Order Code RS20896
Updated October 30, 2008

CRS Report for Congress

Wool and Mohair Price Support

Carol Canada
Technical Information Specialist
Knowledge Services Group

Summary

Price support for wool and mohair first 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. The 2002 farm bill (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 2002-2007. Most recently, the 2008 farm bill (P.L. 110-246, the Food, Conservation, and Energy Act of 2008) re-authorized marketing assistance loans and loan deficiency payments for wool and mohair producers for crop years 2008-2012.

Support 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 funded through the United States Department of Agriculture's (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

[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 January 1-December 31.

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.[2]

Amendments to the National Wool Act (P.L. 103-130, November 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.

The FY1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act (P.L. 105-277, Section 1126) authorized interest free recourse loans for mohair produced during or 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) authorized nonrecourse marketing assistance loans and loan deficiency payments for crop years 2002-2007 for wool and mohair producers.

Current Program Provisions

The 2008 farm bill (P.L. 110-246, Title I, subtitle B) provides wool and mohair producers with nine-month nonrecourse marketing assistance loans and loan deficiency

---

[2] 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.

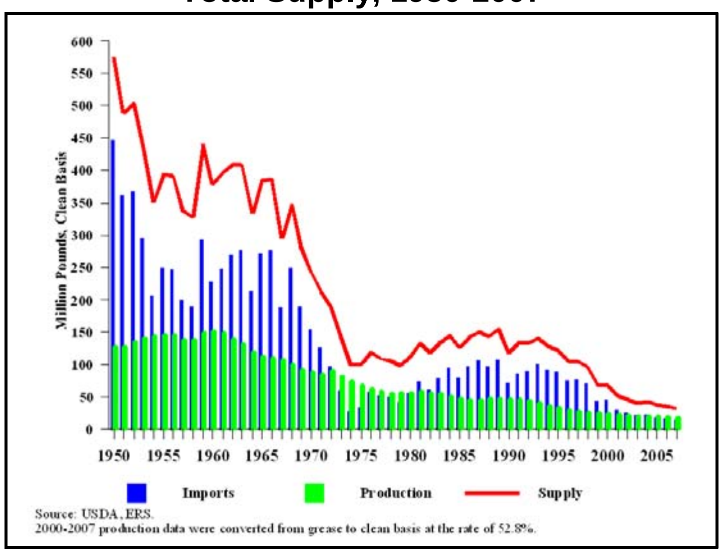
payments for crop years 2008-2012.[3] Producers who obtain nonrecourse loans pledge their crop as collateral and can forfeit their crop in full payment of the loan. The loan rate is $1.00 per pound for graded wool, 40¢ per pound for nongraded wool, and $4.20 per pound for mohair for crop years 2008 and 2009. The loan rate for graded wool increases to $1.15 per pound for crop years 2010-2012. USDA 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, and storage costs, and will allow competitive marketing of the commodity.[4] Producers who agree not to take out a loan can receive loan deficiency payments instead. The loan deficiency payment rate is the difference between the loan rate and the repayment rate.

Industry Profile

Wool

Production and Imports. In 2007, shorn wool production amounted to 34.5 million pounds (from 4.7 million sheep and lambs) with a market value of $30.3 million dollars. Shorn wool (greasy wool) is cleaned and the natural oils removed to yield clean raw wool. Sheep producers are influenced by both the price of meat (lamb and mutton[5]) and wool. Producers sell lamb and mutton when meat prices are high therefore reducing the size of their inventory. However, producers sell wool when wool prices are high increasing the size of their inventory. Some of the issues involved in sheep production include predator losses, hired labor costs, labor shortages, the cost of treating sheep for hoof and skin problems, and competition with cattle producers for grazing land, labor, water, and marketing and transportation facilities.

Figure 1. U.S. Wool Production, Imports, and Total Supply, 1950-2007



As shown in **Figure 1**, clean raw wool production stayed near 120 million pounds until the late 1960s, afterward

[3] See CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*, by Jim Monke for information on marketing assistance loans and loan deficiency payments.

[4] As of September 2008, according to USDA, Commodity Credit Corporation (CCC) estimated net outlays for wool and mohair together are $7 million in both FY2008 and FY2009.

