements included $30 million for the Lamb Meat Adjustment Assistance Program, which provided direct payments to sheep producers for improving production efficiencies; $25 million in guaranteed loans so processors could build new and improve existing building facilities and upgrade processing and packing systems; and $10 million in guaranteed loans to help farmers cover flock and farm improvements and operating expenses. Market promotion and improvement activities, which were funded at $5 million, included cooperative lamb marketing, lamb yield data, wool certification, pelt certification, and price reporting. Animal health activities, including scrapie eradication, received $10 million. Also, the federal government purchased $5 million in lamb meat.

On November 15, 2001, the Bush Administration ended the TRQs on lamb meat imports to settle a World Trade Organization (WTO) dispute that Australia and New Zealand brought against the United States. An additional $42.7 million in assistance was given to sheep and lamb farmers and the program was extended into 2003. The USITC completed its investigation on lamb meat and issued the report, *No. TA-204-8 — Lamb Meat: Evaluation of the Effectiveness of Import Relief*, in May 2002. Lamb and sheep inventory decreased by 4%, from 7.0 million head in 2001 to 6.7 million head in 2002. Lamb and sheep inventory was 6.1 million head in 2004.

Mohair

According to the Census of Agriculture, there were 2,434 farms in 2002 with mohair[4] sales. Of the three major mohair-producing states, Texas produced 84%, Arizona produced 6%, and New Mexico produced 3% of mohair in 2004. In 2004, 1.9 million pounds of mohair with a value of $3.8 million dollars was clipped from 269,500 Angora goats and kids. Mohair production was 1.9 million pounds in 2003 and remained at 1.9 million pounds in 2004. As shown in **Figure 3**, mohair production rose sharply in the 1950s then peaked at 32.4 million pounds in 1965. It rapidly declined, recovered somewhat in the early 1980s, and dropped to 2.0 million pounds in 2001.

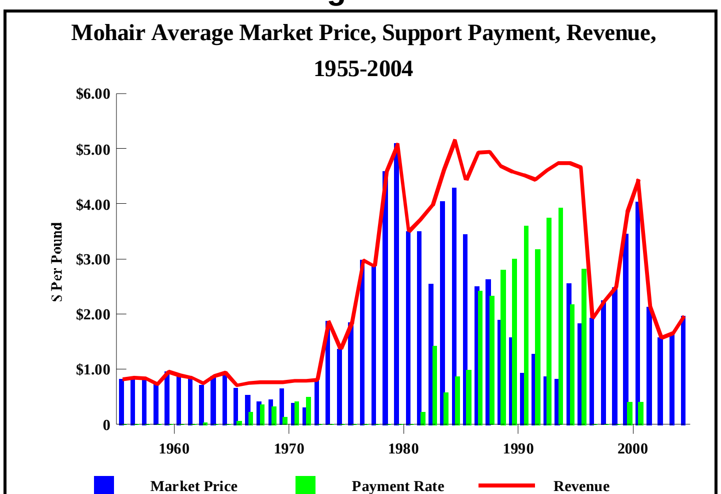
Figure 3



Source: Economic Research Service, U.S. Department of Agriculture.
*1950-1954 and 1971-1987 data are from Texas only. 1955-1970 data are from Arizona, New Mexico, Missouri, California, Oregon, Utah, and Texas. 1988-1994 data are from Texas, Arizona, New Mexico, Michigan, and Oklahoma. 1995 to 2003 data is from Arizona, New Mexico, and Texas. 2004 data are the U.S. total.

Mohair exports were 3.3 million pounds in 2004, a decrease from 4.6 million pounds in 2003. Over the past 25 years, about 75% of U.S. mohair production was exported. The United Kingdom, the world's major importer of raw mohair, processes mohair then re-exports it. In 1972, 1975, 1999, 2000, and 2002-2004 U.S. mohair export demands exceeded production and inventory stocks were drawn down to meet demand. Since most mohair is exported, domestic use depends on available supply, mohair prices, and fashion. The United States, South Africa, and Turkey have historically been major mohair producers and exporters.

Figure 4



Source: USDA, ERS and NASS.

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[4] Mohair is the fleece of the Angora goat and it is usually blended with other fibers to make a textile product.

