PROPOSED AMENDMENTS TO THE MEAT IMPORT QUOTA ACT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

FEBRUARY 27, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

25-356 O WASHINGTON : 1978

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CONTENTS

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

COMMUNICATIONS

PROPOSED AMENDMENTS TO THE MEAT IMPORT QUOTA ACT

MONDAY, FEBRUARY 27, 1978

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:45 a.m., in room 2221, Dirksen Senate Office Building, Hon. Lloyd Bentsen, presiding.

Present: Senators Bentsen, Haskell, Curtis, Hansen, and Dole.

[The committee press release announcing this hearing follows:]

U.S. SENATE,
COMMITTEE ON FINANCE,
February 17, 1978.

PRESS RELEASE

FINANCE COMMITTEE TO HOLD HEARINGS ON MEAT IMPORTS

The Honorable Russell B. Long, (D., La.), Chairman of the Committee on Finance, today announced that the Committee will hold public hearings on proposed amendments to the Meat Import Quota Act (P.L. 88-482). The hearings will be held at *10:00 a.m., Monday, February 27, 1978, in Room 2221 of the Dirksen Senate Office Building.*

Requests to testify.—Chairman Long stated that witnesses desiring to testify during these hearings must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, *not later than Wednesday, February 22, 1978.* Witnesses will be notified as soon as possible after this date as to when they are scheduled to appear. If for some reason the witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—Chairman Long also stated that the Committee strongly urges all witnesses who have a common position or the same general interest to *consolidate their testimony* and *designate a single spokesman* to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views than it might otherwise obtain. Chairman Long urged very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—In this respect, he observed that the Legislative Reorganization Act of 1946 requires all witnesses appearing before the Committees of Congress to "file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument." Chairman Long stated that in light of this statute, the number of witnesses who desire to appear before the Committee, and the limited time available for the hearings, *all witnesses who are scheduled to testify must comply with the following rules:*

1. All witnesses must include with their written statements *a summary of the principal points included in the statement.*

2. The written statements must be typed on letter-size paper (not legal size) and at least *75 copies* must be submitted before the beginning of the hearing.

3. *Witnesses are not to read their written statements to the* Committee, but are to confine their 10-minute oral presentations to a summary of the points included in the statement.

4. *No more than 10 minutes will be allowed for the oral summary.*

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.—Witnesses who are not scheduled to make an oral presentation, and others who desire to present their views to the Committee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building *not later than Friday, March 17, 1978.*

Senator BENTSEN. The hearing will come to order.

The Finance Committee is meeting today to hear testimony on the impact of beef imports on the domestic beef industry including cow and calf operations, feedlot operators, slaughterers, and processors.

I do not believe anyone can question that the domestic beef industry, as a whole, has been seriously hurt in the past several years.

The fact that imported, frozen, boneless beef comprises 15 to 20 percent of the total U.S. processing beef supply illustrates the seriousness of the problem. While it is true that some segments of the industry are doing better than others, as a whole, the industry is in bad shape.

In my State, many cattlemen, the backbone of an industry that puts billions of dollars of beef on American tables every year, has been hurt seriously. Many have been forced out of business. Only by selling part of the family ranch, having income from operations other than cattle or by skimping on badly needed family supplies and purchases while going deeply into debt, has a terribly painful human and economic problem been prevented from turning into an unmitigated disaster.

Imports of beef have contributed to the problem.

I am determined that this problem be dealt with firmly, to put a stop to a current situation which allows imports to increase at the same time that domestic producers are liquidating their cow herds.

I will introduce legislation today to impose reasonable quotas on the amount of beef which can be imported into the United States. I recognize that beef imports should never be cut completely off.

Under this proposed legislation, imports would always remain at least 2 percent of domestic commercial production, but in order to protect the already depressed domestic beef industry, imports would be kept at that 2 percent level until the average price for domestic beef rises above 80 percent of parity.

This piece of legislation would reverse the boom and bust cycle in the cattle industry by allowing increased imports during periods of high prices and reducing imports during periods of depressed prices. This countercyclical control of imports will add stability to the cattle market and assure the U.S. consumer a high quality of beef at reasonable prices.

Additionally, this legislation will close the loophole that allows live cattle to enter the United States to be slaughtered and counted as domestic production.

I have also been concerned about the quality of beef imported into the United States. I believe that the consumer should know whether or not the beef they buy in the supermarket is domestic production. Also the producer in foreign countries should have to meet the same quality standards imposed on our cattle industry for the protection for our American consumer.

There are several bills currently before the Finance Committee dealing with the beef imports including the legislation I am introducing. I am hopeful that the testimony on these bills this morning will enable the committee to formulate a prompt and effective solution to this serious problem.

We have a number of members on this committee who have long been involved with the cattleman's problems. Senator Carl Curtis of Nebraska, Senator Haskell of Colorado, and Senator Hansen, and I see a number of my distinguished colleagues out in the audience who are participating.

Senator CURTIS. Mr. Chairman, I want to thank you for arranging for these hearings. I want to commend you for what you are trying to do. I am sure it has the appreciation of agriculture generally and, in particular, all of the phases of the cattle industry.

I would like to include in my opening remarks a summary of the Meat Import Act of 1964. It shows what the Senate did at that time, what happened in conference, and it has some statistics relating to the imports, so if I may include that?

Senator BENTSEN. Would you have further comment?

Senator CURTIS. No.

[The material referred to by Senator Curtis follows:]

Re: Meat Import Act of 1964.

The quotas provided by the Senate Bill in general closely approximated the average annual imports of beef for the 5-year period ending December 31, 1963.

Under the Senate Bill, quarterly quotas were imposed upon the importation of beef (and beef products), mutton, and lamb imported after December 31, 1964. The amount of these quarterly quotas are as follows:

	Pounds
Cattle meat, fresh, chilled or frozen	168,500,000
Sausage, other than pork	550,000
Prepared or preserved beef and veal	28,700,000
Goat and sheep meat, fresh, chilled, or frozen	12,850,000
Lamb meat	3,200,000

These restrictions were imposed upon the number of pounds at which the various articles are entered for customs purposes. Generally speaking, in the case of cattle meat, for example, the carcass weight equivalent of boned beef may be determined by multiplying the weight of the boned meat by one-half. Inasmuch as a large part of the beef imported into this country is in the form of fresh, chilled, or frozen boned beef, when converted into carcass weight equivalents the quota in category (1) above would be 1,011 million pounds on an annual basis.

The bill provided for increases in these quotas whenever two conditions are met. First, if the average price received in the United States for the meat in question equals or exceeds 90 percent of the average parity price for such meat, and second, if the domestic slaughter of the animal involved exceeds specified amounts (7,352 million in the case of beef) in 6-month periods, the quotas provided by the bill are to be increased in the same ratio as the domestic slaughter increases.

The Conference substitute provided that it is the policy of the Congress that the aggregate quantity of the articles specified in items 106.10 (relating to fresh, chilled, or frozen cattle meat) and 106.20 (relating to fresh, chilled, or frozen meat of goats and sheep (except lambs)) of the Tariff States in any calendar year beginning after December 31, 1964, should, not exceed 725,400,000 pounds; except that this quantity shall be increased or decreased for any calendar year by the same percentage that estimated average annual domestic commercial production of increased or decreased in comparison with the average annual domestic commercial production of these articles during the years 1959 through 1963, inclusive.

SUMMARY

The Senate bill provide a quota on a yearly basis of 855,200,000 pounds and provided two tests for increasing the quota: (1) Domestic price exceeds 90% of parity, and (2) domestic slaughter exceeds specified amounts.

The Conference substitute reduced the quota to 725,400,000 pounds and provided for an adjustment based on the ratio of production to base period production (1959-1963).

In addition, there are attached statistics relating to imports and consumption for meat and nine other products.

[In millions of pounds, product weight—848 million pounds]

	Public Law	Senate Bill
Year:		
1965	848.7	855.2
1966	890.1	855.2
1967	904.6	855.2
1968	950.3	855.2
1969	988.0	855.2
1970	998.8	855.2
1971	1,025.0	855.2
1972	1,042.4	855.2
1973	1,046.8	(1)
1974	1,027.9	(1)
1975	1,074.3	855.2
1976	1,120.9	855.2
1977	1,165.4	855.2

1 Similar to Public Law.

Ratio of beef and veal imports to domestic consumption

1975:	
Imports (millions pounds)	1,781
Consumption (millions pounds)	26,274
Ratio (percent)	6.8
1976:	
Imports[1] (million pounds)	2,006
Consumption (million pounds)	28,287
Ratio (percent)	7.1

1 Includes 45 million pounds of cubed beef entered from trade zones.

Senator BENTSEN. Mr. Hansen?

Senator HANSEN. Mr. Chairman, thank you very much for calling this hearing. Let me say that the problem, I think, is clear to everyone. Simply stated, it has been that the costs of production during the past several years have far exceeded what producers have been receiving for their animals. During this same period, when cattlemen throughout the United States were going broke, the amount of beef imported from foreign countries steadily increased.

Cattlemen have contended that the present meat import law works backwards from the way it should. The law bases imports on domestic production, so that when the domestic supply of meat increases, so does the amount of foreign meat that can be imported. The more sensible approach might be to reduce imports when our own supply is high and increase imports when the domestic supply is down. That is the philosophy of several of the bills which we will be discussing this morning.

Cattle prices have improved somewhat in recent months but, in my opinion, we still need to consider the question of whether the import law should be amended in order to prevent further disasters such as the one cattlemen have faced these past several years.

Mr. Chairman, I spoke with the executive vice president of the Wyoming Stock Growers Association over the weekend and he expressed concern about our taking any action to increase imports now that the market appears to be starting an unswing. I certainly agree with him that we would not want to take any action that would, in any way, jeopardize the return to decent prices for the industry. But I should think that we might be able to come up with a bill to better protect our livestock industry during periods such as we have experienced in the past 36 months.

Mr. Chairman, may I observe further that Senator Robert Dole, who is extremely interested in this problem that has been plaguing the livestock industry for the last several years, expressed his disappointment at not being able to be here this morning. He is serving as a member of the Committee on Agriculture as well as the Finance Committee, and he has been engaged in hearings which were convened before the Agriculture Committee at 9 this morning.

I therefore ask unanimous consent that a statement he has prepared and would have delivered were he able to have been here be included in the record at this point.

Senator BENTSEN. Without objection. Senator Dole's long interest is well understood. I might say, Senator Hansen, the legislation I am talking about introducing today would, in my opinion, in no way hurt the recovery price in cattle. It is based on the South Dakota Department of Agriculture study, and I have some bias toward South Dakota, since my parents came from there.

[The prepared statement of Senator Robert Dole follows:]

STATEMENT OF SENATOR BOB DOLE

Mr. Chairman: I would like to express the thanks of the cattlemen and other livestock producers of this Nation for scheduling these hearings on the important matter of meat imports and to consider several bills that have been introduced to amend the Meat Import Quota Act of 1964.

When that law was passed, I was a member of the House of Representatives and on the House Agriculture Committee. I supported the bill because it was needed and it still is needed to act as a buffer against excessive importation of meat that could destroy our meat producers, but to also assure our consumers of a more stable supply of meat at reasonable prices.

Mr. Chairman, February 6th I introduced S. 2492, a bill to amend the Meat Import Quota Act to provide some necessary improvement. There is a major flaw needing correction and several clarifying amendments in order to make the law more equitable and workable. The prime thrust of my bill is designed to build into the Meat Import Act what is referred to as a counter-cyclical formula. As now structured, the law permits more meat to be imported in those years when U.S. beef production is high and less when production is down. It should be just the opposite.

Under the suggested formula, yearly import quotas would be adjusted in inverse proportion to changes in per capita U.S. production of cow beef. At present, import quotas rise or fall along with the same trends in total U.S. beef output. The suggested formula would have imports decreasing when U.S. production of cow beef increased cyclically, and vice versa. This would help provide more stability of supplies and prices.

Cattle industry spokesmen and others have recommended the counter-cyclical approach.

As previously noted, the quota formula change is one of a number of changes in the law which are needed.

Other proposed changes are (1) all beef and veal, regardless of form or origin should be covered. The law now covers fresh, frozen or chilled.) These amendments also are needed to prevent any further circumvention of the law. (2) Quarterly rather than annual quota determination—so that we will not have a disportionate share of a year's quota crowded into a single quarter, causing an abnormal impact in a short period. (3) A study of past imports and recommendations to assist in the prevention of disproportionate shipments through limited numbers of ports of entry.

In developing a counter-cyclical formula, it was concluded that cow slaughter and per capita cow beef production are the best indicators of a specific stage of the cattle cycle. Also, the formula addresses itself to the fact that boneless beef imports are more competitive with cow beef than with other types of domestic beef.

The suggested new formula is shown in Table 1. As you can see, the adjusted base quota as currently determined under the law would be further adjusted to reflect the cyclical changes in per capita cow beef production.

The numerator of the modifying fraction is a 10-year moving average of per capita cow beef output. A 10-year moving average is used because this is the approximate length of a cattle cycle; it introduces the cyclical factor in domestic production. The denominator of the fraction is an average of two years' per capita output-production in the year prior to the year under consideration and estimated production in the year for which the quota is being determined. Using these two years a part of the formula updates the adjusted base quota.

The figures in the ratio fraction in Table 1 represent per capita cow beef production on a carcass weight basis. The adjusted base quota and proposed new quota are on a product weight basis.

Table 2 shows how the suggested change would have worked in the past and how it would work in the future in determining quotas. The second column in the Table is the ratio which is obtained by dividing as shown in Table 1. When this ratio is multiplied by the adjusted base quota under the current formula, one comes up with the proposed new quota.

The final column in Table 2 shows the amount by which the new quota would vary up or down from the quota as determined under the present law. During the last four years—the liquidation period of the current cycle—the quota would have been less each year.

Mr. Chairman, the counsel on the Agriculture Committee advises me that a technical amendment needs to be made to this legislation and I have arranged for him to work with the Finance Committee counsel to make this correction in any future markup concerning this legislation. In closing, Mr. Chairman, I want to emphasize that I have but one concern and that is that a more reasonable application of the Meat Import Quota Act of 1964 be devised. I am familiar with the other bills we consider and could support whichever the committee feels is most likely to pass—as long as it accomplishes the desired effect of stabilizing the meat imports in some counter-cyclical form, rather through a formula such as I suggest, or possibly through a system of variable duties such as Senator Bellmon has introduced in his bill, S. 2484.

Either bill will provide adjustments, so that more meat would be imported during periods of short supply (and higher prices) and less during periods of abundant domestic supply (lower prices). Such a concept is definitely in the interest of the general consumer of the nation since it would bring about more price stability, but most important assure an adequate supply of beef at all times in the future.

TABLE 1. *Proposed formula to amend meat import law of 1964*

$$A \times \frac{B}{C} = Q \text{ (New proposed quota)}$$

A=Adjusted Base Quota as calculated under the 1964 Meat Import Law.
B=Base period—This is a 10-year moving average of per capita production of commercial cow beef. It is the 10 years prior to year under consideration.
C=Average of two-year per capita cow beef production—including the year previous to an an estimate of the year under consideration.

Example for 1977:

$$\underset{(A)}{1165.4 \text{ million lbs.}} \times \frac{\overset{(B)}{17.98 \text{ lbs.}}}{\underset{(C)}{23.25 \text{ lbs.}}} = \underset{(Q)}{897.4 \text{ million lbs.}}$$

(New quota would equal 1,229.4 million lbs. on carcass weight equivalent basis, or 5.7 lbs. per capita.)

TABLE 2. HOW THE PROPOSED CHANGE WOULD HAVE WORKED AND WILL WORK

[All figures product weight]

	Adjusted base quota (from Meat import law of 1964) (million pounds)	Ratio—base period ÷ by 2-yr average	New proposed quota (million pounds)	Differences from adjusted base quota (million pounds)
Year:				
1965	848.7	1.03	874.2	+25.5
1966	890.1	.96	854.5	−35.6
1967	904.6	.98	886.5	−18.1
1968	950.3	.98	931.3	−29.6
1970	998.8	1.03	1028.8	+30
1971	1025.0	1.07	1096.7	+71.7
1972	1042.4	1.10	1146.6	+104.2
1973	1046.8	1.11	1161.9	+115.1
1974	1027.9	1.03	1058.7	+30.8
1975	1074.3	.78	837.9	−236.4
1976	1120.9	.70	784.6	−336.3
1977	1165.4	.77	897.4	−268.0
1978 [1]	1150.0	.89	1050.2	−128.7
1979 [1]		1.02		
1980 [1]		1.09		
1981 [1]		1.13		

[1] Estimates.

Senator BENTSEN. Senator Haskell?

Senator HASKELL. Thank you, Mr. Chairman.

Mr. Chairman, I would ask unanimous consent that the statement I have prepared be included in the record. I would also like to make a brief comment at this time.

I think from the beef industry's viewpoint, what Senator Hansen referred to as the backward operation of quotas is a very serious deficiency in the present law. I believe that you, Mr. Chairman, referred to the inadequate inspection and standards applied to foreign beef, and I would like to congratulate all concerned, including the distinguished Senator from Montana, for addressing this problem. I think it is absolutely necessary that deficiencies in the current law be corrected for the survival of the beef industry in our Nation.

Thank you, Mr. Chairman.

[The prepared statement of Senator Haskell follows:]

STATEMENT OF SENATOR FLOYD HASKELL

I am delighted that the Committee is holding hearings today on meat imports. Our cattlemen have been in serious economic straits in recent years. These hearings provide a good opportunity to examine new policies to lead us out of the boom-bust cycle and return our vital cattle industry to stability and prosperity.