[5] 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.

trending downward to 18.2 million pounds in 2007, its lowest point. Wool imports totaled 14.3 million pounds in 2007. Imports long have been the primary source of wool for U.S. carpet and textile manufacturers. The major suppliers of wool to the United States are Australia, New Zealand, and the United Kingdom. Wool exports historically have been much smaller than imports--less than 10 million pounds annually. In 2003, wool exports rose above 10 million pounds to 11 million pounds. In 2007, wool exports increased to 17.1 million pounds, in part, because of increased global demand for wool.

Wool and Lamb Production Legislation. In 1999, the U.S. International Trade Commission (USITC) (15 CFR 2014) ruled in favor of the United States in a section 201[6] trade case on lamb meat. The case stated that increased imports of lamb meat from Australia and New Zealand caused the threat of injury to U.S. producers. In light of the USITC's ruling, the Clinton Administration, established tariff-rate quotas (TRQs) and increased duties on imports of fresh, frozen, and chilled lamb meat. In 2001, the Bush Administration ended the TRQs on lamb meat imports to settle a World Trade Organization (WTO) dispute Australia and New Zealand brought against the United States.

In 2000, the Lamb Meat Adjustment Assistance Program, a four year program, was established to provide direct payments to lamb producers to help stabilize the U.S. lamb market. In 2001, the Ewe Lamb Replacement and Retention Payment Program was established to provide direct payments to producers to replace and retain ewe lamb breeding stock. Both programs were implemented administratively by USDA under Section 32 of the Agricultural Adjustment Act Amendment of 1935 (P.L. 74-320), as amended.

P.L. 106-200, the Trade and Development Act of 2000, authorized the Wool Research, Development, and Promotion Trust Fund. The Trust's purpose was to assist wool producers to improve wool production, disseminate information on improvements to wool production, and to help them develop and promote the wool market. This Trust is funded by the Treasury from duties on articles under chapters 51 and 52 of the Harmonized Tariff Schedule. A sunset provision in P.L. 106-200 abolished the Trust in 2004, but subsequent legislation has extended the Trust. Most recently, Section 325 of the Emergency Economic Stabilization Act of 2008 (P.L 110-343) extended it to 2015.

Wool Prices. The average price of shorn wool increased from $0.68 per pound in 2006 to $0.88 per pound in 2007. From 1954 until the 1970s, the average market price of wool remained stable at around $0.50 per pound and the national average federal program payment rate for wool remained near $0.20 per pound, so wool producers received revenue of approximately $0.70 per pound. From 1982 to 1986 and 1990 to 1995, the average payment rate greatly exceeded the average market price of wool. The

---

[6] Under section 201 of the Trade Act of 1974, domestic industries seriously injured or threatened with serious injury by increased imports may petition the U.S. International Trade Commission (USITC) for import relief. The USITC determines whether an article is being imported in such increased quantities that it is a substantial cause of serious injury, or threat thereof, to the U.S. industry producing an article like or directly competitive with the imported article. If the Commission makes an affirmative determination, it recommends to the President relief that would prevent or remedy the injury and facilitate industry adjustment to import competition. The President makes the final decision whether to provide relief and the amount of relief.

wool (and mohair) program temporarily ended after the 1995 crop (by mandate of P.L. 103-30). Support was restored for marketing years 1999 and 2000. For marketing year 1999, Section 204 of the Agricultural Risk Protection Act of 2000 (P.L. 106-224), directed that payments of $0.20 per pound be made to producers, and for marketing year 2000, Section 814 of P.L. 106-387, directed payments of $0.40 per pound (compared to the historically low average market prices of $0.38 and $0.33 per pound respectively). There was no funding for the 2001 marketing year. For crop years 2002-2007, the Farm Security and Rural Investment Act (2002 farm bill) defined the payment rate as the difference between the loan rate and the repayment rate. The 2008 farm bill continues this definition for crop years 2008-2012.

Farm Structure. According to the 2002 Census of Agriculture, 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 for territory production typically ranges from 150 to 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 for fleece production ranges from 20 to 50 sheep and typically is only a small part of a farm that may also raise cattle, hogs, and field crops.

