



CONSIDER YOUR WOOL POOL IN 2019

by Julie Stepanek Shiflett, PhD

Preparing your wool for the 2019 season starts today. Ensure that your wool is kept clean and contamination is minimal, and take time this winter to understand your local wool pool. The primary marketing challenge in Kentucky and its surrounding neighbors is the relatively small volume of wool produced by each grower. Wool pools are one solution. Through collective marketing—pooling smaller clips into a larger volume—farmers can enhance returns.

Wool Pools Critical to Marketing

Wool pools serve a critical role in marketing U.S. wool. Many states across the country organize wool pools serving local wool growers. The Kentucky Sheep and Wool Producers and the Tennessee Sheep Producers Associations collaborate each year to conduct a wool pool.

The wool pool provides an essential value-added service. It will gather members' wool, grade it, pack it into bales, organize a bidding process for buyers, and then sell the wool. Wool pools are only as successful as the strength of their collective support by farmers. In general, the larger the volume of

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wool the pool can secure, the higher the price.

The key to attracting competitive bids is to expand volume. The cost of shipping wool from the wool pool to the buyer's operation is inversely proportional to the volume purchased. If a buyer's truck is packed half-full then the freight rate is double that if the truck was fully loaded. One option for any wool pool selling below this threshold is to combine efforts with wool pools in neighboring states. The more wool that a pool can offer, the more buyer interest it will receive.

Regardless of volume, there are still important steps that the pool can take to maximize farmer returns. The pool can increase competition for its wool by inviting many buyers to offer bids. It can also sort wool efficiently, so there are no surprises when the buyer processes his or her wool. If black hairs or kemp—hair sheep fibers—are found in a bale that is labeled white faced wool, the buyer may not return. Last, the pool can offer attractive packaging by baling wool in large, standard commercial bales.

Wool Pool Pricing

The wool pool contacts the wool buyers and collect bids for the pool in mid-April of each year. The highest bidder is immediately notified of their winning bid. The buyer is awarded all of the wool pool's volume. The

pool then conducts the pool two months later in mid-June. Therefore, the wool is sold before it is collected. The farmers know what price they will receive on their wool before they drop it off at the pool.

The wool pool offers prices based upon wool bids by buyers and wool grades received from growers. There are five grades of wool, with prices set according to wool grade. Last year, buyer and farmer prices at the wool pool were as follows: \$0.48 per lb. white face, \$0.48 per lb. black face, \$0.38 per lb. short (e.g., lamb wool), \$0.41 per lb. for burry wool (full of cockleburs), and \$0.08 per lb. for black wool. Black wool is any wool that is not pure white or has any black fibers in it. The pool charges growers a \$0.04 per lb. marketing fee to cover processing costs, wool packs, and any repairs or maintenance on the balers. Additionally, a membership fee is required.

Wool Value in Marketing

Sheep producers spend a lot of time caring for their flock through the year; thus, equal consideration of how to market wool can yield additional rewards for a year's worth of effort.

The price received for the pool's wool is directly linked to its reputation. If a buyer finds contaminated wool in a bale, the pool's reputation can be severely damaged. Mark

Powell, secretary/treasurer Tennessee Sheep Producers Association, attributes good prices to the role of the pool: "This effort includes careful grading, eliminating hair or kemp from the wool, avoiding mixing dark wool fibers in the white wool, and marketing clean wool," (11/14/18).

An efficient marketing system will reward higher quality wools to promote desirable industry traits, such as clean white wool. As desired, the amount of inferior wool with black fibers was relatively low at the Tennessee/Kentucky wool pool. Last year, 13 percent was wool with black fibers, 13 percent was short (lambs' wool), 30 percent was white faced wools, and another 43 percent was black faced wool. A negligible amount was burry wool.

Overall, farmers are commended for keeping wool sheep and hair sheep separate, but there is still some room for improvement in management practices by keeping black fibers out of white wool. The white faced and black faced wools received 48 cents per lb. each, but the wool with black fibers received 83 percent less, 8 cents per lb. Producers can greatly increase returns by keeping white and black faced sheep separate, and black fibers out of white faced wools.

One potential downside to wool pools is that there are only a few broad graded categories. Within one grade, white faced wool, for example, there may be different microns of wool that are not recognized. In the U.S. and internationally, micron (fiber width) is the most important factor determining price. For example, the Dorset breed can produce wool ranging from 27 to 33 micron. A core test can reveal the exact micron. The difference of six micron can yield a price difference of 20-80 cents per lb. greasy in the United States.

2019 Wool Price Forecasts

This spring, the U.S. wool market will again look toward Australia to set prices. Towards the end of 2018, the Australian wool market was facing severe headwinds. Prices saw a downward slump during the fall, yet prices were still high historically. China is the largest raw wool imported worldwide. Yet, the Chinese economy was facing an economic slowdown in late 2018 which was exacerbated by the U.S.-China trade war. Raw wool purchases by China were historically driven by income growth of higher income countries such as the U.S., Europe, and Japan, but in recent years, Chinese demand--particularly by its rising middle class--has played a more significant

role in defining China's raw wool demand.

While international raw wool demand has softened, tighter supplies internationally and a possible lower U.S. sheep inventory this January could lend support to U.S. wool prices in 2019. In Australia, the world's largest raw wool exporter, a severe drought will likely catch up with its wool production in 2019. The Australian Wool Production Forecasting Committee forecasted that 2018/19 wool production could be down 6 percent year-on-year to 322 million kgs (9/3/18). It explained that continuing dry conditions across most of the country resulted in high sheep and lamb sales -- up about 10 percent year-on-year.

A more immediate concern for U.S. wool growers is the potential rise in retaliatory tariffs by China--the U.S.'s largest wool buyer--on U.S. wool. As of this writing, the retaliatory tariff had jumped from 1 percent on U.S. wool before the trade war to 10 percent in the fall, with the threat of a rise to 25 percent this January.

It is anticipated that Chinese buyers--and others-- will ask for a price discount equal to the tariff this season, or, even worse, will not buy U.S. wool at all. If domestic wool buyers are buying western wools at a lower price level this spring, this might, in fact, also depress wool pool price offers.

Diversification of U.S. raw wool export markets will be essential to managing the tariff war, and a key determinate of U.S. wool prices this spring. While roughly 60 percent of U.S. raw wool is currently exported to China, other export markets are available, although the volume demanded is lower. The U.S. could expand raw wool exports to India, Eastern Europe, and to a lesser extent, Western Europe.

Demand Prospects for Coarser Wools

Enhanced demand for coarser wools has the potential to propel the value of coarse wool higher. While the wool pool mostly handles relatively coarser 30-31 micron wools, most wools processed in the U.S. or shipped overseas are finer than 30 micron. There is not a lot of demand for coarser wools compared to the more fashionable finer wools. That said, all wools have value. Coarser wool is utilized by mixing it in with 27-28 micron wools, a little at a time. Domestic wool blankets made for the U.S. military is a good example.

About three-quarters of New Zealand wool is coarse, and demand is struggling. This market faces a shrinking demand for wool carpets that is rapidly transforming toward synthetic substitutes. The Wool Research Organization of New Zealand and the New

Zealand Ministry for Business, Innovation and Employment are researching the creation of new markets for coarse wools by breaking down the fiber into smaller parts with very fine wool-fiber width (micron). "Successfully deconstructing coarse wool to create new materials is a major breakthrough that has the potential to add huge value to the wool industry," (Voxy.co.nz, 10/29/18).

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