I believe we should change the current meat import policy which actually reinforces the boom-bust cycle. Our goal should be stability in the beef market. We can achieve that goal with a countercyclical policy on meat imports. Such a policy would take into account the difficult situation our cattle industry faces when it is going through a liquidation phase. A countercyclical approach would also protect the consumer by allowing proportionately more imports when prices are high.

I have followed closely the condition of our domestic cattle industry, and I am anxious to hear from members of the industry and other witnesses whom we have before us today. I look forward to hearing their positions on the legislative proposals which have been introduced and referred to the Finance Committee. I will take a close look at these proposed legislative solutions myself in the days to come, and I will be joining with other Senators in supporting legislation which will insure the future health and prosperity of our cattle industry.

We are pleased to have, as our first witness, Senator Melcher of Montana, a man who has been consistently a leader in formulating sound agricultural policies of great benefit to our domestic agricultural producers.

Senator Melcher?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BENTSEN. Senator Melcher?

Senator MELCHER. Thank you, Mr. Chairman.

I am advised that the time available for these hearings is short, so I shall be very brief this morning and file a memorandum with the committee going into greater detail.

The cattle industry has been in a depressed situation for 4 years. Losses of $50 to $100 per head, and even more, have been commonplace. Those are the kind of losses that even well-financed ranchers cannot stand very long.

Among other things, the industry needs relief from a growing volume of imports of both meat and live animals which have worsened this price problem.

The 1964 Meat Import Act, by covering only certain tariff classifications, has no effect on the flow of imported beef that is processed or cooked in any way. Such beef, including hamburger, cubed, diced, flaked, or heated up and then refrozen, is allowed entry outside the quota and can come into the United States in unlimited quantities.

I want to point out, Mr. Chairman and members of the committee, that first of all, from a hoof and mouth country such as Argentina, if the beef is heated to a certain temperature and then refrozen, it is allowed entry into the United States outside any quota. I want to point out, under the 1964 act, that if a country is running out of its quota or approaching limits established in the quota, all it needs to do is to process the beef a little. It could be in the form of hamburger or it could be just cut up into chunks so it would be classified as processed and come in under different tariff classifications.

That kind of beef coming into the United States, imported into the

United States in 1976, amounted to about 14 percent of the total imports.

It is important, I think, for the consumers to know that once having gained entry into the country, beef that is imported sells at the same prices as U.S.-produced beef does. However, there is a significant point, and I commend you, Mr. Chairman, for pointing out that consumers ought to be able to know what they are buying.

Certainly, when you are buying imported beef that is fresh, frozen, or chilled, or even in a partially cooked form, it has already been once frozen. It was slaughtered weeks ago and then frozen and brought into the United States. So you are not buying the freshest beef in the world. You are buying some that has got some time on it since it was slaughtered. I suppose it is an average of 6 weeks, maybe 8 weeks, and it has been once frozen. I think that consumers ought to know that so if they want to refreeze it, they will know they are refreezing it. It is not being frozen for the first time.

Senator HANSEN. Would the Senator yield?

Senator MELCHER. Yes.

Senator HANSEN. As his colleagues know, the Senator not only very ably represents the State of Montana, but he has background and considerable expertise in this area as well, being a veterinarian.

The U.S. Department of Agriculture, I understand, recommends to housewives that meat not be refrozen. Am I right about that?

Senator MELCHER. That is generally true. Each time it——

Senator HANSEN. Do you see anything inconsistent, then, with the way imported meat may be handled and the advice that the Department gives to housewives in this country?

Senator MELCHER. It certainly is inconsistent, because if you are buying imported beef, you should know it was frozen before you purchased it, so you can use your own options if you want to refreeze it again. I think everybody ought to know what they are buying.

The law, as it is now, leaves an unlimited loophole on total quantity imported. Any amount could be brought into the United States under the tariff classifications to which quotas do not apply.

It is hurting the U.S. beef producers and it does not help consumers because we have plenty of U.S beef which is both fresher and, in my judgment, much more wholesome. Closing of this loophole will help both producers and consumers, stabilize American production, and help our basic agriculture economy while improving our balance of payments with fewer dollars going abroad.

In S. 294, introduced a year ago, I was attempting to close loopholes in the 1964 import quota law by including fresh, frozen, or chilled meat superficially processed under the quota limitations, to eliminate the 10-percent trigger allowances and give the President the same authority to reduce the quota level when domestic supplies are high as he has the authority to suspend quotas when our domestic supplies are low. There is now need for a measure which will do these things and others.

First, we should include all imported beef, fresh, chilled, frozen, processed, preserved, cooked, or canned under the 1964 limitation.

Two, we should provide for raising and lowering the quota level inversely to domestic supply.

Three, we should eliminate the 10-percent target or trigger allowance in the 1964 act. And surely there is no real justification of a 10-percent trigger allowance.

Four, impose a quota on live cattle not to exceed the average of imports in the 3-year period ended December 31, 1976, and provide that such entries are appropriately spaced geographically and over time so that they will not flood and depress a few individual marketing areas.

During the hearings today, proposals along all of these lines will be submitted to the committee. The National Cattlemen's Association and our colleague, Senator Bellmon, have very thoughtful proposals for an inverse quota system which should be considered. Because of the limited time available for these hearings, I will submit a statement for the committee that will go into greater detail than I outlined here this morning, Mr. Chairman.

Senator BENTSEN. Thank you very much, Senator Melcher, for your contribution to the hearings.

Are there questions of the witness?

Senator CURTIS. Mr. Chairman, the distinguished Senator from Montana has a very good statement. There are a number of points I would like to emphasize, but, due to the shortness of time, I shall not.

I will just ask one question. Do you feel that the way the present law works out in increasing the import quota when domestic production increases, that it actually results in an increase of imports at a time of depressed prices?

Senator MELCHER. Absolutely, and it does not make sense for anybody. It does not help consumers and it sure as the devil hurts producers.

Senator CURTIS. You may be interested that in the act of 1964, the Senate bill provided that there would be no increase by reason of increased consumption in this country in any year that the cattle price was not 90 percent of parity. We lost that provision in conference, but had that prevailed, in 1977 our quota would have been 855.2 million pounds. But it actually was 1 billion, 165.4 million pounds.

Thank you, sir.

Senator BENTSEN. Thank you.

Senator Haskell?

Senator HASKELL. No questions.

Senator BENTSEN. Senator Hansen?

Senator HANSEN. The Federal Meat Inspection Act makes a number of demands upon importers. Section 20 of that act as amended provides, among other things, that meat and meat products prepared or produced in foreign countries may not be imported into the United States unless they comply with all the inspection, building construction standards, and all other provisions of this chapter.

Section 20 further provides that all such imported articles shall, upon entry to the United States, be deemed and treated as domestic articles subject to the provisions of this chapter.

I think that it is clear that section 20 intends that foreign meat exporting countries enforce inspection and other requirements with respect to the preparation of the products at least equal to those applicable to preparation of like products at federally inspected establishments in the United States, and that the imported products be subject to inspection and other requirements upon arrival in the United States, to identify them and further, to assure their freedom from adulteration and misbranding at the point of entry.

However, section 20 does not provide that the imported products be inspected by U.S. inspectors during their preparation in the foreign countries.

I understand that veterinarians, by and large, do most of the inspecting of slaughter plants in the United States. Is that right, or people qualified as a veterinarian would be?

Senator MELCHER. They are in charge, and any of the inspectors that are not veterinarians, the so-called lay inspectors, are under the supervision of veterinarians.

Senator HANSEN. Do you think that the method presently being followed to permit the importation of meat into this country results in the same high standard of excellence in foreign countries and in slaughtering plants in foreign countries as we have in this country?

Senator MELCHER. There are some countries that have very good inspection service comparable to ours. I think it is fair to say that Canada probably does.

However, there are a lot of countries that do not, and since we have quotas established for over 40 different countries we are probably letting down our guard on wholesomeness through the inspection process in many countries throughout the world.

I think you have touched on one key point. I have never been convinced that we have rigidly enforced requirements that every establishment abroad meet our requirements as to construction facilities and all that goes with it. I do not think that in many countries our requirements have been rigidly enforced.

I was particularly outraged a few years ago when I found out that the veterinarians who go around the world to these various plants that are licensed and approved to slaughter animals and send their product to this country were actually following a very haphazard scheme of inspection to make sure that the foreign plants meet our criteria so we can be reasonably sure that they meet the same standards as we do.

At that time, a half dozen years ago, the veterinarian that would be visiting a country was cleared by the State Department and the State Department in turn notified the country to be visited so they could tell their packers that a veterinarian would be coming to inspect them and about when he would be there.

That is the neatest way to clean up the kitchen I have ever heard of. You do not have to clean it up too often, just once a year or so.

Senator BENTSEN. Well, how are they going to have proper entertainment available for him unless they——

Senator MELCHER. Right.

Now, things have a habit in the bureaucracy of slowing down and quitting every now and then. We found out last fall that there had not been any travel authorized for some of these veterinarians going abroad for several months, and that had become known. So it was a free ride during that period of time for those plants that did not have any inspectors from here.

It was a clear violation of the intent of the law. We talked to Bob Bergland about it and he quickly reversed it, of course, and put those inspectors out again.

But I have never been satisfied that many countries—probably over half—have the same degree of inspection, the same thoroughness for wholesomeness and health, that we have.

Senator HANSEN. That is the same impression that I have gotten, Senator Melcher.

Senator BENTSEN. Thank you very much, Senator. We are fortunate to have someone in the Senate who has such an intimate knowledge of this particular problem and such a deep interest in it. Thank you.

Senator MELCHER. Thank you, Mr. Chairman.

Senator BENTSEN. Because of the limitations on time, and I notice that we have taken about 30 minutes now, we have to rule that the testimony of the witnesses be limited to 10 minutes. We are going to have to enforce that limitation and, in turn, let's limit the questions of the members of this committee on the first round to 5 minutes, if that is agreeable.

I hate to reemphasize but one of the most knowledgeable witnesses is about to appear. Senator Bellmon, who has been very much involved in this problem as a senior member of the Agriculture Committee, has a great deal of experience in farming and ranching. He has some very important legislation introduced on various aspects of this problem.

Would you come forward, please, Senator Bellmon, and would you introduce those who accompany you?

Senator BELLMON. Thank you, Mr. Chairman.

With me on my right is, first of all, Mr. Chuck Bellman from Wecota, S. Dak. I want to hasten to add that there is no relationship here. He just happens to be in the cattle business and in the farming business.

Senator BENTSEN. Well, he is from a great State, Senator.

Senator BELLMON. Agreed.

And also Mr. Vogel of Hoven, S. Dak., and Mr. Rohweder of Wishek, N. Dak.

These gentlemen, I might say, came to my office some weeks ago with a proposal which has now been reduced to legislation in the form of S. 2482 which I introduced on February 2 and I would like, Mr. Chairman, after making a very brief statement, to call upon them to explain the legislation.

Senator BENTSEN. We would be very pleased to hear them.

Senator BELLMON. I am not sure that we can get this all done in 10 minutes, but we will do our best.

Senator BENTSEN. Let's try.

Senator BELLMON. Mr. Chairman, I have a prepared statement. I ask unanimous consent that it be made a part of the record, and I will highlight it.

Senator BENTSEN. Without objection, your statement will appear in the record in full.

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator BELLMON. As members of the Finance Committee perhaps know better than anyone else, the beef industry has really gone through the ringer in recent years, particularly in the last 3 years. We have the Meat Import Act of 1964 which has helped us, but it has not worked as well as I think most of us thought it would work, and hoped it would work.

In the act, as the committee knows, the level of imports is pegged at 7 percent of our domestic consumption so that as consumption goes up, the level of imports goes up, and it works to the very worst advantage in the very worst way as far as producers are concerned. When the supply of beef goes down, the level of imports goes down, so it works against consumer interests in that event.

What S. 2484 does is to remedy this deficiency by putting into place a countercyclical system so that, as the level of beef production in this country goes up, the level of imports goes down and then when our production goes down, the level of imports is allowed to rise.

Some in the cattle industry are going to say why should we have such a change right now when we are finally about to get into a profitable situation? Well, the truth of it is that, every time in the past when the level of domestic production has gone down and prices begin to strengthen, then the quota system is removed anyway. So I do not believe this bill will damage the interests of the beef producer and, in fact, I think in the long run it will be very beneficial.

I have already introduced the men who are with me at the witness table. I have already said these men are primarily responsible for developing this legislation. I believe that they can do a better job of explaining it than I can and so, with the committee's indulgence, I would like to now introduce Mr. Bellman who will explain the bill and who will be able to answer any questions that they might have.

STATEMENT OF CHARLES J. BELLMAN, WECOTA, S. DAK., CONCERNED CATTLEMEN OF THE DAKOTAS TERRITORIES, ACCOMPANIED BY LEROY VOGEL, HOVEN, S. DAK., AND RAY ROHWEDER, WILSHEK, N. DAK.

Mr. BELLMAN. Mr. Chairman, my name is Chuck Bellman and our task force, which is the task force called the Concerned Cattlemen of of the Dakotas, has been instrumental in the development of this bill along with the South Dakota Department of Agriculture, and we believe that Senator Bellmon's bill addresses itself very adequately to the problems that we now face.

You probably have some of my testimony up there, but rather than dwell on the 1964 Meat Import Law, I would like to refer to about page 5 where we discuss what S. 2484 will do for the cattlemen, and the consumers, too, by the way.

I would like to make one comment, though, before I start that, about the 1964 Meat Import Law. We believe that it has caused overliquidation of the cowherd and as a result of that has taken cows from relatively nonproductive land. This land, then, has been plowed up and put into grain production and this has caused a double negative effect on the agricultural sector of the economy.

So if you would turn to page 5, I will attempt to speed through this as fast as possible.

The Beef Import Act of 1978, presented by Senator Bellmon, positively and firmly addresses all aspects of the beef situation. The act is extremely simple. In fact, if you were to ask me at the spur of the moment what the imports would be from any country for the

United States at any given time, I think I could probably answer that question in less than 2 minutes.

We have a chart that shows what the import levels would be at various levels of parity and we have used 25 billion pounds of production because that is what our production was in 1976.

You will notice that under 80 percent parity, imports would be 2 percent of that amount, so all you would have to do do is multiply the 2 percent times the production and you come up with a half billion pounds. That is the base from which we start and then, as parity, or the cost of production and prices received ratio goes up, it allows more imports.

In fact, at about 90 percent parity, it allows about 6 percent imports. At 100 percent, it allows 10 and then, at 110 percent, it opens up to imports.

Now, the administration should be extremely sympathetic with this because it does not take the action of the President to bring in more imports to provide the supply that we need in this country, to take care of the demands of the consumer.

So, rather than take Presidential action, our bill addresses itself to that.

No. B is all beef and is included under the law and therefore closes the loophoes of circumvention.

The way meat comes into the country at the present time, it is fresh frozen and chilled beef from some countries, processed beef from other countries and from the same ones, and also live cattle. While obviously, the packers, or the people using this beef, have the options of three other sources other than domestic supplies, and these are usually cheaper sources so therefore they can hold prolonged, depressed prices.

I think if you look at chart B that you have before you, despite evidence that we have begun to overliquidate our cowherd and we believe through statistical analysis that this is due to increased imports.

Now, on chart B, you will notice that the top line, which we have colored in red, is the total amount of beef that is available in this country, and that is what our prices respond to, is that line. However, below that we have about the equivalent of 5 million cows or cattle that come in as imported meat, plus about 1 million as live cattle and then, also, in our beef production is the liquidation of the cowherd which is our factor and which we must depend on in the years ahead to supply beef.

So you can see that the liquidation of the cowherd is just about—overoverliquidation is just about equivalent to what the imports are, and these two factors have seriously depressed our prices longer than what was necessary. And, as a result, looking down the road, we are going to run into severely high prices for the consumer.

Now, we do not necessarily believe that high prices in the long run will be good for us either, because it will lead into the building of the cowherd too quickly again, and then we are going to end up in this roller coaster situation that we were before.

In the present situation, the import volume responds to U.S. prices and supply and, under our proposal, the imports will respond to the domestic price in this country, so that when it—the parity price—and on this scale, this will make the foreign countries very apprehensive about sending in too much beef. On the other hand, when our prices do get high enough, they will be able to share in the higher prices.

The importing countries can share in the favorable balance of trade, we also believe, because under the existing system, they will not be their own problem. In other words, now they have held prices down by too much of the imported beef and, under this particular bill, when they do get imports into this country, they will get more dollars per pound.

The bill will provide better and more logical control over imports and will help transfer the lost wealth back into the argriculture sector. Now, we have lost $7 billion in the cattle industry and it is time that some of that wealth is transferred back.

The 1978 law, if enacted, will respond more quickly than other types of bills using cattle numbers alone. Using averages over a 3-year period could possibly lead to higher imports in periods of severely depressed prices.

Now, when we use price as a sliding scale to control imports, that is not true and as our prices go up, responds to imports and when our prices go down, it responds immediately. The price cycle precedes the cow cycle, and that is what triggers liquidation and that is what triggers build-up.

The 1978 law, if enacted, will prevent, then, this prolonged overliquidation. As a result—I know I am getting a little bit long here, perhaps—but as a result, we will be more dependent on domestic supply and we will put these nonfed cattle back on the land where they belong and this will, in turn, leave us less acres for grain production.

The imports will enter on a quarterly basis under Senator Bellmon's law rather than on an annual basis. Now this has resulted in dumping of meat on our markets at inopportune times.

World free trade will be stimulated because, as the foreign countries are turned away from the United States, they will have to seek foreign markets.

And finally, I would like to say that the Beef Import Act of 1978 is in compliance with the President's recommendation as he stated in his presentation to the Democratic Party's Platform Committee. In that, he said, and I quote, "Insure stable prices to consumers and a fair profit to farmers." And he also said we should guarantee adequate price supports on the parity level that assures farmers reasonable return on their investment.

