Wool and Mohair Policy

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Introduction

Government support for wool and mohair goes back to the incentive program in the Wool Act of 1954. In 1993, Congress passed a three-year phase out of the Wool Act incentive payments with the last payments occurring in 1996. Since that program phase out, a series of ad hoc programs have been passed to support the industry due to a series of setbacks caused, in large part, by events beyond industry control. This paper discusses background and policy options for the industry.

Background

Sheep inventory peaked in the U.S. in 1942 at 49 million head in response to war time wool demands. Since that time, sheep numbers have declined as product demands have changed. The industry has been pressured by predator losses, labor problems, the declining per capita demand for red meat, and the increase in man-made fibers competing with wool. The loss of the Wool Act payments sharply reduced producer receipts leading to a continuing round of flock liquidation. As wool production is a joint product with lamb, there are crosscutting impacts between meat and fiber policy actions.

During the 1990s, sheep numbers have declined from 6.5 million stock ewes to 4.1 million stock ewes as of January 1, 2001. This decline has been exacerbated by several factors, including:

- Increased imports of lamb from Australia and New Zealand.
- World economic problems that have impacted wool purchases.
- Loss of domestic milling infrastructure.
- Severe drought in Texas and the Southwest.
- Large wool stockpiles in Australia and New Zealand due to earlier policy actions.

As domestic lamb production declined after the beginning of the wool and mohair incentive phase out in 1993, lamb imports increasingly filled the void. Imports were aided by movements in exchange rates that made foreign lamb more attractive. To combat the rising tide of imports, the industry filed an ITC section 201 claim against Australia and New Zealand. The resulting ruling in favor of the U.S. imposed a tariff of 40 percent on imports in excess of 70 million pounds. The tariff was imposed in July 1998 with a three-year duration. In spite of the tariff, lamb imports increased in 2000 as the U.S. dollar strengthened appreciably versus the Australian currency.

On the wool side, a number of domestic mills have had financial difficulty in the last two years — as has the rest of the domestic textile milling industry. Wool imports increased sharply as domestic supplies declined. U.S. exports of very fine wools have faced difficulty due to the strong dollar. The survival of the domestic milling industry is critical to the U.S. sheep industry.

On top of policy-induced changes, the late 1990s saw a severe drought in Texas and the Southwest. Texas is the largest sheep and Angora goat producing state, with 17 percent of the breeding ewe flock and 84 percent of the nation's angora goats. The drought has been compared to the drought of the 1950s in terms of its severity. It remains to be seen if the drought continues further into 2001. The severity of the drought forced further liquidation of stock sheep and goat inventory.

Angora goat producers liquidated 80 percent of the goat herd in the 1990s in response to declining revenue as a result of policy, drought, and foreign macroeconomic events. Loss of the Wool Act sharply reduced producer revenues. The drought forced further liquidation. Mohair can be generally categorized as kid hair, the finest and most valuable young adult hair, which is slightly coarser, and adult hair, the coarsest and least valuable. Kid hair generally goes into fine apparel, and adult hair goes into apparel and carpets. In the mid 1990s, about 85 percent of U.S. mohair exports went to the United Kingdom and India. From there it was processed and shipped to other countries — including the Former Soviet Union. The collapse of the FSU economies, economic problems in India, and the strong dollar ended that substantial export market for mohair. Simultaneously, fashions changed cutting into the demand for mohair.

Alternatives and Consequences

Status Quo

The status quo for wool and mohair is no policy or program. Recent research by Anderson, Richardson, and Smith (2001) indicates that the result of no program would be continued decline of the industry in terms of the stock ewe flock to about 3 million head by the end of the decade. Lamb and wool imports would continue to increase, assuming that a domestic milling industry remains. Rural communities in areas with a sheep industry would experience further decline.

Mohair production and Angora goat numbers are projected to stabilize at around 300,000 head. Although fine kid hair would likely continue to move in fine apparel channels, adult hair movement would rely on the improvement of other countries' economies.

Ad Hoc Programs

Although one could argue that this has been the status quo over the last five years the nature of these programs has differed from year to year. Wool and mohair were offered a recourse loan program in the two years following the Wool Act phase out. An annual recourse loan program for mohair was offered beginning in 1998 with a loan rate of $2.00 per pound. This loan rate was offered at no interest for one year and was exercised primarily for adult hair. In 2000, wool and mohair producers received $0.20 and $0.40 per pound in direct payments for wool and mohair, respectively. For 2001, the direct payment on wool was increased to $0.40 per pound.

One problem with the direct payment type of program is that it makes no differentiation of payment based on wool or mohair quality. A wide variety of wool qualities are produced in the U.S. from very fine to coarse wool from more meat-focused breeds. Better wool preparation is also not accounted for.

Another problem is that this type of program provides less counter-cyclical support. The last three years have seen very low wool prices. A direct fixed payment delivers the same amount of support in years with low prices as in years with high prices. The ad hoc nature of the support does not lend itself to strategically positioning the ranch for long-term survival.