In 2004, the average market price of mohair increased to $1.97 per pound from $1.66 per pound in 2003. As shown in **Figure 4**, the average market price of mohair remained near 75¢ per pound until the mid 1960s. In the mid 1960s the average market price of mohair dropped to nearly 45¢ per pound. The national average payment rate under the federal support program remained near 30¢ per pound, which kept total revenue received by producers at approximately 75¢ per pound. Both the average market price and the national average payment rate then trended sharply upward and became variable from year-to-year. During the 1980s the mohair national average payment rate exceeded the market price, so the average payment rate remained near $2.50 per pound which raised total revenue received by producers to approximately $5.00 per pound. Along with wool, the mohair program was temporarily ended with the 1995 crop. However, subsequent legislation was adopted that mandated mohair payments of 40¢ per pound in marketing years 1999 and 2000. There were no mohair payments in 2001. Under the Farm Security and Rural Investment Act the payment rate for crop years 2002-2007 is the difference between the loan rate and the repayment rate.

Program History

The Agricultural Adjustment Act of 1938 authorized a non-mandatory price support loan program for wool and mohair. In 1947, price support became mandatory for wool, followed by mohair in 1949.

The National Wool Act of 1954 (P.L. 54-609) provided wool and mohair support authority through USDA's Commodity Credit Corporation (CCC) from 1955 through 1959. Subsequent legislation extended the authority. The support program offered direct payments for wool and mohair, but differed from other commodity programs because incentive payments were higher for producers who received higher market prices. This was supposed to encourage the production of higher quality wool and mohair. The program also provided payments for unshorn lambs equal to payments received from shorn lambs. The Secretary of Agriculture had discretion to set the support price for shorn wool. While the act linked wool and mohair support spending to 70% of tariffs collected on imported wool and other textile products, these tariffs did not directly finance the program.[5]

Amendments to the National Wool Act (P.L. 103-130, Nov. 1, 1993) reduced wool and mohair producers subsidies for 1994 and 1995, and made the 1995 crops the last to be supported under the act.

Recent Congressional Action

The FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277, Section 1126) authorized interest free recourse loans for mohair produced during or

[5] Collected tariffs went to the U.S. Treasury, then the CCC borrowed funds from the Treasury for the wool program. Each year Congress appropriated funds to reimburse the CCC, then the CCC reimbursed the U.S. Treasury for the funds it borrowed the preceding year. Whenever the program cost exceeded 70% of the tariffs, it was carried over to the next fiscal year.

before FY1999. Recourse loans provide producers with interim financing to assist them in marketing their crop in an orderly manner and must be repaid within a certain term. Producers could borrow $2 for each pound of mohair placed under loan.

The FY2000 USDA Appropriations Act (P.L. 106-78, Section 801) authorized a recourse loan program for mohair produced during or before FY2000. The loan rate was again $2 per pound and the interest rate was equal to 1% over the CCC interest rate.

The Agricultural Risk Protection Act of 2000 (P.L. 106-224, Section 204) authorized direct payments to wool and mohair producers through the CCC for the 1999 marketing year. Wool producers received 20¢ per pound and mohair producers received 40¢ per pound.

The FY2001 USDA Appropriations Act (P.L. 106-387, Section 814) authorized loan deficiency payments of 40¢ per pound to both wool and mohair producers for the 2000 marketing year. Total CCC payments were not to exceed $20 million.

The Crop Year 2001 Agricultural Economic Assistance Act (P.L. 107-25, Section 5) authorized direct payments through the CCC for wool and mohair producers who received prior payments under section 814 of P.L. 106-387 for the 2000 marketing year. The Secretary determined the payment rate and total CCC payments were not to exceed $16.9 million.

The Farm Security and Rural Investment Act of 2002 (P.L. 107-171, subtitle B) provides wool and mohair producers with nine-month nonrecourse marketing assistance loans and loan deficiency payments for crop years 2002-2007. Producers who obtain nonrecourse loans pledge their crop as collateral and can forfeit their crop in full payment of the loan. The loan rate is $1.00 per pound for graded wool, 40¢ per pound for nongraded wool, and $4.20 per pound for mohair. The Secretary determines the loan repayment rate based on either the lesser of the loan rate plus interest or a rate that will limit loan forfeitures, stock accumulation, storage costs, and will allow competitive marketing of the commodity. Producers who agree not to take out a loan can receive loan deficiency payments instead. The loan payment rate is the difference between the loan rate and the repayment rate. The Congressional Budget Office (CBO) April 2001 budget resolution baseline estimated that budget authority would be $111 million for wool and $11 million for mohair from 2002 to 2007. CBO's March 2005 baseline estimates that budget authority would be $59 million for wool and $35 for mohair from 2002 to 2007.