We believe this bill addresses all these problems very adequately.

Thank you, Mr. Chairman.

Senator Bentsen. Thank you very much, Mr. Bellman. Are there any questions?

Senator Curtis?

Senator Curtis. I have one question. Do I understand that the way this would work, there would be a finding of what the price was in terms of parity in one quarter and if that, for instance, was the last quarter of the year, then the quota would adjust for the next quarter?

Mr. BELLMAN. The bill addresses itself to the last 6 months, the previous 6 months' average. What this does is it eliminates some of the highs and lows out of the seasonal trends such as in October and November when people are liquidating their cowherds. We have an unusual number of cull cows on the market at that time, though it is an average of 6 months.

And this calls for the imports—say this is on January 1. It would be the average of the previous 6 months, and the imports could be brought into the country, could be brought in in April, another quarter ahead of that. So the importing people would have 3 months to bring in that quota.

Senator CURTIS. I think you have a good proposal there. Does it cover lamb?

Mr. BELLMAN. No; it does not. In the 1964 law, it does not include that either.

Senator CURTIS. The Senate bill did, but lamb was—it covers goat and sheep meat, but not lamb.

All right, thank you.

Senator BENTSEN. Senator Haskell?

Senator HASKELL. I would just make one observation to support and bear out the points made by Senator Bellmon and Mr. Bellman. In the 12 full years that the Meat Import Act has been in effect, meat imports have exceeded the base import quota 9 times and have exceeded the trigger level 5 times, but only slightly in 3 of those five instances.

In six instances, the President proclaimed the required base quotas, but in five of those instances, in the years 1970 through 1974, he simultaneously suspended them in view of the overriding economic interests and, in the sixth instance in 1976, he increased the quota level, again, in view of overriding economic interests, to a level equal to the trigger level.

Voluntary restraints under section 204 of the Agriculture Act were negotiated with most of the major exporting countries in five of those years—that is 1970, 1971, 1972, 1975, and 1976.

I think this evidence supports the point that you are making very well.

Sentor BENTSEN. Mr. Bellman, I strongly agree that we need a countercyclical program to assist in this regard. But I would like to know why you think we need a duty in addition to the import quotas when at a time of low prices yould allow only 2 percent of domestic production in imports.

Why do you need the duty on top of that? You must know you bring on considerable additional opposition to the legislation when you do that.

Mr. BELLMAN. Yes, this is true. However, our farmers and ranchers have been under severely depressed situations. As it was pointed out, we lost $7 billion alone and the valuation of our cattle industry has dropped many billions of dollars.

I think it is time that we addressed ourselves to the well-being of our farmers and our ranchers as people do in other nations rather than be more concerned, perhaps, about the farmers and ranchers in other countries. We do have great concern for those, but we do need that protection to start this thing turning round.

Senator BENTSEN. On that point, on page 7 you refer to table 4 setting forth the embargoes and discretionary licensing in other countries.

Mr. BELLMAN. Yes.

Senator BENTSEN. I do not have a copy of that.

Mr. BELLMAN. You do not have a copy?

Senator BENTSEN. Could you provide that to us up here?

Mr. BELLMAN. Yes; we can. It should be available.

Senator BENTSEN. By all means let us have it.

Mr. BELLMAN. An example, I believe, is Australia where they do have embargoes against our meat except that they can ship 600-some million pounds of product-weight meat into the United States, so it is not a two-way street.

Senator BENTSEN. I want the specific ones on each country. I think that will be helpful to us, and I want to be sure that we have it for the record.

Mr. BELLMAN. Surely.

Senator BENTSEN. Thank you. It has now been provided for me.

Mr. BELLMAN. Table 4.

Senator BENTSEN. Does each member have them now?

Senator Bellmon, did you have anything further?

Senator BELLMON. Mr. Chairman, I believe not, except that I would like to say that the 1964 act was certainly enacted in good faith and has worked, perhaps, in certain circumstances. But I believe our experience with it shows that it now must be amended.

The enormous liquidation of our cowherds, which has occurred over the last 3 or 4 years and which is now going to bring us into a prolonged period of rebuilding, is going to work a great hardship upon consumers who are probably going to have 20 pounds less beef available than they have grown accustomed to.

Unless something like this S. 2484 is enacted, I am concerned we are going to lose the entire beef import program and find ourselves with a greatly weakened beef industry.

So I would urge that the committee take prompt action along these lines.

Senator BENTSEN. Senator Bellmon, I have studied the formula of the South Dakota Department of Agriculture and I am impressed with it, and I feel very strongly that we do need to take some affirmative action. I totally concur in that regard.

I appreciate very much having you before us.

[The prepared statement of Senator Bellmon and the material of the Concerned Cattlement of the Dakotas Task Force follow:]

STATEMENT BY SENATOR HENRY BELLMON

Mr. Chairman, as the Committee well knows, the American beef industry has been in a drastically depressed state for the last three years. Similar conditions developed in the 1960's and as a result of that experience, the Meat Import Act of 1964 was developed and written into law. This act has been of considerable assistance in preserving the vitality of the American beef industry so that consumers could have an assured supply of reasonably priced beef. However, experience with the act has pointed out a major deficiency which my bill, S. 2484, is intended to remedy.

The problem with the Meat Import Act is that the amount of imports is pegged at 7 percent of domestic consumption. This means that as consumption goes up during times when domestic supplies of beef are abundant and relatively cheap, the level of imports also rises. Conversely, when domestic supplies of beef are low and the price is relatively high, the level of consumption is likely to fall and the level of imports are, therefore, set lower.

The purpose of S. 2484 is to remedy this deficiency of the Meat Import Act by putting into place a counter-cyclical approach which will allow the levels of imports to rise when domestic supplies of beef are low. Similarly, the bill would mandate a reduction of imports when domestic supplies of beef are high. This change would work to the advantage of both producers and consumers. It would help consumers by making available larger supplies of imported beef when domestic supplies are down and it would work to the advantage of producers by reducing imports during periods when domestic production was up and prices were low.

With me today are Mr. Chuck Bellman, Ray Rohweder, and LeRoy Vogel. Mr. Bellman and Mr. Vogel are from South Dakota, and Mr. Rohweder is from North Dakota. (Paranthetically, Mr. Chairman, let me state that Mr. Bellman is no relation to me.) S. 2484 has primarily been developed by these three gentlemen and with the Committee's indulgence, I would like to invite them to explain provisions of the bill to Committee members. The provisions may seem slightly complicated at the outset but they are relatively easy to understand. Also, let me say that one reason the present law has not worked better is that it is somewhat lacking in specifics. I believe S. 2484 remedies this deficiency and that the specifics which S. 2484 contains give it a greater likelihood of success than would be the case if the present bill were more general.

Mr. President, throughout the history of our country, the beef industry has been plagued by cycles of boom or bust. These cycles have not worked to either the benefit of consumers or producers. S. 2484 will help level out these cycles by assuring a more constant supply of beef and help eliminate the excessive price fluctuations which have characterized the beef industry. Tangentially, S. 2484 will help in another way. One of the most beneficial developments that could be brought about in the beef industry would be the opening of Japanese markets to American beef producers. Japan needs American beef which is not only of excellent quality but also much cheaper than beef presently available to Japanese consumers. One of the reasons Japanese officials give for limiting imports of American beef is that the United States beef industry suffers wide fluctuations in the quantity of beef available and that our country imports large quantities of foreign beef thus indicating our inability to meet our own requirements. I believe S. 2484 will help answer this objection and, hopefully, hasten the day when American beef producers can supply a considerably enlarged quantity of beef to Japanese consumers.

I urge quick and affirmative action on S. 2484 by the Committee. This bill will correct major weaknesses of the present Meat Import Act to the benefit of both consumers and producers. It is rare when legislation can accomplish both these objectives as this bill does.

A Comparison of the 1964 Meat Import Law and Problems With the Proposed Beef Import Act of 1978 and Its Effects on Domestic Supply and Prices

By Concerned Cattlemen of the Dakotas Taskforce

February 27, 1978.

To: Finance Committee, United States Senate.

Mr. Chairman, members of the committee: My name is Charles J. Bell man. I am a member of the Concerned Cattlemen of the Dakotas taskforce from Wecota, South Dakota. With me is Leroy Vogel of Hoven, S.D., and Ray Rohweder of Wishek, N.D., also taskforce members. We are all in businesses related to cattle production.

Bellman—Cattle, sheep and grain farmer. B.S. Animal Husbandry and M.S. Journalism Research with a minor in statistics and economics.

Vogel—Cattle feeder, cow-calf and grain farming.

Rohweder—Likestock Sales, cattle feeder, cow-calf operation.

I. Our taskforce unanimously approves and supports Senator Bellmon's bill to impose quotas on the importation of beef. Through testimony and attached documents, we believe imports under current laws are of great harm to the domestic producer and has caused great monetary losses and hardships on all farmers. Because of imports on beef in huge, guaranteed quantities, overliquidation of the domestic cow herd has resulted. The ultimate result will be a shortage of beef and high prices for the consumer.

II. We would first like to address ourselves to the 1964 Meat Import Law which we feel is a factor which has contributed to increased imports since it went into effect in 1965. If the beef industry could be defined as the domestic producer or cow-calf operation, the law itself may be illegal and subject to remedial provisions in the Anti-Dumping Act, 1921, Section 303 or 337 of the Tariff Act of 1930 or to provisions of the Trade Act of 1974.

A. While real domestic production has increased from 18.8 to 25.8 billion pounds, (35 percent increase) imports have increased from .95 billion carcass weight pounds in 1965 to more than two billion pounds in 1977 (a 110 to 112 per cent increase). Imports during the time the law has been in effect have increased *three times* as fast as domestic production. (See Chart A)

Only once since the 1964 Law went into effect has the quota decreased. That was in 1974. Prices were so depressed at the time that freight costs of 10 to 13.5 cents a pound prohibited imports because prices were reduced to near zero in exporting countries. In addition, the President suspended quotas in 1972 and 1973 because of previously high prices.

B. While the 1964 Law has guaranteed other countries a seven percent share of the U.S. beef market in fresh, frozen and chilled forms, unlimited supplies of live cattle and processed meats were allowed. The domestic cattleman had no protection. Foreign countries geared up to share in the U.S. market. (See Chart B)

C. The 1964 Meat Import Law is economically devastating to domestic producers and afforts them more harm than protection because:

(1) When domestic beef production increases, imports likewise increase. This has caused prolonged liquidation of the cow herd resulting in depressed prices. (Increase has been 1.076 to 1.92 billion pounds product weight since 1974, yet prices were depressed.)

(2) The law does not include processed beef or live cattle. The packers have the option to suppress prices by (a) buying domestic beef, (b) imported live cattle, (c) processed beef, or (d) beef under the 1964 Law. It is clear that increased domestic prices trigger imports (See Chart C), thus holding down domestic prices for the cattlemen. When voluntary restraints go into effect near the end of the year, lived cattle from Canada and Mexico have been shipped in for slaughter (See Chart D) to further suppress prices. Due to the New York dock strike in 1977, fresh, frozen and chilled imports were stopped at the largest port of entry and the volume of those imports dropped in October and November, stimulating live cattle movements in large volumes earlier than normal. Then as prices rose and foreign countries needed to fulfill quotas, increased beef under the 1964 Law entered the United States in December (See Chart D again). Thus beef outside the law is used to suppress and hold down prices continuing to cause more liquidation of the domestic cow herd. The result will be an inevitable shortage of beef in the upcoming years.

(3) Imports are based on total production. This includes steers, heifers, cows, bulls, stags, canners and cutters, and calves. But, meat shipped into the United States is of a high chemical lean variety and is most similar to cow or manufacturing type beef. In normal years of cow slaughter (Table I), imported beef would be equivalent to the cow kill or about 5-6 million head. These are cattle dairymen and cow-calf operators depend upon for a large share of their incomes.

(4) Imported live cattle are counted as domestic production. Thus, about one million head of imports each year triggers the equivalent of 70,000 additional cattle to be imported the following year in the form of fresh, frozen or chilled beef. Domestic cow liquidation is also counted as U.S. beef production allowing still more beef imports. (See Chart B again)

(5) When prices are high, the President can suspend the 1964 Law. He did that in 1972 and 1973. Thus, the law has never provided protection for producers and has forced the President to take possible discriminatory, judgment decisions.

(6) Foreign countries are guaranteed a base quota of 725.4 million pounds product weight beef (979.3 million pounds carcass weight), plus additional amounts based on U.S. production during the year and two preceeding years. Because of this formula, high volumes of imported meat can enter the country in years following major and serious decreases in prices. The law, because of its nature, forces world liquidation. Cattle cycles in the world have become sycranized.

D. As a result of the 1964 Meat Import Law, the United States has become the world's largest beef importing country. (See Table II). Of the 6 billion pounds of beef traded in the world, the U.S. imports 2 billion pounds or about three times all the countries in the European Common Market and four times that of the second leading importing country, the USSR.

E. Benefactors of the Law are the importing-exporting companies, the processors and packers. By allowing optional sources of supply, prices have been suppressed. After the New York dock strike, prices increased about $3 per hundredweight for cows. When the strike ended, prices dropped about $3.50. When live cattle were stopped at the Canadian border, cow prices rose from $26 per hundredweight to $33.

F. Prolonged depressed prices continue to cause overliquidation of the cow herd (See Chart B again).

III. The 1964 Meat Import Law allows imported beef to replace that of domestic producers. The result is great economic damage to the total farm industry.

A. Depressed prices in the price cycle causes cow liquidation. Imports have prolonged liquidation. Cow herd size has been reduced from 11 to 14.5 million. As a result, 10 to 13.5 million fewer calves wil lbe born in 1978. The result will be a forced drop in the per capita beef consumption from a high of 129 pounds to about 105 to 110 pounds in 1979 or 1980. This will be the biggest drop in history. (See Chart E)

B. With fewer cows to graze the land, about 100 million acres of grassland has been forced into crop production. This has caused further depressed grain prices. Until the cropland is diverted or reverted to grassland, there will be a depressionary stress on grain prices.

C. Because of an upcoming shortage of beef, consumers will be paying much higher prices for beef in the years ahead.

D. Because there will be a shortage of beef, more imports will be needed to fill demand.

E. Because prices have been depressed (See Chart F) so long in comparison to costs of production, a consumer revolt will take place unless provisions are made to allow more imports to meet demand.

IV. The Beef Import Act of 1978 presented by Senator Bellmon of Oklahoma positively and firmly addresses all aspects of beef imports and their affects on domestic prices. The Act is extremely simple and provides for the following action:

A. Imports will move into the country in a counter cyclic manner to beef production. Prices will be a triggering mechanism. The formula in the Model Narrative (See February 2, 1978. S1116, Congressional Record) allows imports on the following basis:

	Percent parity	Percent imports	Import volume (billion pounds)
U.S. Beef Production (billion pounds):			
25	80	2	½
25	85	4	1
25	90	6	1½
25	95	8	2
25	100	10	2½
25	110	11	2¾
25	(1)	(2)	(2)

1 Over.
2 Open.

In order to import the same volume as under the 1964 Law today, prices would have to be 95 percent parity on all cattle or 57 cents a pound.

Since prices today are about 65 percent parity, two percent imports would be be allowed, but a duty would be imposed. Countries that continued to export at today's parity prices would pay a duty of 27 percent (See Model Narrative, Table A—Duty Schedule). This would amount to $10.80 a hundredweight on live cattle.

Exact volumes of imports can be easily computed by using the equations provided in the narrative model.

B. All beef is included under the law and closes loopholes of circumvention.

C. Import volume will respond to U.S. prices and supply. Under the 1964 Law, domestic prices respond to domestic supply, plus imported beef in all forms. (Top line on Chart B) World countries will be given a share of our market based on the economic wellbeing of the U.S. cattleman and consumer.

D. When prices are high, imports are allowed in unlimited quantities. It does not take Presidential action to remove the restrictions. This assures consumers quantities of beef at realistic prices. Possible price freezes as in 1972-73 will be minimized.

E. Importing countries can share in favorable balances of trade. Under the current law, the value of imported beef may be less with a greater volume of imports. (See Table III) In the year 1974, as an example, the U.S. imported 1.075 billion pounds worth $740 million. Parity was 65 percent. If the domestic producers would have been receiving 100 percent parity, the same volume would yield $1.14 billion. Foreign countries, producers and processors would benefit from higher prices in the United States.

F. In 1976, domestic cattlemen lost about $7 billion. Better and more logical control over imports will help transfer lost wealth back into the agriculture sector of the economy.

G. The 1978 Law, if enacted, will respond more quickly because the price cycle preceeds the production cycle. Prices cause herd build up or liquidation. Imports tied to a sliding scale index will not allow continued increases of imports after prices fall. And, when prices increase, more imports will be allowed sooner. The bill is sensitive to the economic well being of the country.

H. The 1978 Law, if enacted, will prevent prolonged overliquidation due to competition from imports. Thus, an adequate cow herd will be maintained to supply future needs and keep grassland out of grain production.

I. The United States will become more dependent on domestic supply, thus more non-fed cattle will be available for the hamburger market which is increasingly important each year.

J. The 1978 Law, if enacted, will give more stability to the cattle market. Prices will not be so erratic.

K. Imports will enter on a quarterly basis rather than on an annual bsis. This will prevent dumping of beef as can be done under the 1964 Law.

L. World free trade will be stimulated because foreign countries will look for other markets when U.S. prices are depressed. Other countries (those exporting to us today) have embargoes and discretionary licensing tht prohibits our exporting beef to them. (See Table IV).