Marketing Loan Program

A marketing loan program has been discussed for the wool and mohair industries. The program would be patterned the same as the cotton program. A loan rate would be established and when the adjusted world price fell below the loan rate, a loan deficiency payment would be made to participating producers. Anderson, Richardson, and Smith analyzed just such a program. Loan rates for wool were evaluated at $1.00 and $1.20 per pound for grade, based on the weighted annual average price for wool. The loan rates were developed by keeping the same level of support relative to variable costs for cotton.

A loan rate/marketing loan program for wool of $1.20 per pound resulted in stabilizing stock ewe numbers at about 3.75 million head by 2005, or about 160,000 head above baseline levels. Loan deficiency payments were made in about 75 percent of the years in simulation with government costs averaging about $10 million per year. A potential schedule of loan rate premiums and discounts around these base loan rates was also developed that ranged from $0.40 to $1.70 per pound, grease, based on fiber micron and whether or not the wool was skirted and classed.

A loan rate/marketing loan for mohair of $4.20 and $5.26 per pound was also analyzed. The result was an increase in angora goat numbers to about 500,000 head from baseline projections of 350,000 head. This inventory is well below the almost two million head in the early 1990s. Government costs averaged between $2 and $3 million per year when payments were made. However, payments were only made about 50 percent of the time.

A complicating factor in any type of program for wool is that lamb meat generates most of a producer's receipts — even those of a producer with a fine wool flock. Supporting the industry through a wool program is more difficult given that wool generates a small fraction of total receipts. A second factor is that lambs that go to feedlots for finishing are often not shorn. In the past, those lambs received an unshorn lamb payment for the amount of wool that would have been shorn but was not. That part of the program generated support for the feedlot operator in addition to the lamb producer. The unshorn lamb payment was difficult to administer and would be difficult again in a program of this type.

Mohair generates most of the receipts for Angora goat producers. Therefore, a program of this type would not face the same problems as it does for the sheep/wool producer. One advantage of this type of program is that payments would most likely be made on adult mohair, and not on fine kid hair.

Maintain Import Tariffs

In 1998, the ITC ruled in favor of the U.S. sheep industry against Australia and New Zealand by finding that those countries had indeed damaged the domestic industry. The remedy was a tariff of 40 percent on imported lamb from those countries, which accounts for 99.9 percent of U.S. lamb imports. The tariff is to last through July 2001. In the meantime, the domestic industry was to develop strategic plans to improve their competitiveness. The administration also committed $100 million to the industry for direct payments to producers and seed money for market ventures.

Two factors stymied the role of the tariff in giving the industry the time to adjust. One was the Texas drought. The drought forced more flock liquidation on the industry at a time when it was trying to stabilize the inventory. Not only did it force liquidation, but it also prevented restocking when prices did improve. The industry was told that it would have to improve efficiency over the three-year tariff period. However, improvements in breeding stock were precluded due to drought. The other factor was the strength of the U.S. dollar relative to the currencies of Australia and New Zealand. In 2000, with the tariff in place, imports increased about 12 percent, year over year, potentially due to the Australian dollar declining by 10 percent relative to the U.S. dollar.

One policy option is to maintain the tariff imposed by the ITC. The tariff is on meat and not on wool, but the result is to support the industry and allow more time to adjust and improve efficiency. Maintaining the tariff would provide support to recover from the drought and exchange rates, as those factors are beyond the control of the industry.

Predator Control

Predators take a large toll on the sheep and goat industries each year. Funding for wildlife damage control is a federal, state, county, and private industry (individual producer) partnership. Each year, federal funding for predator control and methods of control come under heated attack in Congress from animal rights groups. Yet, these issues have wider implications beyond the sheep and goat industries as wildlife populations expand into increasingly urban environments. The positive impact on the industry would likely be smaller than that of the previously mentioned programs. However, improved predator control would reduce industry losses and costs.

Sheep Improvement Center

The National Sheep Industry Improvement Center was established by Congress in the 1996 Farm Bill as a revolving fund to aid the sheep and goat industries. The fund is to encourage innovation and efficiency in the industries by providing credit to eligible groups. Loans, at 5.5 percent interest, can be made to enhance production methods and services, improve marketing efficiency and product quality, promote coordination and cooperation in the industry, and to create opportunities for adding value to sheep and goat producers

Summary

The wool and mohair industries have faced difficult times over the last decade. Many of the difficulties are due to world events, such as exchange rates, drought, and foreign market economic collapse. Without support, these industries face difficulties in maintaining industry infrastructure and viability.

References and Suggested Readings

Anderson, D.P., J.W. Richardson, and E.G. Smith. "Evaluating a Marketing Loan Program for Wool and Mohair." Agricultural and Food Policy Center, Texas A&M University. February 2001.