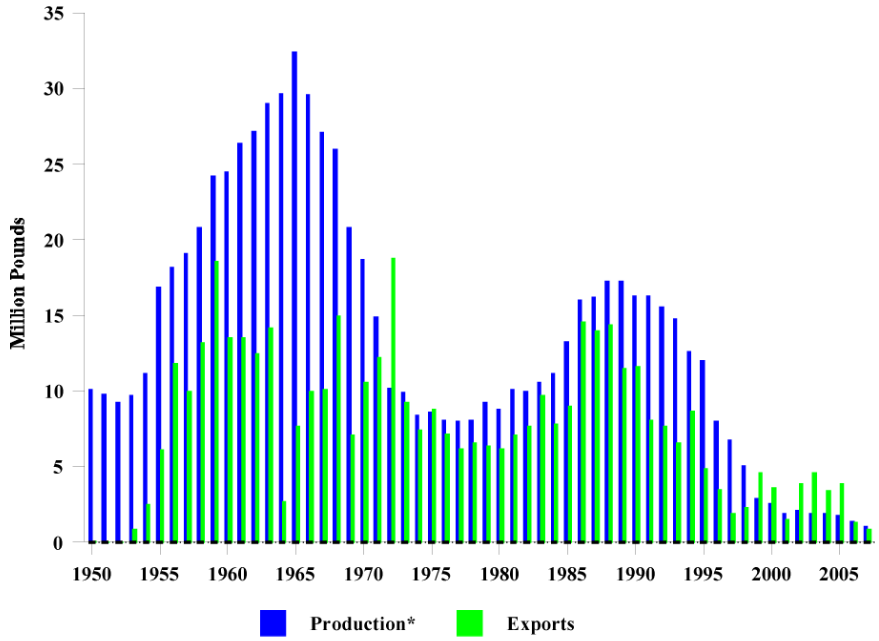
The demand for wool is affected by fashion, relative fiber prices, price variability, and the economy. Consumer acceptance of manmade fibers began in the mid 1950s. Manmade fibers, which are sometimes mixed with wool, are fashionable and offer conveniences such as drip-dry washing, no shrinking, and no moth damage. The U.S. textile industry started using noncellulosic manmade fibers (such as nylon, polyester, and acrylic) because of its relative price stability and durability. U.S. sheep and lamb prices and foreign supply and demand cause price variability because the United States has a small share of the wool market and textile mills import over half of the wool they use. 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 have little effect on U.S. prices.

Mohair

Production and Exports. In 2007, 1.1 million pounds of mohair with a value of $4.3 million dollars was clipped from 185,000 Angora goats and kids. Mohair production was 1.4 million pounds in 2006, an increase from 1.3 million pounds in 2005. According to the 2002 Census of Agriculture, there were 2,434 farms with mohair sales. The three major mohair-producing states in 2007, accounting for 90% of production, were Texas (79%), Arizona (7%), and New Mexico (4%). As shown in **Figure 2**, mohair production rose sharply in the 1950s then peaked at 32.4 million pounds in 1965.

Mohair exports were 0.91 million pounds in 2007, a decrease from 1.3 million pounds in 2006. 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 and then re-exports it. In 1972, 1975, 1999, 2000, and 2002-2005, 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 and South Africa have historically been major mohair producers and exporters.

Figure 2. Mohair Production and Exports, 1950-2007



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 are from Arizona, New Mexico, and Texas. 2004-2007 data are the U.S. total.

Mohair Prices. In 2007, the average market price of mohair increased to $3.78 per pound from $3.70 per pound in 2006. From 1955 until the mid 1960s, the average market price of mohair remained near $0.75 per pound. In the mid 1960s the average market price of mohair dropped to nearly $0.45 per pound. The national average payment rate under the federal support program remained near $0.30 per pound, which kept total revenue received by producers at approximately $0.75 per pound. Both the average market price and the national average payment rate then 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 (by amendments to the National Wool Act, P.L. 103-130). However, subsequent legislation (the Agricultural Risk Protection Act of 2000, P.L. 106-224, Section 204 and the FY2001 USDA Appropriations Act, P.L. 106-387, Section 814) was adopted that mandated mohair payments of $0.40 per pound in marketing years 1999 and 2000. There were no mohair payments in 2001. Under the 2002 farm bill, the payment rate for crop years 2002-2007 was the difference between the loan rate and the repayment rate. The 2008 farm bill continued this formula for 2008-2012.