V. Other formulas and laws.—Those that address themselves to cattle numbers or volume of meat alone have built in lags for herd build up or liquidation. Liquidation (See Chart G) follows prices. Therefore, increased imports can be expected under such formulas even after prices have dropped for a year or two. Likewise, imports will not open up as rapidly when prices go up dramatically. Thus, the consumer will not be assured of a greater meat supply for a year or two. Such formulas will be ineffective and harmful to domestic producers and consumers alike a large share of time.

VI. The Beef Import Act of 1978 is in compliance with the President's recommendations as stated in his presentaion to the Democratic Party's Platform Committee to:

"Insure stable prices to the consumers and a fair profit for the farmers."

And:

"Guarantee adequate price supports and a parity level that assures farmers a reasonable return on their investments."

TABLE I.—(TABLE 87)—CATTLE SLAUGHTER: NUMBER SLAUGHTERED UNDER FEDERAL INSPECTION, BY CLASSES, UNITED STATES, 1970 TO DATE[1]

[In thousands]

Year	January	February	March	April	May	June	July	August	September	October	November	December	Year
Steers:													
1970	1,414	1,258	1,350	1,433	1,429	1,447	1,402	1,357	1,420	1,407	1,277	1,414	16,608
1971	1,388	1,257	1,513	1,420	1,407	1,549	1,472	1,412	1,448	1,391	1,374	1,372	17,003
1972	1,407	1,355	1,547	1,421	1,614	1,561	1,330	1,576	1,486	1,524	1,475	1,453	17,749
1973	1,526	1,362	1,475	1,258	1,533	1,412	1,311	1,204	1,268	1,511	1,411	1,333	16,604
1974	1,447	1,259	1,537	1,558	1,626	1,566	1,530	1,463	1,442	1,590	1,403	1,403	17,824
1975	1,535	1,412	1,452	1,428	1,364	1,304	1,332	1,308	1,286	1,287	1,213	1,229	16,070
1976	1,350	1,306	1,612	1,370	1,375	1,540	1,527	1,574	1,520	1,434	1,296	1,361	17,265
Heifers:													
1970	698	624	674	644	618	690	725	701	796	805	642	687	8,304
1971	686	605	664	619	629	707	720	788	801	738	644	628	8,229
1972	647	627	659	602	696	742	672	808	833	853	710	686	8,535
1973	722	572	613	484	636	648	627	615	607	791	688	642	7,645
1974	684	516	595	600	659	611	682	727	686	803	703	694	7,960
1975	766	700	700	707	684	714	741	818	948	993	815	834	9,420
1976	969	899	1,074	911	849	909	869	944	964	965	880	884	11,117
Cows:													
1970	501	401	416	429	432	432	465	435	459	496	466	471	5,373
1971	456	400	461	463	453	485	479	468	486	490	500	486	5,627
1972	460	432	455	406	446	474	440	482	418	480	473	436	5,402
1973	514	446	482	386	471	449	449	490	435	507	534	496	5,659
1974	608	481	442	437	449	386	538	608	588	759	756	742	6,794
1975	786	606	611	683	719	787	913	923	991	1,198	1,081	1,123	10,421
1976	1,009	760	731	697	680	760	748	790	869	863	904	893	9,704
1977													9,900
Bulls and stags:													
1970	40	35	37	39	44	46	50	45	48	45	39	39	507
1971	39	37	43	43	47	56	54	52	53	48	46	42	560
1972	42	43	46	42	51	56	52	60	52	52	47	40	583
1973	48	44	50	41	54	54	54	57	52	57	54	48	613
1974	55	47	47	48	59	58	71	77	71	78	67	63	741
1975	66	59	63	71	84	93	99	93	94	105	87	82	996
1976	75	67	75	75	76	85	76	80	82	74	74	67	906
Canner and cutter cattle:[2]													
1970	229	182	209	231	210	207	231	222	249	262	238	231	2,701
1971	219	197	235	230	243	283	251	240	236	242	249	229	2,854
1972	227	208	219	205	234	270	244	267	263	246	271	252	2,906
1973	267	225	249	219	261	249	269	248	215	249	250	247	2,948
1974	301	232	220	228	261	186	253	277	296	442	395	445	3,536
1975	398	293	327	331	354	348	424	400	468	566	486	500	4,895
1976	513	405	377	406	429	481	499	498	484	530	455	558	5,735

[1] Data for 1970–72—48 States.
[2] Included in cattle classification.

Source.—Animal Plant Health Inspection Service and Statistical Reporting Service.

TABLE II.—(TABLE 34) BEEF AND VEAL: IMPORTS BY SELECTED COUNTRIES AND THE EC, 1972-77

[In millions of pounds carcass-weight equivalent]

Importer	1972	1973	1974	1975	1976 [1]	1977 [2]
United States	1,996	2,022	1,646	1,782	2,004	1,984
European Community [3]	2,098	2,172	954	410	650	694
Union of Soviet Socialist Republics	70	36	646	820	606	552
Canada	218	230	186	192	316	214
Japan	192	428	170	142	286	314
Greece	114	138	58	80	176	132
Spain	186	178	30	60	98	66
East Germany	92	102	44	78	88	102
Portugal	70	44	80	52	80	98
Switzerland	94	90	44	34	44	44
Chile	84	40	98	12	12	16
Other countries	530	674	578	1,432	1,764	1,874
Total	5,746	6,154	4,532	5,090	6,122	6,086

[1] Preliminary.
[2] Forecast.
[3] Excludes intra-Community trade.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

TABLE III.—(TABLE 46) BEEF AND VEAL, FRESH, CHILLED, OR FROZEN: U.S. IMPORTS FOR CONSUMPTION BY PRINCIPAL CUSTOMS DISTRICTS, 1974-76

Customs district	1974	1975	1976
	Quantity (1,000 lbs.)		
New York, N.Y.	296,295	437,086	398,744
Philadelphia, Pa.	199,112	188,763	191,060
Miami, Fla.	127,831	139,903	151,978
San Juan, P.R.	26,915	37,556	86,178
Los Angeles, Calif.	60,729	70,355	68,595
Seattle, Wash.	42,698	43,009	54,429
San Francisco, Calif.	47,483	42,840	46,805
Ogdensburg, N.Y.	19,883	14,665	36,575
Charleston, S.C.	48,139	46,759	41,277
El Paso, Tex.	0	21,499	36,564
Other	206,176	165,357	169,383
Total	1,075,261	1,207,793	1,281,587
	Value ($1,000)		
New York, N.Y.	$202,862	$198,317	$228,667
Philadelphia, Pa.	131,797	84,034	108,007
Miami, Fla.	88,621	80,763	101,750
San Juan, P.R.	18,324	23,355	44,058
Los Angeles, Calif.	42,640	33,310	41,462
Seattle, Wash.	30,279	20,414	32,359
San Francisco Calif.	24,773	19,845	28,024
Ogdensburg, N.Y.	11,643	8,453	23,930
Charleston, S.C.	32,647	19,618	23,650
El Paso, Tex.	0	13,839	22,796
Other	153,909	77,919	104,077
Total	740,496	579,868	758,780

Source: Compiled from official statistics of the U.S. Department of Commerce.

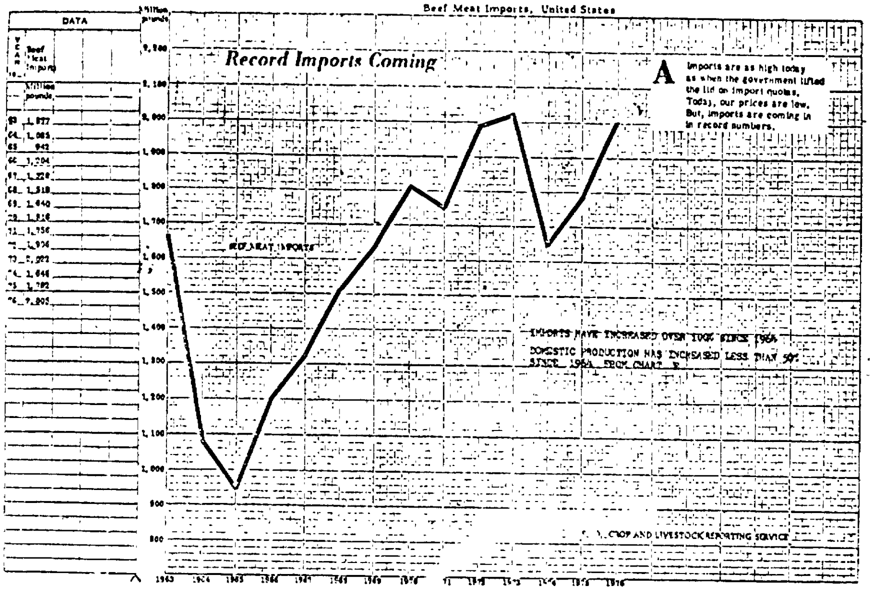
Note.—Because of rounding, figures may not add to the totals shown.

TABLE IV.—(EXHIBIT B) COMPARISON OF NON-TARIFF TRADE BARRIERS USED BY MAJOR TARGET COUNTRIES ON MEATS

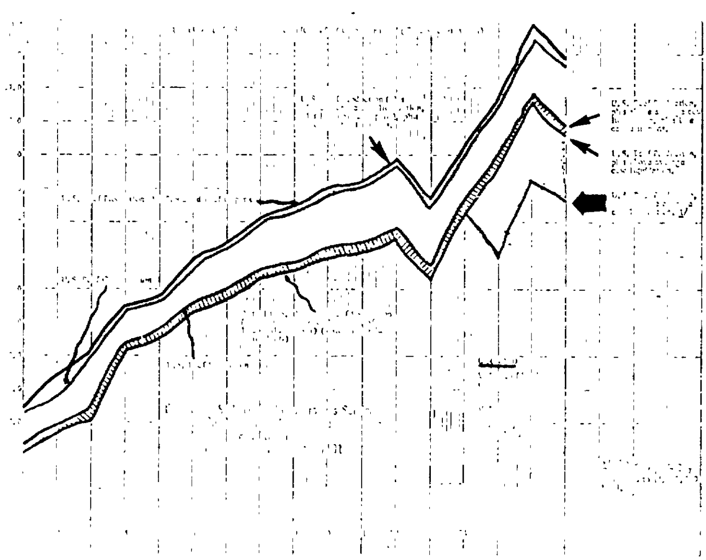
Type of NTB's	United States	European Economic Community	Japan	Canada	Mexico	Switzerland	Australia	New Zealand
Protection and support systems:								
a. Quantitative restrictions	Public Law 88-482.	Some selective quotas.	Quotas	Global quotas, Ind. licenses.	Discretionary licensing.	Quotas and licensing	Embargo	Discretionary licensing.
b. Monoplies	None	None	None	None	None	None	None	None.
c. Sanitary standards	Set forth in inspection regulation in Wholesome Meat Act.	Special sanitary regulations varies by countries in EEC not standardized.	No problems	Certification	No problems	No problems	Blue tongue restricted.	Blue tongue restricted.
Support programs:								
a. Price support	None	Price support protected by variable levies gate price systems.	Price supports	Price supports, deficiency payments.	None	None	None	None.
b. Marketing organizations	do	Intervention agencies.			do	do	Meat board	Do.
c. Other domestic subsidies	do	Special subsidies to convert dairy to beef—slaughter premiums, etc.		Emergency feed grants.	do	do	None	Do.
Export assistance	do	Export subsidies when needed.	None			do	do	Do.
Bilateral trade agreements	do	Selective	Yes—many	None	None	do	Selective	Do.

Source: U.S. Department of Agriculture.

CHART A


Beef Meat Imports, United States
DATA
Beef Meat Imports
Million pounds
Record Imports Coming
A
Imports are as high today as when the government lifted the lid on import quotas. Today, our prices are low. But, imports are coming in in record numbers.
RED MEAT IMPORTS
IMPORTS HAVE INCREASED OVER 100% SINCE 1964
DOMESTIC PRODUCTION HAS INCREASED LESS THAN 50% SINCE 1964 FROM CHART B
CROP AND LIVESTOCK REPORTING SERVICE

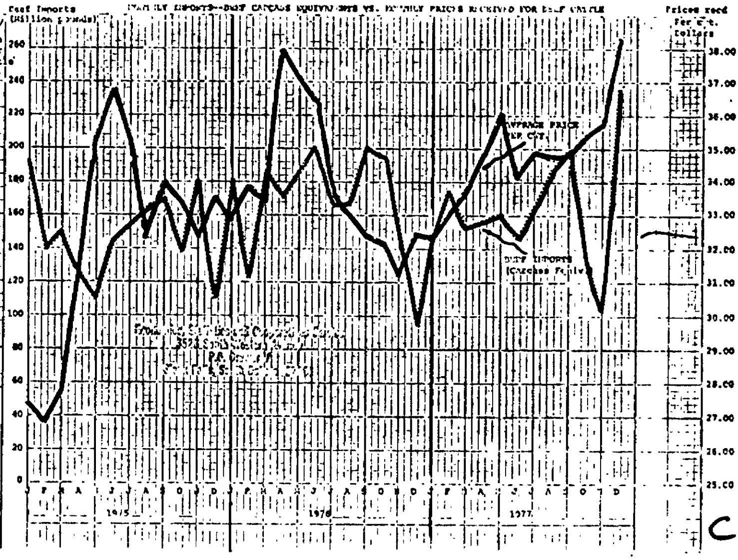
A



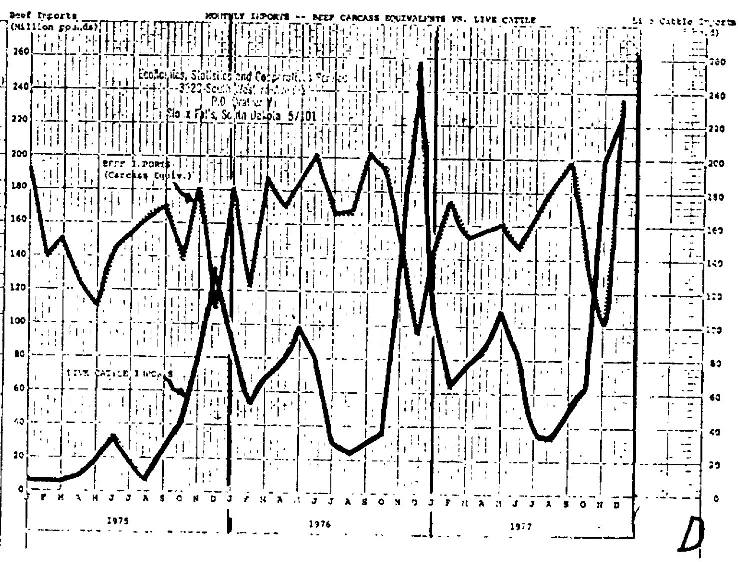
B

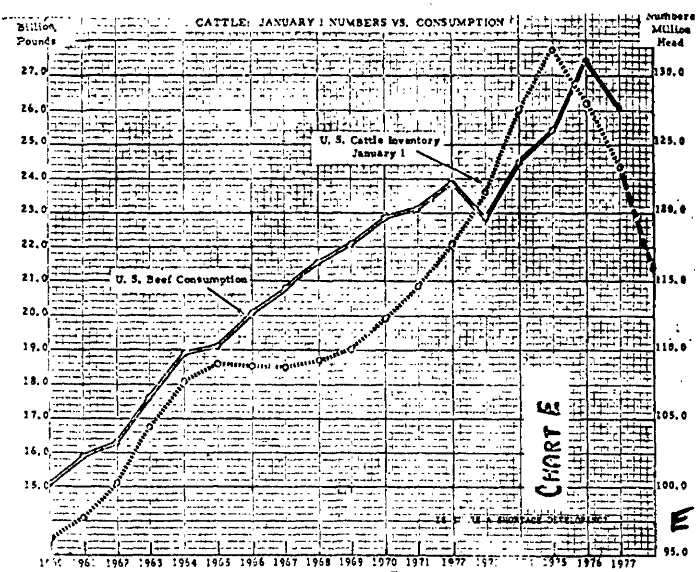
Month	Beef Imports Carcass Equiv. (Mil. lbs)	Monthly av. price rec'd for beef cattle 1/ (Dollars)
	1975	
J	192	27.40
F	139	26.80
M	151	27.80
A	124	31.60
M	110	35.30
J	146	36.80
J	154	35.20
A	167	32.30
S	171	34.00
O	137	33.40
N	182	32.30
D	109	33.50
	1976	
J	182	32.80
F	121	33.90
M	189	33.40
A	171	38.00
M	186	37.10
J	202	36.40
J	165	33.60
A	167	33.00
S	203	32.30
O	188	32.20
N	148	31.20
D	98	32.40
	1977	
J	144	33.30
F	178	33.10
M	159	33.80
A	158	34.90
M	161	34.10
J	148	34.10
J	186	34.90
A	187	34.70
S	199	34.90
O	230	35.40
N	102	35.70
D	236	38.30

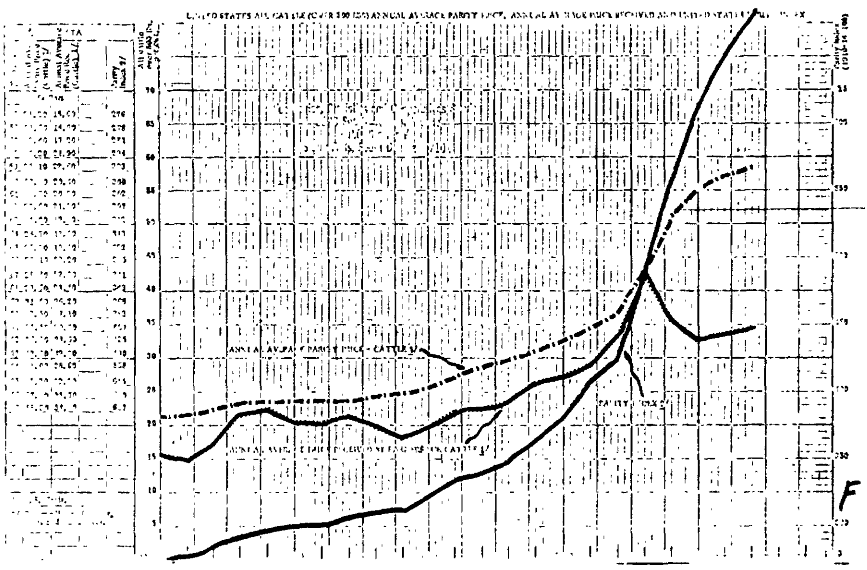
1/ U.S. monthly avg. prices received.

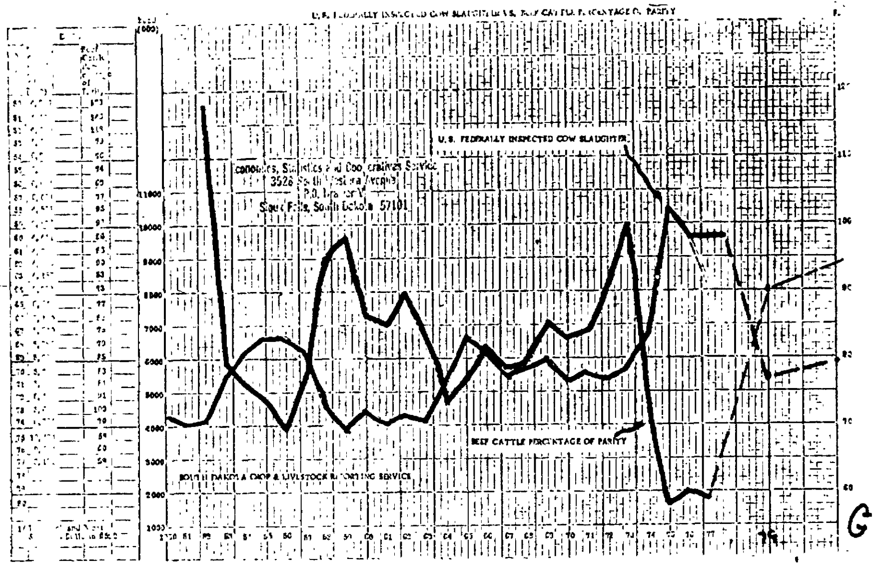


Month	Beef Imports Carcass Equiv. (Mil. lbs)	Live Cattle Imports (000 head)
	1975	
J	192	8
F	139	7
M	151	6
A	124	9
M	110	19
J	146	33
J	154	19
A	167	5
S	171	26
O	137	42
N	182	82
D	109	131
	1976	
J	182	91
F	121	52
M	189	69
A	171	73
M	186	93
J	202	73
J	165	29
A	167	24
S	203	30
O	138	35
N	132	138
D	98	252
	1977	
J	144	108
F	178	64
M	132	77
A	159	85
M	161	113
J	[illegible]	[illegible]
J	[illegible]	[illegible]
A	187	33
S	[illegible]	[illegible]
O	[illegible]	[illegible]
N	193	[illegible]
D	[illegible]	[illegible]




CATTLE: JANUARY 1 NUMBERS VS. CONSUMPTION
Billion Pounds
Numbers Million Head
U. S. Cattle Inventory January 1
U. S. Beef Consumption
CHART E
E


F



CHARTS A THRU G

Presently the Meat Import Act of 1964 guarantees foreign meat exporters of at least 7% of the U.S. market. Allowing for live cattle and other imports not covered by the law, exporters to the U.S. enjoy over a 10% share of our domestic meat market. During adverse economic conditions cattlemen are forced to sell during a depressed market. The resultant oversupply problem is further compounded by an increase in imports, since they are geared directly to domestic production. The end result is lower market prices, financial strain and loss to producers. The small producer, who has been absorbing losses since 1974, has no avenue of relief in light of increasing imports and recent record kill numbers.

What then is the alternative? The answer lies in determining import volume in relation to prices received by domestic producers, not the volume they put on the market. Since the meat industry most resembles perfect competition, entries into the industry must be geared toward market prices, not a guaranteed market share. The following model when implemented can effectively preserve the principles of perfect competition and take unnecessary constraints and burdens off our domestic producers.

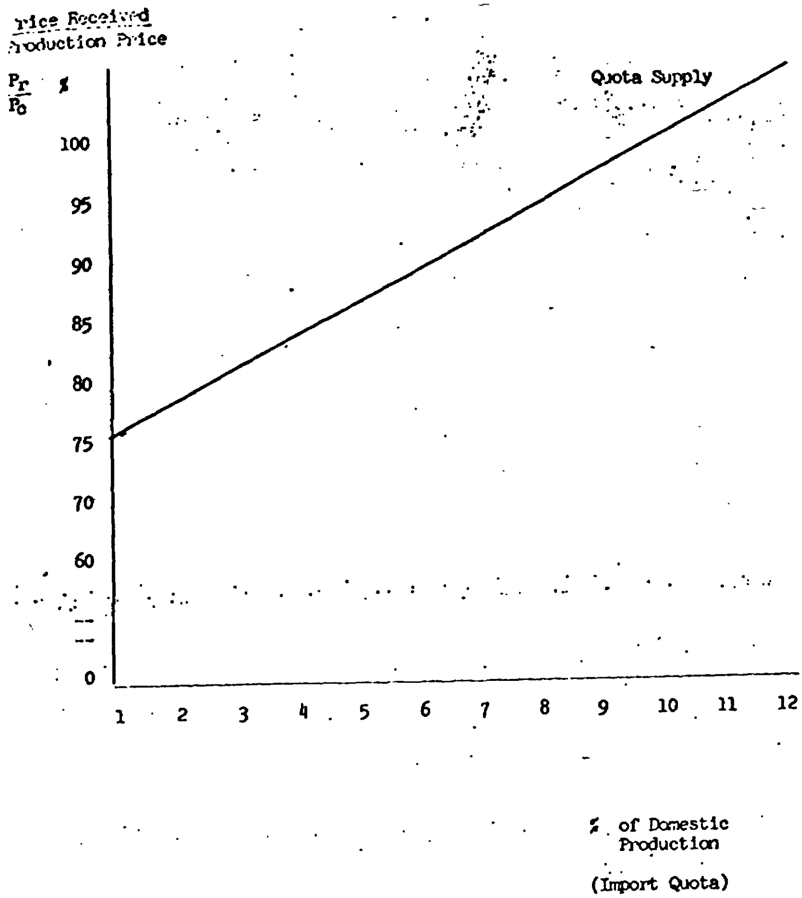


Figure A

P_r = Prices received by producers as determined and reported on a national average.
P_c = The price at which quantity of beef can purchase the same quantity of non-farm goods as in a specified earlier period.
P_r/P_c = The production cost price index which determines imports.
I = That percentage of domestic production which will be allowed as beef imports. (This represents the volume of imports as a percentage of domestic production.)
D = Represents the rate of duty, expressed as a percentage, to be applied against all meat imports when prices are below a specified level.

The model:

Y axis—Production Cost Price Index.
X axis—Percent of Domestic Production (allowable volume of imports).

Constraints: when $P_r/P_c < 80\%$ then D takes effect on level of allowable imports $I \leq 15\%$ of domestic production. Imports would be allowed to exceed this 15% only thru emergency or special negotiations by the state department.

Figure A represents the supply schedule faced by foreign meat exporters to the U.S. The supply curve is represented by the equation:

(1) $$Y = .75 + 2.5X$$

where:

$$X = \text{allowable imports } (I)$$
$$Y = P_r/P_e$$

Equation (1) can be rewritten as:

$$I = \frac{P_r - .75\ P_e}{2.5\ P_e} \qquad (2)$$

The demand curve faced by the foreign meat exported to the United States is represented as an infinitely elastic demand, the same as that faced by the individual producer in the meat industry. This is represented in Figure B.

The demand curve is represented by the equation:

$$Y = 80\% \qquad (3)$$

equation (3) can be rewritten in the form:

$$P_r/P_e = 80\%. \qquad (4)$$

This relationship is based on the constraint $P_r/P_e < 80\%$ which triggers the duty.

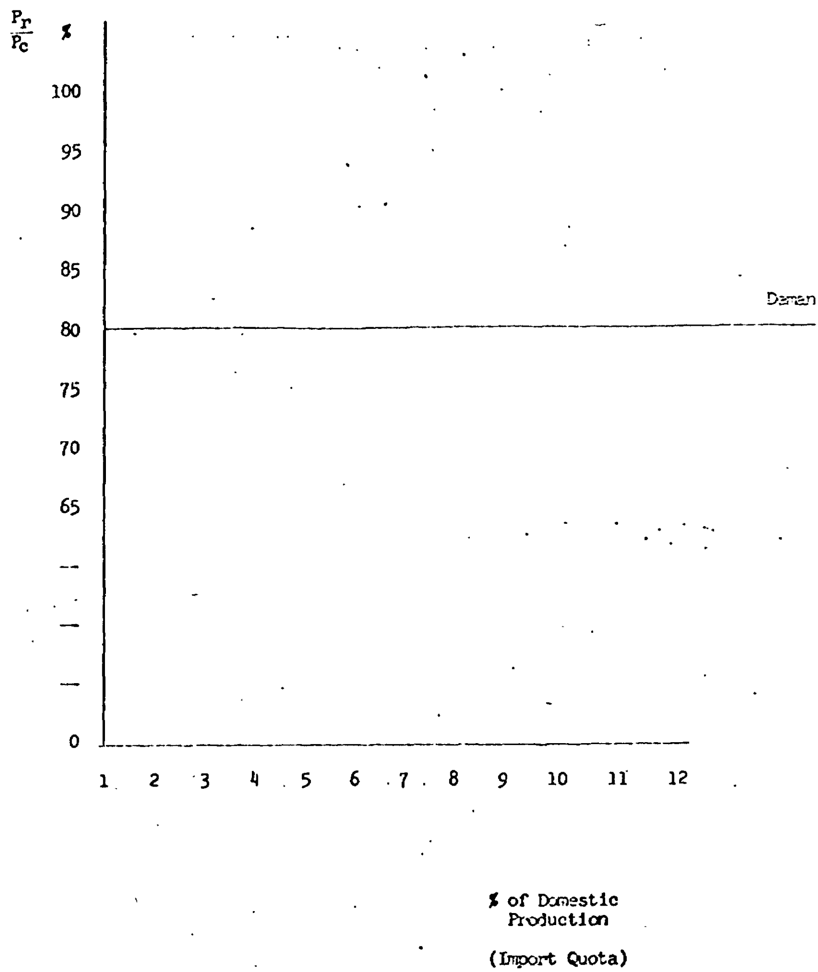


FIGURE B

When we combine the supply and demand functions we represent the foreign meat exporters market conditions (Figure C). This doesn't represent the domestic industry but it is similar to the same schedule faced by the individual firm within the industry. The market mechanisms function as prescribed in a perfect competition model. That is, as price goes up, or P_r/P_c approaches 100%, then there exists incentive for more firms to enter the market place or existing firms to increase supply. Thus, as importers increase volume compared to domestic supply, a downward pressure on price will force the market back to an equilibrium of 80% (P_r/P_c) and an allowable level of imports at 2% of domestic production. Over the last three cow cycles parity has averaged 83%. Our equilibrium production cost price index reflects that average. In order for the market to adjust itself toward an equitable return to domestic producers, the 2% of domestic production is essential. That level of imports would, according to several economic studies, provide returns in the 85–90 range on our index. Therefore, the 2% equilibrium volume of imports, although slightly below the 1964 quota, would most equitably stabilize the market and function as a floor for the model.

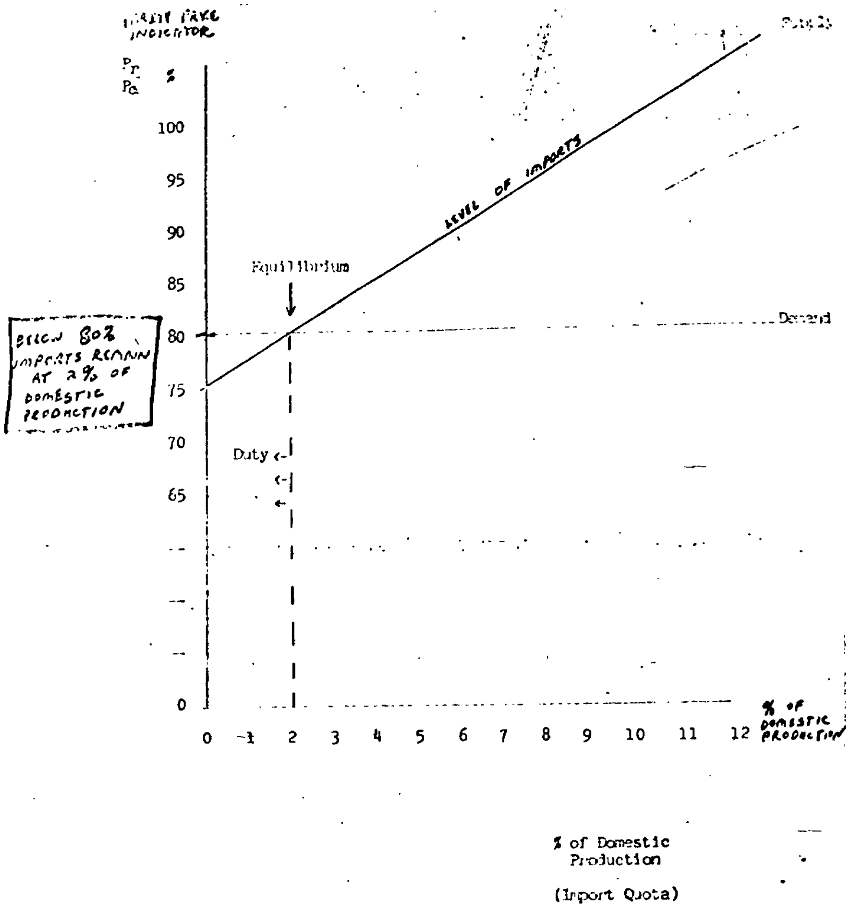


FIGURE C

Whenever the price ratio, Pr/Pc, falls below market equilibrium the rate of duty formula becomes active. This is represented as:

(5) $$D = .15 + 2(.02 - I)$$

this can be expressed as:

(6) $$D = .19 - 2I$$

The duty is triggered at $P_r/P_c < 80\%$ and the initial rate at that point is a 15% duty. For each 1% downward change in the price index (P_r/P_c) the duty increases by a multiple of 2, relative to the base of 2% of domestic production for allowable imports.

An additional variable may be added at this point and may be reflected in the duty rate or in the demand schedule. That variable would represent a change in meat consumption. As consumption decreases the demand curve would be shifted downward by a specified incremental amount. Thus, lowering the equilibrium level and the rate of duty trigger point. (Figure D)

The significant advantages of the above model are:

(1) The import volume would respond to price whereas in the past imports have been regulated by domestic kill. By using domestic kill as the index, adverse conditions work against the domestic producer and act contrary to basic laws of supply and demand in pure competition. It must be kept in mind that in perfect competition quantity is always the dependent variable determined by price. The model allows for the market to adjust itself according with the duty rates, functioning to equalize cost of production to avoid damage on domestic producers.

(2) The model would significantly improve our domestic producers situation and capabilities for future production. The end result of which would mean more stable prices for consumers in the long run.

(3) From more equitable returns to producers there would be an added incentive for those involved in marketing activities and distribution channels to bring about more efficient methods to increase their profit margins relative to producers.

The model deals with providing an alternative toward solving the cause of the damage to our domestic meat industry, i.e., imports directly proportionate to domestic supply with no direct relation to price or adverse economic conditions. (The symptoms, primarily overproduction, as a result of drought and excessive herd liquidation is not the cause.)

The model incorporates a countercyclical tendency. Since high market prices would occur during periods of limited domestic supply, import would be allowed greater market access which in turn would create a downward pressure on price. Conversely when domestic supply is excessive, lower prices would prevail and imports would have limited market access. The duty would in effect lessen any competitive advantage imported meat might have. Domestic buyers would seek domestic meat at lower prices rather than imported meat at higher prices, as a result of the duty. As oversupply conditions lessen an upward pressure on price would move the market back to an equilibrium level.

Import quotas would be determined on a quarterly basis.

For example, on 1 January, import quotas would be determined based on the previous 12 months data which would be used in the models formula's to determine the allowable volume of imports for the quarter beginning 1 April; thereby providing the exporter three months to make adjustments. Also, each exporting country will have a determined volume of allowable exports based on their present share of the domestic market. In this way, domestic producers would be able to make better managerial and marketing decisions and the exporting country would know what quota he will have to fill.

In determining import volumes by using a price index. the market can adjust itself toward more economical returns to domestic producers. As our domestic supply becomes stabilized and producers are able to maintain profitable operation, the long run effects will be stable retail prices and a stable and adequate domestic supply of beef.

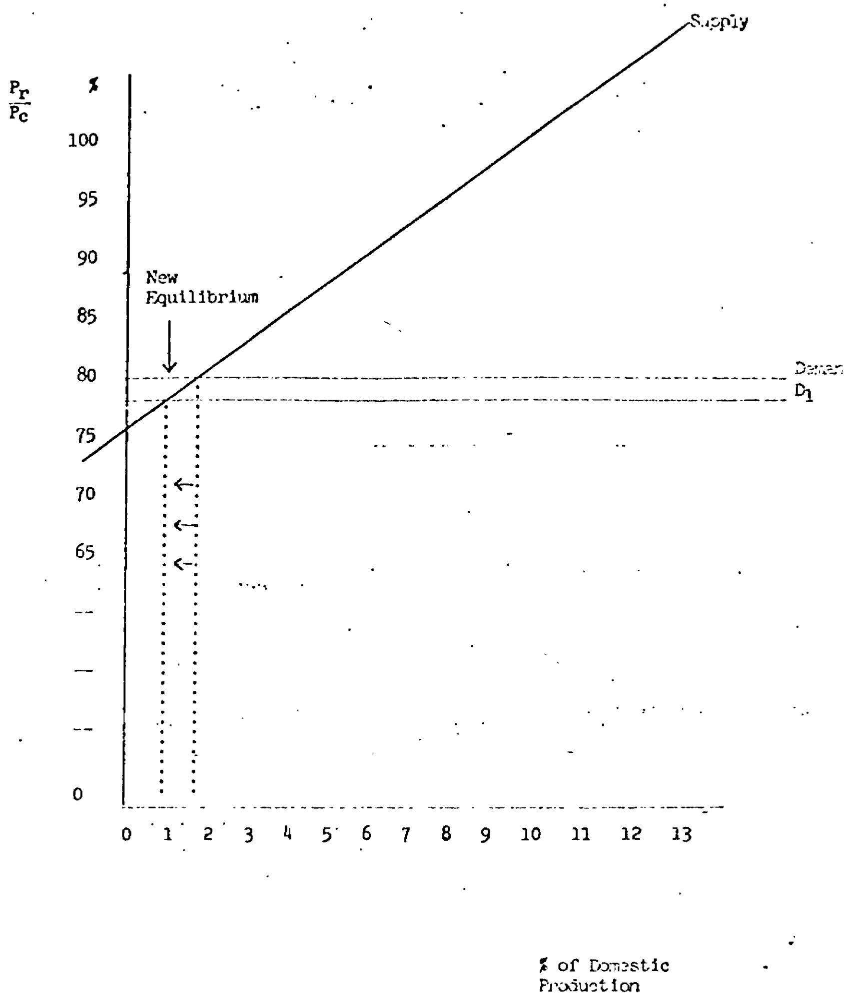


FIGURE D

The following are examples of the formulas use:

Example 1

Jan. 1 $P_r = \$39.00$ per cwt
$P_c = \$57.00$ per cwt

4th quarter domestic production = 6,618,750,000 lbs.

Plugging into formula we find allowable percentage of domestic production for imports to be during the 2nd quarter.

$$I = \frac{39 - .75\ (57.00)}{2.5\ (57)} = \frac{-3.75}{142.5} = -0.03$$

a negative percentage designates the duty be imposed during the 2nd quarter.

The duty is expressed as:

$$D = .15 + 2\,(.02 - I)$$

$$D = .15 + .10$$

$$D = .25$$

Therefore, imports would be allowed up to 15% of domestic production with a 25% initial duty rate. As the index decreases the duty increases making excessive dumping uneconomical. Also, importers would not face any quota reduction threats during periods of low prices since any meat they send would be arbitrarily determined by them.

<u>EXAMPLE 2</u>

Jan. 1 $P_r = \$56.00$

$P_c = \$57.00$

Domestic Production = 6,618,750,000 lbs.

Then

$$I = \frac{56 - .75\,(57)}{2.5\,(57)} = .093$$

Import volume = 573,588,881 for the next quarter

Import volume and duty restrictions are based on closing 12 month figures to determine quarter quotes for the alternative quarter.

1	2	3	4

Jan 1 Apr 1 July 1 Oct 1 Jan 1

↑ (Jan 1) ↑ (July 1)

volume or duty determined for second quarter

Imports would therefore be determined by 12 month averages of P_r and P_c. The following example illustrates the import quotas calculation.

EXAMPLE 3

	P_r \$/cost	P_c \$/cost	Domestic Production
Jan	48.50	57.00	1,800,000 lbs.
Feb	49.75	57.00	1,725,000 lbs.
March	51.25	57.00	1,700,000 lbs.
Avg.	49.83	57.00	5,225,000 lbs.

then

$$\% \text{ I} = \frac{49.83 - .75\ (57.00)}{2.5\ (57)} = .049685$$

Import Volume = .049685 (5,225,000 lbs.)

= 259,604.125 lbs. for second quarter following the 12 months of calculations

i.e. import volume for April 1 will be determined from data from the previous 12 months.

EXAMPLE 4

The following example illustrates the rate of duty:

	P_r	P_c	Domestic Production
Jan	40.85	57	1,800,000
Feb	39.75	57	1,725,000
March	39.00	57	1,700,000
Avg.	39.87	57	5,225,000

$$I = \frac{29.87 - .75\ (57)}{2.5\ (57)} = -.020211$$

Since I is $<$ .02 the duty comes into play;

$D = .19 - 2\ (-.020211)$

$= .2304$ duty on all incoming imports for second quarter* following data calculations

The duty is determined by:

$D = .15 + 2\ (.02 - I)$

when $P_r/P_c < .8$

$I < .02$

DUTY SCHEDULE

% D	% P_r/P_c	% I
-	1.10	unlimited
-	1.00	.1
-	.95	.08
-	.90	.06
-	.85	.04
-	.80	.02
.158	.79	.02
.19	.75	.02
.23	.70	.02
.27	.65	.02
.31	.60	.02
.35	.55	.02
.39	.50	.02
.43	.45	.02
.47	.40	.02

*When $P_r/P_c < .8$ then $I \leq .15$ with duty. To avoid dumping during a depressed market, the duty rate may be determined bi-monthly rather than quarterly.

From the Congressional Record, Thursday, Feb. 2, 1978

(By Mr. Bellmon)

S. 2484. A bill to impose quotas on the importation of beef, including processed beef and beef quantities in the form of live cattle, when the domestic market price of cattle is less than 110 percent of parity and to impose custom duties on such articles when the domestic market price of cattle is less than 80 percent of parity; to the Committee on Finance.

BEEF IMPORT ACT OF 1978

Mr. BELLMON. Mr. President, America's cattle industry has been faced with an extended period of market depression for producers. Prices paid by producers compared to prices they receive has severely curtailed their buying power. This condition has forced many family farmers and ranchers into excessive debt to maintain operations. Grain markets are experiencing low prices from surplus supplies. This condition has become compounded as cattlemen plow up pasture land and raise crops to meet expenses. A major cause of this adverse economic condition is the U.S. method of allowing meat imports into our domestic market.

Meat import levels are negotiated under voluntary restraints determined from the 1964 Meat Import Act (Public Law 88-482). Under this law, imports are increased as domestic production is increased. In addition, there exists a built-in growth factor guaranteeing importers at least a 7-percent share of our domestic market. Imported meat competes directly with cow/calf production in the ground beef market. Not all meat is covered by the law and consequently the law and its quotas are circumvented through live cattle shipments and various forms of processed meats.

Due to recent droughts and adverse economic conditions in the agricultural sector, cattle producers have excessively liquidated their herds to dangerously low levels. Even though we are at the end of a cattle cycle, herd rebuilding can not proceed without positive changes in market price condtions.

Reforming the 1964 Meat Import Act is in the best interests of producers, consumers and international trade. Producers, especially cow/calf operators require relief from excessive foreign competition. Consumers need protection against escalated prices. International trade balances need assurance of stability and optimum resource allocation.

The concepts of this bill require study as it does bring an economic model into play to bring stability to our beef markets. Therefore, Mr. President, I ask unanimous consent that a narrative which has been prepared providing valuable background for this bill be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

[The material follows:]

MODEL NARRATIVE

The model's fundamental implications are to:

(1) prevent extended periods of low market prices for producers;

(2) protect consumers from inflated meat prices; and

(3) assure foreign exporters access to our domestic meat market.

The model provides a formula which determines import quotas as a percentage of domestic production. The index used is a price received, price paid ratio. This index herein referred to as the production cost price index, triggers import levels. The equilibrium level is set at 80% on the index allowing 2% of domestic production in imports. As market prices rise increasing the index above 80%, imports are allowed to increase. At 100% on the index, imports are allowed 10% of domestic production. Whenever the index falls below 80%, imports are held at 2% of domestic production and a duty is attached to those imports.

DEFINITION OF TERMS

Imports.—All classification of beef and veal including beef covered under the 1964 Meat Import Law, all meat not covered under the 1964 law and all non-registered live cattle converted to product weight.

Domestic Production.—All U.S. production of meat as determined by USDA.

Prices Received.—As determined by USDA on national averages between cattle under and over 500 lbs.

Prices Paid.—As determined by USDA their prices paid index to include feed grains.

Duty.—An assessment against imported meat which is a percentage of the current average market prices.

The equilibrium level is set at 80% of the production cost price index because the cattle industry over the past two cow cycles has averaged 83% of parity. The 2% of domestic production allowed as imports would provide returns to producers within the 80-90% range on the index. Although that 2% is presently below the 1964 original quota level, it would function as a floor to stabilize equitable returns in the marketplace.

QUOTAS

Import quotas would be determined quarterly. Domestic production would be based on a 12-month sliding scale, while the price index would be determined from a six-month average. Quotas for April through June would be determined on January 1, thereby giving exporters a six-month time frame to operate in, i.e.: January through March to fill quotas and April through June for what they wolld be allowed in future shipments.

Under this proposal's operations, consumers have protection from high meat prices. Imports would serve to adjust supply and stabilize prices. The fundamental concept of pure competition would come into play. As profits are realized more producers enter the market bringing the market prices back to an equilibrium level, around 80 percent of the price index.

Quotas would be allocated based on each country's present market share as a percentage of the total quarterly quota.

PROGRAM ADMINISTRATION

USDA would be responsible for maintaining the necessary data (all of which is presently compiled and published). They would then compute import quotas every three months. The state department would then have the responsibility of informing exporting countries of those quota levels. It is very possible that after a short period of market adjustments, annual import levels could be the same-as at present and in some years of the cattle cycle even greater than allowed in by the 1964 Meat Import Law.

WHY PRICE?

Why advocate a price index rather than a supply ratio to determine imports? The answer lies in the models responsivieness to the industry through the market place. Immediate short run relief to the livestock industry would be realized which would bring up the grain sectiors economic health. The long run implications are a stable and adequate meat supply, restraints on meat prices and access to our domestic market. Utilizing a price/parity type of index would allow foreign exporters liberal market access during periods of high prices whereby they could realize higher revenue returns from less meat. This condition, averaged over a 12-month period, would maintain sufficient trade balances on a dollar basis.

THE MODEL

Definition of the variables:

P_r equals prices received by producers as determined and reported on a national average by USDA.

P_c equals the price at which a quantity of beef can purchase the same quality of non-farm goods as in a specified earlier period. (USDA all cattle parity price.)

P_r/P_c equals the production cost price index which determines imports.

I equals that percentage of domestic production which will be allowed as meat imports. (This represents the volume of imports as a percentage of domestic production.)

D represents the rate of duty, expressed as a percentage, to be applied against all meat imports when prices are below a specified level and imports are held to 2 percent of domestic production.

The model:

Y axis—Production Cost Price Index.

X axis—Percent of Domestic Production (allowable volume of imports).

Constraints: When P_r/P_c is less than 80 percent then D takes effect on imports, held at 2 percent of domestic production. The supply schedule faced by foreign meat exporters to the U.S. is represented by the equation:

(1) Y equals .75 plus 2.5X

X equals allowable imports (I)

where

Y equals P_r/P_c

Equation (1) can be rewritten as:

(2) I equals P_r minus .75 $P_c/2.5P_c$

The demand curve faced by the foreign meat exported to the U.S. is represented as an infinitely elastic demand, the same as that faced by the individual producer in the meat industry.

The demand curve is represented by the equation:

(3) Y equals 80 percent

Equation (3) can be rewritten in the form:

(4) P_r/P_c equals 80 percent. This relationship is based on the constraint P_r/P_c less than 80 percent which triggers the duty.

Whenever the price ratio, P_r/P_c, falls below market equilibrium, the rate of duty formula becomes active. This is represented as:

(5) D equals .15 plus 2 (.02 minus I)

This can be expressed as:

(6) D equals .19 minus 2 I

The duty is triggered at P_r/P_c less than 80 percent and the initial rate at that point is a 15 percent duty. For each 1 percent downward change in the price index ($P_r/_c$) the duty increases by a multiple of 2, relative to the base of 2 percent of domestic production for allowable imports. The duty on the 2 percent of domestic production is increased as prices decrease, and that increase in the duty is determined by the two equations. This is represented in Table A.

The model incorporates a countercyclical tendency. Since high market prices would occur during periods of limited domestic supply, import would be allowed greater market access which in turn would create a downward pressure on price. Conversely when domestic supply is excessive, lower prices would prevail and imports would have limited market access. The duty would in effect lessen any competitive advantage imported meat might have. Domestic buyers would seek domestic meat at lower prices rather than imported meat at higher prices, as a result of the duty. As oversupply conditions lessen an upward pressure on price would move the market back to an equilibrium level.

USING THE MODEL

The five step procedure for applying the proposal is:

Step 1.—Accumulate necessary data;

Step 2.—Determine imports as a percent of domestic production;

Step 3.—Convert imports into product weight;

Step 4.—Determine quarterly quota of imports;

Step 5.—Determine each exporting countries share of allowable imports.

An additional step would include the application of a duty. This is demonstrated in example 2.

EXAMPLES OF THE MODEL'S APPLICATION

Example 1

Step 1:

Data (Jan. 1) 6-month average of all cattle (over and under 500 lbs.)—

P_r—\$50.00 cwt.

P_c—\$60.00 cwt.

Domestic Production (12-month sliding scale) equals 25 billion lbs.

Step 2:

Imports equals P_r minus .75 P_c/2.5 P_c equals 50.00 minus .75 (60.00)/2.5 (60.00) equals .083.

Imports equals .033 of domestic production of twelve months.

Step 3:

Imports (lbs.) equals .033 (25 billion lbs.) equals 825 million lbs.

Step 4:

Imports/quarter (3 months) equals 825 mil lbs./4 equals 206.25 mil lbs.

Step 5:

Quotas assessed—

Australia had 40 percent of the U.S. meat import market; therefore, the quota for the period April, May, and June would be: 0.4 (206.25 mil lbs) equals 82.5 mil lbs.

Example 2

Step 1:

Data (Jan. 1)—6-month Average Price of All Cattle—

P_r—37.00 cwt.

P_c—\$60.00 cwt.

Domestic production (12-month sliding scale) equals 25 billion lbs.

Step 2:

Imports equals P_r minus .75 P_c/2.5 P_c equals 37.00 minus .75 (60.00)/2.5 (60.00) equals minus .053 or minus 5.3 percent of domestic production.

Imports are held at 2 percent of domestic production since the production cost price index (P_r/P_c) is below 80 percent. The duty is then assigned to all imports for that quarter April through June.

Step 3:

Imports in product weight equals .02 (25 bil lbs) equals 500 million lbs/year.

Step 4:

Imports for quarter being considered equals 500 million lbs/4 equals 125 million lbs.

Step 5:

Quotas accessed—

Australia equals .4 (125 mil lbs) equals 50 mil lbs.

New Zealand equals .2 (125 mil lbs) equals 25 mil lbs.

Step 6:

Duty equals .19 minus 2(I) equals .19 minus 2 (minus .053) equals .296. The duty then becomes 29.6 percent of the average market price or \$10.95/cwt. (\$37.00 times .296) The duty may be computed weekly or monthly pending market price fluctuations.

TABLE A.—DUTY SCHEDULE

Percent D	Percent P_r/P_c	Percent I
....	1.10	[1]
....	1.00	0.1
....	.95	.80
....	.90	.06
....	.85	.04
....	.80	.02
0.158	.79	.016
.19	.75	.0
.23	.70	−.02
.27	.65	−.04
.31	.60	−.06
.35	.55	−.08
.39	.50	−.10
.43	.45	−.12
.47	.40	−.14

[1] Unlimited.

[This concludes the material:]

Mr. Bellmon. Mr. President, the current Meat Import Act allows more imports into this country when domestic supplies are high and fewer imports when domestic supplies are low. This provision has acted as a detriment to our domestic producers and to consumers. When prices are low, imports force them lower, and when prices rise, imports are decreased and, therefore, force prices even higher. Therefore, merely changing the law to a countercyclical approach would protect consumers to some extent, but would not be acceptable to many producers. The problem is not as simple as it seems as by the time supplies are determined, the problem already exists. The import quotas should be keyed to price to allow the quotas to be adjusted more quickly to abate low prices for producers and further to prevent exorbitantly high prices to consumers.

The Beef Import Act of 1978 does change the import quota provisions to a countercyclical approach keyed by price. In addition, the bill acts to remove the disasterously low troughs from the market cycle. Further, the exorbitantly high peaks will also be removed. This is achieved by an effort to maintain price between lows of 75 to 80 percent of parity (for all beef) and highs of 110 to 120 percent of parity. The price received will still be dependent on supply and demand signals from the market.

The bill operates through an economic model which determines the amount of imports necessary to achieve this stability. Imports will never be shut off and will be maintained at least as high as 2 percent of our domestic production. At other times the allowable imports will be considerably higher than present levels.

When the price of beef goes below 80 percent of parity, duties will be imposed on imports. These duties will act as discouragement to foreign exporters to flood our markets when prices are low. At no time, however, will their imports be "shut off." When the price rises above 80 percent of parity, the allowable imports will be increased accordingly, duty free. This increase in imports will continue to the point that if price reaches 110 percent of parity, all quotas will be suspended. The amounts of imports will be known to exporters in advance to allow for their future planning.

In this manner, the consumer will be protected from exorbitantly high prices (probably 120 percent of parity at most) and the producer will simultaneously be protected from low prices (probably not less than 75 percent of parity).

This bill is very important not only for producers but also consumers. As I stated previously, producers have overliquidated their herds. This condition can only result in higher prices which means herd numbers will be replenished. However, Congress cannot idly sit and watch the livestock producers of this country fall prey to the huge oversupplies which resulted in the bankruptcy of many producers over the last 3 years. This bill provides a fair alternative to producers and consumers.

Senator BENTSEN. We are fortunate to have with us Senator Zorinsky of Nebraska, a state which is a primary producer of beef; the Senator is deeply concerned with this problem.

Senator Zorinsky.

STATEMENT OF HON. EDWARD ZORINSKY, U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator ZORINSKY. Thank you very much, Mr. Chairman. I appreciate the opportunity. I will not take very long.

In the interest of time and to preclude redundancy I would like to associate myself with the remarks of Senator Melcher and Senator Bellmon for the great need of some form of countercyclical change in our import quota laws, beef import quota laws.

I would point out that in the 1964 meat import quota law, and, as far as I can see, in some of the proposed new laws, there is a coasting factor due to the nature of the bureaucracy. From the time the quota level is attained to the time of actual shutoff of the meat imports, the coasting factor allows imports in excess of the legal quota level.

These excesses are not deductible from the next year's quota, so we have a coasting factor and a coasting time. A surplus of beef is generated from the time the quota is triggered to the time imports are actually shut off. They can be quite a large factor, particularly the beef imports.

I would suggest that we look at that factor, because many times the imports allowed during this coasting period are large. Of course these imports can be blamed on the fact that, it just took that long to cut it off.

I have even heard it said that, sometimes dealing with the State Department is like watching an elephant get pregnant. Everything happens at a very high level and there is a lot of commotion and it takes about 22 months for something to happen.

Certainly my esteemed colleague, Senator Bentsen, has been involved in the pros and cons of the meat import quota laws. Nevertheless, I certainly want to do all I can, coming from cattle country such as Nebraska to do what is possible to bring equity to the people in the cattle business in order for them to maintain their livelihoods and stay in business.

I have traveled throughout the State, spoken with numerous cattle people and the Unicameral for the State of Nebraska has had numerous hearings which I have attended and it is the consensus of a majority of the people in the State of Nebraska that there is a great, definite need for a revision in our current beef import quota laws.

Thank you, Mr. Chairman.

Senator BENTSEN. Thank you, Senator Zorinsky.

Are there any comments?

Senator CURTIS. Just one question.

The Senator has given a considerable time to this, and as a member of the Agriculture Committee, would you say that if we can preserve for the American cattle industry a greater proportion of our domestic market, that that will also materially help the producers of grain?

Senator ZORINSKY. Yes, sir, definitely.

Senator CURTIS. It means a greater market for our feed grains as well as taking land that would be ordinarily, some of it, turned to wheat and other surplus crops. The more land we use for the livestock industry, the less surplus we might have.

Is that correct?

Senator ZORINSKY. Yes, sir, and regenerating the same dollar nine times over for purchase of more tractors, more jobs are created, and certainly a better economic climate within our country.

Senator HANSEN. I have no questions, but I just wanted to underscore the last point that the Senator made. The way these dollars roll around in a community and the number of times they turn over to add to general improvement throughout the entire economy, I think that is a point that ought not to go unnoticed, and I thank the Senator for making it.

Senator BENTSEN. Thank you very much for your very helpful testimony.

Senator ZORINSKY. Thank you, Mr. Chairman.

Senator BENTSEN. Our next witness is the distinguished Senator from Iowa, Senator Clark, who has walked across most of those farms and ranches in Iowa, have you not, Senator?

He has been very concerned with the problem, and we are very pleased to have him here this morning.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM THE STATE OF IOWA

Senator CLARK. Thank you very much, Mr. Chairman and members of the committee. I appreciate the opportunity to appear and certainly commend you, along with the other witnesses, for the timeliness in holding this hearing.

I know how short the time is and I would like to try to keep my remarks to 5 minutes, and so I will try to be as succinct as possible.

Our State, which is one of the major cattle producing States in the United States, has suffered just as the rest of the country has over the last 4 years. The reason for it, obviously, does not rest entirely with beef imports. It also rests with heavy beef production and weakened consumer demand.

But we think that imports are a significant factor, nevertheless, and are delighted that you gentlemen are undertaking these hearings to try to address yourselves to the import problem.

In fact, the Meat Import Quota Act of 1964 has not worked well in recent years. It does not provide increased protection for domestic producers when the prices are low and these protections most needed. And, the law has a number of significant loopholes which ought to be closed. Many of those have been discussed already this morning.

But, basically, the 1964 act was designed to permit the Secretary of Agriculture to enter into agreements with beef producing countries that would limit imports to about 7 percent of the entire U.S. market. I thought this law was helpful at the time it was passed, in 1964. It was assumed then that it would hold imports down to a level that the United States would need to supplement our production of higher quality beef that makes up the bulk of our beef production.

And it was assumed that foreign beef would be attracted here when our supplies were short and our prices were high, but not when U.S. production was high, or our prices were low.

But, as so many other witnesses here have said, those assumptions have not proven to be correct. We have imported just about exactly the maximum amount each year since the mid-1960's, both when prices were high and when they were low. Especially in recent years, prices have not affected imports much.

In fact, in 1970, about 1.8 billion pounds were imported and between 1.8 billion and 2 billion pounds have come in each year since then, with the single exception of 1974.

There are at least two kinds of loopholes in the act. First, imports of live cattle were not covered and, even worse, when these live cattle were imported for slaughter, they actually increased the calculation of domestic production and thus, the amount of imported beef that can come in under the act. So you get a kind of double whammy.

Second, certain processed beef products are not covered by the act. Canned corned beef, frozen cooked beef, other processed beef can come into the United States in unlimited quantities. I believe, as other witnesses have testified before me, that these loopholes should be closed and that beef imported in these forms should be counted against the quota of each importing country.

Mr. Chairman, I understand that you have at least five bills before you now under consideration and that others may well be offered, and I believe that a number of these bills would accomplish about the same thing using different approaches.

I am not here to try to identify the best legislation. Your committee is responsible for that and I would rely upon your doing a good job. Instead, I would just like to list two or three of the characteristics that I believe any revision of the current bill should include.

First, the protections in the law should be countercyclical, as you have indicated. They should provide more protection when U.S. prices are low and admit more beef, imported beef, when U.S. supply is short and prices are high.

The basic concept of the 1964 law of specifying a share of the market for imports over some average period seems like a fair one to me, but I would like to see each import quota adjusted up or down around the average so that producers have more protection when they need it most.

Second, the loopholes should be closed. It seems to me to be only a matter of equity and common sense that processed beef and beef from cattle imported live be counted against any producing country's quota. Certainly beef of all kinds, and from all sources, should be covered by the law.

And, as I think Senator Hansen pointed out in earlier comments, imported meat should face the same rigorous inspection as domestic meat does. I know current Federal inspection meat law requires such inspection, but I know there are cattlemen and consumers and those across the country who are concerned that such inspection does not always occur, and I would hope that the committee would address itself to the seriousness of this problem, if it indeed has jurisdiction and feels it is appropriate to do so, because it is a recurring issue in our state.

And, Mr. Chairman, I do want to say, just in closing, that our stake in international trade and argricultural product is immense. We cannot simply build a wall around overselves. The thing that would hurt agriculture most would be to jeopardize a basic free trade in agriculture. I am not talking about that. We know that we export over half of our wheat, half of over all our soybeans, a quarter of all of our corn, so we are talking about a health free trade situation.

In my judgment, these changes in the 1964 Meat Import Quota Act do not represent any move to restrict foreign trade. They would make the protections Congress intended for our producers in 1964 more effective, far more effective than they are now.

So I am not appearing here as an isolationist, but neither am I for unfair competition. Our producers must be protected against surges of imports that destroy their market and especially since our trading partners in Europe and Japan have such severe quotas on beef.

We cannot permit the United States to be a dumping ground for world's distressed supplies of beef.

I, again, commend you for the efforts that you have made in trying to address this problem. It has been around for a very long time, and no one seemed to want to take it on. So we are delighted that you, Mr. Chairman and members of the committee, are looking at this problem seriously and I thank you for letting me testify.

Senator BENTSEN. Thank you, sir.

Are there any questions of Senator Clark?

Senator HANSEN. I would like to compliment Senator Clark and note that the point he makes is important in that as live cattle come into this country and they are eventually slaughtered, which, of course, is the case, the way the law is interpreted and the way it works, it is my understanding that this has the effect of increasing the domestic production of cattle in this country and, as a consequence, a greater poundage of imports will thus be permitted, then.

Senator CLARK. That is right.

Senator HANSEN. Is that not the case?

Senator CLARK. That is certainly my understanding.

Senator HANSEN. That is my understanding, too.

I think, too, that it is important to note that what we are asking for is equity. Senator Curtis and I were in Japan just after the first of the year, and we were concerned, as everyone here should be, about the imbalance in trade between the Japanese Government and the United States and we import a lot of their manufactured products.

I think the duty on cars is about 3 percent, and yet you cannot hardly get any quantities of meat or oranges, just to mention two things, into Japan at the present time.

We did get assurances, when Senator Curtis and I were over there, that they would be agreeable to increasing the amount of hotel trade beef as they describe it, from 1,000 tons up to 3,000 tons. That was not acceptable to us and, as a consequence, I think they have indicated more recently that they would be agreeable to 10,000 tons.

But gosh, the average Japanese over there anticipating the cutback that will be available insofar as the contribution to fish and sea life is concerned with the 200-mile limit that most countries are imposing worldwide now, makes it important, I believe, for the Japanese looking to other sources of protein.

I should think that meat is one of the things we could export and if we just got a little fairer shake with the Japanese people than we do at the present time, we would be making a lot of progress.

Senator BENTSEN. Thank you very much for your testimony.

Senator CLARK. Thank you.

Senator BENTSEN. You made some very important points there.

Governor Judge from the State of Montana is here, and we would be very pleased to have him testify.

Governor, we are going to ask that you, along with the previous witnesses, limit your testimony to 10 minutes.

STATEMENT OF HON. THOMAS L. JUDGE, GOVERNOR OF THE STATE OF MONTANA

Governor JUDGE. Thank you very much, Senator and members of the committee. I want to thank you for this opportunity today to appear before your committee. I would like to commend the Senate

Finance Committee for holding these hearings and particularly our very fine Senator from Montana, John Melcher, who has been fighting for realistic beef import quota laws for a long time.

First of all, I would just like to say that the cattle industry in the State of Montana is in a very severely depressed situation. It has been for about 4 years. It is complicated by the very serious drought that we had in 1977.

First I would refer you to the table at the back of my testimony—I will try to summarize, if I can. Table 1 shows that in 1974 the cattle industry in this country was worth $37,446 million. In 1976, it was down to $23,337 million.

Then I would refer you to table No. 2 which shows the production of cattle since 1964 to 1976, increased to—a rather significant increase and yet, at the same time, as production of cattle increases in the United States, the level of imports has dramatically increased which, in my opinion, is proven madness.

Because of the increase in domestic supply and its effect on the quota level, the Meat Import Quota Act has permitted additional imports of beef during 1974 through 1977. This has contributed to lower prices for U.S. producers who, at the same time, were reducing domestic production hoping to gain more equitable prices for their beef.

I have been and continue to remain a proponent of free trade. Free trade, however, too often ends at our own national borders.

With our meat products restricted from free access to many markets in the world, it became necessary for the United States to protect its own beef industry. The Meat Import Quota Law of 1964 was enacted to do just that, but it has not achieved the goals for which it was written.

Between 1960 and 1976, the U.S. cattle production increased 69 percent while imports rose by over 2½ times.

I would like to discuss four areas of concern to the Montana cattlemen and offer specific recommendations to amend the import quota law to serve the best long-range interests of the domestic producer, the American consumer, and importing countries.

These have already been covered by Senator Melcher. The first, of course, is the Meat Import Act should be amended to include processed, canned, cooked, cured beef, meats, as well as fresh chilled and frozen meats should be regulated by the act and subject to the quotas.

Senate bill 294, sponsored by Senator Melcher, would accomplish that goal.

It would like to point out a study which was conducted at Montana State University, which indicated that 1 pound per capita increase per year in consumption of imported beef would reduce the price a Montana rancher gets for feeder animals by $2.79 per hundredweight during the first half of the marketing year. And since over 600 million pounds of meat entered the United States outside the law, one can conclude that a Montana rancher's feeder cattle prices were negatively impacted by 8.40 per hundredweight in the first half of 1976.

Senator BENTSEN. What page are you on, Governor? That is very interesting, and I want to follow it.

Governor JUDGE. On your copy it is on the bottom of page 2 and the top of page 3.

Senator BENTSEN. Thank you very much.

Governor JUDGE. So prices were negatively impacted by $8.40 per hundredweight the first half of 1976.

Montana ranchers were receiving approximately $30 per hundredweight for their cattle sold during the first 6 months of 1976. Certainly, limiting beef imports would not cure all of the economic ills of the industry, but an additional $8.40 per hundredweight may make the difference for the young, hardworking Montana cattleman who faced bankruptcy just after getting into the business.

Second, as has been pointed out well by several Senators, the import quota formulas should be revised to provide an inverse countercyclical relationship between domestic production and imports.

Third, a thorough review of the foreign meat inspection program should be implemented. The Packwood bill, Senate 297, and companion House Resolution 3130 should be enacted. This bill provides for the labeling of foreign meats at the retail levels. Meats for export to the United States would be subjected to the same inspection requirements that apply to domestically slaughtered beef.

I am going to pass over the next several pages.

Fourth, since 1964, the United States has imported an average of 920,000 head of live cattle annually with 917,447 head coming from Canada and Mexico. Mainly, slaughter cows have come from Canada and feeders from Mexico.

Of great concern is that Montana and North Dakota share the brunt of Canadian imports. Both of these countries have imposed certain restrictions on U.S. feeder cattle and breeder stock, limiting our ability to sell to markets in these countries.

Canadian testing procedures for bluetongue and anaplasmosis and herd certification for DES free cattle have been restrictive to the point that the U.S. breeding and feeder stock exports have been greatly diminished since 1973.

Of greater importance with respect to the importation of live cattle is the fact that Canadian and Mexican cattle are considered as domestic production when slaughtered in the United States. This obviously inflates the base from which beef import entitlements are calculated, a procedure that is clearly contrary to the spirit and intent of the Meat Import Act. An average of 546 million pounds of beef which originate in Canada and Mexico are considered as U.S. production and contribute to a continually increasing import quota base.

In the absence of live cattle imports, domestic producer prices could have increased an average of $7 per hundredweight in the first quarter of 1976. We must wonder if the pattern of live cattle imports is not a mere circumvention of meat import quotas.

I would like to refer you to the last graph which I think points this out very well. Because, at the end of the year, the dotted line indicating meat that is imported under the quota, when the quota is—we are reaching the quota, it drops off significantly at the end of the year, but then, live cattle imports rise drastically, which obviously indicates that the beef import quota law is being circumvented by the importation of live cattle.

Montanans have learned to cope with a hostile climate, a remote location, and chronic shortages of working capital. But the intensity and number of adverse factors thrust upon us over the last 3 years constitute a threat which we cannot independently meet. I believe that the problems we have discussed are of national significance and must be met with prompt congressional action.

If we fail to act now, we not only will have destroyed a lifestyle and agricultural production system which are models for the world, we will have made our consumers permanently helpless in the face of large corporate domination of the industry which supplies our most basic necessity, food.

I would be glad to answer any questions that anyone would like to ask.

Senator CURTIS. Mr. Chairman, I would like to commend the distinguished Governor on his statement. I think he has covered his points well, and I have no questions.

Senator HANSEN. I have no questions. It was an excellent statement, Governor.

Senator BENTSEN. Governor, it is a good statement and you have given us some hard numbers, but I wonder how you arrive at those numbers. You say the Montana State University indicates 1 pound per capita increase per year in consumption of imported beef would reduce the price a Montana rancher gets for feeder animals by $2.79 per hundredweight, and then you go ahead and show how much was imported outside of the law and the effect on it. Could you please supply us with information on how these estimates were made?

Governor JUDGE. Senator, I would like to have the record remain open and introduce this study from Montana State University as part of the record.

[The following was subsequently supplied for the record:]

A Quarterly Model of U.S. Beef Prices

This paper presents the estimated coefficients of a structural model of quarterly beef wholesale, slaughter, and feeder cattle prices. Buying and selling activities in the livestock-meat markets determine relative supply and demand conditions. Cattle and meat prices are then determined within this framework and serve as the mechanism by which short term livestock marketing decisions and primary production plans are made. Wholesale beef prices are usually a barometer of expected retail meat prices since in a given time lag framework changes in wholesale carcass, fabricated and boxed beef prices are translated at the retail counter. Slaughter cattle and feeder cattle prices in the short run key on the wholesale market, but also reflect supply and demand conditions in the livestock production-marketing network such as feeder production, cattle feeding and cattle slaughtering.

Both commodity input and output procurement and marketing decisions are made on the basis of probablistic expectations since producers and marketers operate in an environment of risk and uncertainty. Decisions by each sector emphasizes the "vertical joint dependency" relationships that exist over time. That is retained ownership decisions by cattle stocker and feeder producers are not only a function of enterprise costs but also of future estimates of what cattle feeders and meat packers would be willing to pay. Likewise, the fat cattle operator in making feeedlot placement and fed marketing decisions is concerned with the available supplies of feeder cattle and calves, feed costs and an estimate of what packing plants would be willing to pay over the course of the marketing year.

The nature of these cross market relationships may vary depending upon the time frame considered. In the shorter run, vertical relationships may be more recursive in nature, implying that key price determination occurs in the wholesale market and the cause-effect relationships flow from wholesale to slaughter to feeder levels. Over a longer term, the vertical relationships may more nearly be jointly dependent since complete economic adjustments may occur at each level. Hence in a short run framework it would not be expected that the characteristics of the cattle cycle would be immediately reflected at the wholesale market, as would be the case over the long run since primary production (cow herd and feeder and stocker production) adjustments have occurred.

The purpose of the econometric model is to explain the quarterly structure of meat and cattle prices, where a priori, prices are structurally determined by:

1) domestic fed and nonfed beef production;
2) beef imports;
3) stocks;
4) income;
5) beef substitutes;
6) cattle placements and slaughter by-products; and
7) feed costs and gross feeding margins.

Estimation of quarterly prices was made for choice steer beef carcasses 600-700 lbs., Chicago, choice slaughter steers 900-1100 lbs., Omaha, and choice feeder steers 600-700 lbs., Kansas City. The short term model was treated as recursive and estimated by ordinary least squares. Thus the variables listed above are assumed predetermined. Each quarter of the calendar year was also estimated separately with time series data including the years 1960 through 1976. It was assumed that the wholesale, slaughter, and feeder steer markets were linked such that causality flows from wholesale to lower order market levels. Over a longer term, this assumption would be relaxed. Changes in relative prices effect cow herd size and hence feeder and slaughter cattle supplies. Thus in turn the economic effects would flow from lower order to higher order markets. An example is the positive feeder cattle production response to price increases in the rapid growth and deceleration phases of the cattle cycle. The result is an increase in slaughter supplies and wholesale meat supplies which would have a negative influence on wholesale prices.

Model

The livestock-meat price model consists of 12 behavioral quarterly equations at each market level, each assumed linear in parameters and variables, and price margin and market cleaning identities. The general form of the recursive livestock system is given as

$$P_{1i,t} + \Gamma_{11} z_{1i,t} = U_{1i,t} \qquad i = 1,2,3,4$$

$$P_{2i,t} + B_{21} P_{1i,t} + \Gamma_{21} z_{2i,t} = U_{2i,t} \qquad t = 1,2,\ldots,17$$

$$P_{3i,t} + B_{31} P_{2i,t} + B_{32} P_{1i,t} + \Gamma_{31} z_{3i,t} = U_{3i,t}$$

$$P_{1i,t} = P_{2i,t} + M_{2i,t}$$

$$P_{2i,t} = P_{1i,t} + M_{1i,t}$$

$$Q_i^S = Q_i^D \qquad \text{all market levels}$$

which is the simplest form of all simultaneous equations systems. The variables P_1, P_2 and P_3 are the endogenous price variables specific to the wholesale, slaughter and feeder levels, respectively, and Z_1, Z_2 and Z_3 represent the matrices of predetermined variables specific to the respective market levels. The variables M_1 and M_2 represent the feeder to slaughter and slaughter to wholesale cost spreads.

The statistical assumptions are that

$$E(Z_{it}U_{it}) = 0$$

and

$$E(u_i u_i') = V$$

where V is a g x g diagonal residual covariance matrix with the property the disturbances are serially independent and that zero covariance exists for the disturbance terms across equations. Hence the crucial result that $u_{i,t}$ is uncorrelated in the limit with the normalized endogenous variable $P_{i-1,t}$ of the previous equation in the same market level. It also implies that the set of disturbance terms at one market level are uncorrelated in the limit with the set of disturbances at another market level.

The theoretical underpinnings of the beef model indicate that on a quarterly basis, the normalized endogenous variable in the wholesale dressed meat market enters recursively into the slaughter market. Likewise, the normalized endogenous variable in the slaughter market enters recursively into the feeder market. Each market level price is also determined by variables specific to that level. The cause-effect pattern of the system is given in Figure 1.

Empirical Results

The final maintained hypotheses, estimated coefficients and regression statistics are given in Tables 1, 2 and 3. The coefficients of price flexibility are also included. Table 4 gives the definitions and unit measurements of the variables. All price, income and quantity variables were deflated by the Consumer Price Index and population where appropriate. Different linear combinations of variables were also tested, however, based on the adjusted coefficients of multiple determination, standard errors of estimate and prediction of sample period turning points they exhibited an inferior performance.

<u>Wholesale</u>

Each quarterly wholesale price equation was specified based on theoretical considerations. Other structural econometric investigation have had similar variable identification for demand and price equations. Choice steer carcass price is regressed against fed beef production per capita, nonfed beef production per capita including beef and veal imports, pork and poultry supplies per capita, cold storage holdings per capita and real per capita disposable income.

The quarterly effects of income remain relatively constant as revealed both by the impact coefficients and price flexibilities with respect to income. However, the values of the slope coefficients for the remaining regressors show considerable variation. Similarly the intercepts shift significantly reflecting the expected quarterly price seasonality pattern throughout the calendar year.

The quarterly effects of fed beef production are the most significant and these results are consistent with theoretical expectations. The coefficients decline from their peak of $3.57 cwt. in the first

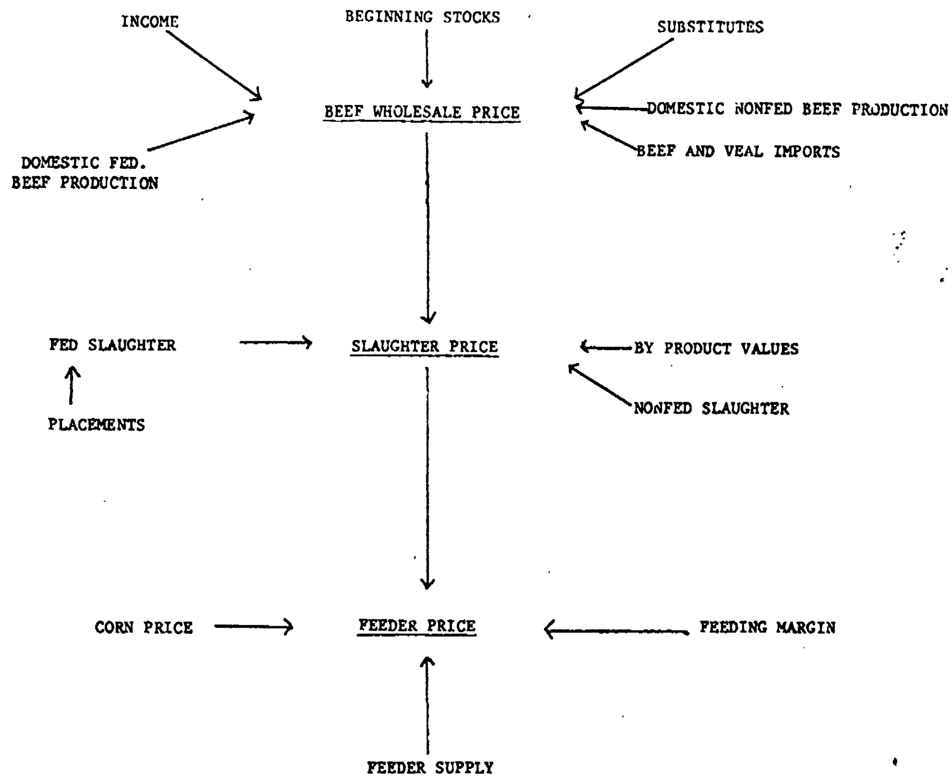


Figure 1. Major determinants of wholesale, slaughter and feeder prices.

VARIABLE DEFINITIONS
(APPLICABLE TO EACH QUARTER)

PBW = price of choice beef steer carcasses (600-700 lbs.), Chicago (dollars per cwt.)

FB = fed beef production, pounds per capita (carcass weight)

NFB = nonfed beef production, pounds per capita. Includes domestic nonfed beef plus imports (carcass weight)

K = beef cold storage holdings, pounds per capita (carcass weight)

QPORK = quantity of pork production, pounds per capita

QPOUL = quantity of poultry production, pounds per capita

Y = per capita disposable income

PSL = price of choice slaughter steers (1100 lbs.), Omaha (dollars per cwt.)

BPROD = by-product value from a slaughter steer (dollars)

PLAC = cattle placed on feed in the 23 major cattle feeding states

PFC = price of feeder steers, Kansas City, choice 600-700 lbs. (dollars per cwt.)

PYC = price of #2 yellow corn, Chicago (dollars per bushel)

FM = gross cattle feeding margin (dollars)

T = time trend

TABLE 1. Quarterly Prices of Beef Wholesale Market

Quarter	Normalized Variable	FB	NFB	K	QPORK	QPOUL	Y	Constant	$\bar{R}^2$	S	DW
		Independent Variables[a]									
(1)	PBW	-3.565	-3.60	-3.211	- .92	1.96	.023	78.376	.91	1.25	2.41
		(8.92)	(11.45)	(1.63)*	(2.32)	(2.28)	(4.78)	(8.39)			
		[-1.61]	[- .80]	[- .13]	[- .38]	[.47]	[1.39]				
(2)	PBW	-2.377	-2.526	---	---	---	.019	56.91	.80	1.57	2.68
		(7.90)	(7.53)				(7.02)	(15.53)			
		[-1.06]	[- .58]				[1.40]				
(3)	PBW	-1.750	-1.77	-2.687	.698	-1.936	.023	49.966	.88	1.25	2.03
		(4.23)	(6.17)	(1.70)*	(1.39)*	(2.59)	(6.76)	(5.99)			
		[- .78]	[- .46]	[- .09]	[.25]	[- .64]	[1.41]				
(4)	PBW	-1.90	-2.214	-4.751	---	-1.214	.021	64.565	.81	1.48	2.17
		(3.42)	(4.11)	(2.06)		(1.44)*	(4.39)	(11.54)			
		[- .87]	[- .58]	[- .17]		[- .41]	[1.34]				

[a] The T-values are given in parentheses and the flexibility coefficients given at the mean values are in brackets.

*Significant at the 90 percent probability level. Absence of the asterisk implies that coefficients are significant at minimum 95 percent probability level.

TABLE 2. Quarterly Prices of Steer Slaughter Market

Quarter	Normalized Variable	Independent Variables[a/] PBW	BPROD	PLAC	Constant	$\bar{R}^2$	S	D
(1)	PSL	.572 (10.73) [.93]	.435 (1.88) [.07]	.125 (4.43) [.118]	-2.985	.97	.49	2.02
(2)	PSL	.570 (11.70) [.93]	.469 (2.26) [.084]	.125 (5.14) [.108]	-2.81	.95	.55	1.24
(3)	PSL	.589 (13.66) [.95]	.848 (5.66) [.16]	.144 (4.60) [.155]	-6.023	.96	.54	2.54
(4)	PSL	.589 (13.83) [.95]	.299 (1.89) [.054]	.083 (2.67) [.133]	-3.11	.95	.49	2.21

[a/] The T-values are given in parentheses and the flexibility coefficient computed at the mean values are given in brackets.

TABLE 3. Quarterly Prices of Feeder Steer Market

Quarter	Normalized Variable	Independent Variables[a/]					$\bar{R}^2$	S	D
		PSL	PYC	FM	T	Constant			
(1)	PFC	1.634	-6.532	- .071	.208	-1.355	.90	1.28	2.34
		(11.28)	(4.26)	(3.15)	(2.95)				
(2)	PFC	1.761	-7.706	- .085	.112	.527	.80	1.61	2.54
		(7.46)	(3.58)	(4.35)	(1.22)*				
(3)	PFC	1.900	-8.263	- .080	.193	-4.367	.69	2.39	2.75
		(6.19)	(3.34)	(3.07)	(1.41)*				
(4)	PFC	2.27	-5.189	- .137	.216	-11.911	.91	1.19	2.05
		(11.59)	(4.48)	(8.79)	(3.02)				

[a/]The T-values are given in parentheses and the flexibility coefficients computed at the mean values are given in brackets.

*Not significant at the 95 percent probability level.

greater to $1.75 cwt. in third quarter and then increases to $1.90 cwt. the fourth. The quarterly demand curves for wholesale beef seasonally shift, and are intersected by vertical fed beef supply curves (see Figure 2). The differences in the impact coefficients reflect the slope of the demand curves and the slope of the supply curve over the period of one year. The price flexibility coefficients indicate that wholesale beef demand is relatively more inelastic in the first and second quarters (-1.61 and -1.06) compared to the third and fourth quarters (-.78 and -.87). Thus a small shift in fed beef production would produce a greater impact on prices the first two quarters.

The effects of nonfed beef production are surprisingly large relative to fed beef, indicating a high degree of competition between the two grades of beef. However upon examining their respective direct and cross price flexibilities, the impact of fed beef on wholesale prices exceeds that of nonfed beef. In the first quarter, the percentage influence of fed beef production (-1.61) exceeds the percentage influence on nonfed production by double (-.80). However throughout the remainder of the marketing year the difference decreases significantly.

The structural information indicates the effect of U.S. beef imports is larger than previous studies [ ]. The marginal price impact, based on a one pound per capita increase, ranges from $1.77 cwt. in the third quarter to a high of $3.60 cwt. in the first quarter. Since U.S. beef imports are lower grade fresh, frozen, chilled and processed forms they compete directly with domestic cull cow and range fed beef. Therefore the marginal impact coefficient is expected to be the <u>same</u> for both domestically produced and imported lower grade beef.

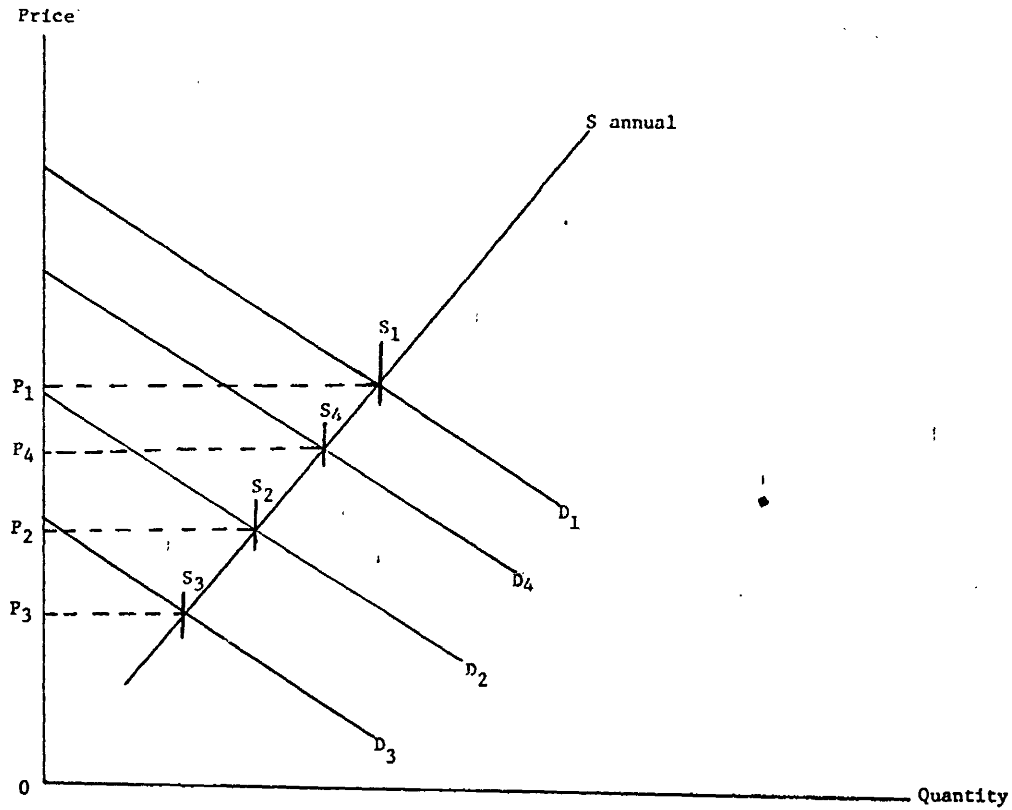


Figure 2. Quarterly shifts in supply and demand curves for Beef Wholesale Market

The substitute commodities pork and poultry play a role in determining wholesale prices, basically since their competitive effect is derived from consumer substitution behavior at the retail level. A priori reasoning indicates the signs of the estimated coefficients should be negative, the exceptions in this analysis were the positive signs on pork and poultry in the first and third quarters, respectively. These complementary relationships indicated by the positive signs may be spurious, however, Freebairn and Rausser and Hayenga and Hacklander have encountered similar results. One explanation may be consumer preferences for variety in the meat diet. In the quarters where beef and pork were eliminated neither the signs nor the standard errors of the coefficients were acceptable.

The inclusion of beginning quarter stocks is to measure the price effect due to the size of cold storage holdings. The signs of the regression coefficients are negative which is consistent with theoretical expectations. An increase in cold storage holdings at the beginning of the quarter would, ceterus paribus, be expected to have a price depressing effect. The largest impact occurs in the fourth quarter, where a 10 percent increase in stocks reduces price by 1.7 percent, compared to 1.3 percent and .09 percent in the first and third quarters, respectively. The relatively small percentage influence of cold storage holdings would appear reasonable since stocks make up less than 5 percent of total beef supplies for any specific quarter.

25-356 O - 78 - 5

Slaughter

Quarterly choice slaughter steer prices were hypothesized to be a function of wholesale (carcass) beef prices, value of slaughter by-products and cattle placed on feed. Wholesale beef prices are a measure of the demand price for carcass and fabricated products. An exogenous increase in wholesale demand (price) would be a market signal to packers to bid up slaughter cattle prices as they compete for a given slaughter supply. An increase in by-product values would increase the gross value of the slaughter animal, hence slaughter cattle prices would tend to increase, however, the expected marginal impact would be small. Cattle placements are a measure of expected fed cattle supplies that influence slaughter prices. Theoretical expectations indicate that the larger are cattle placements of previous quarters the larger the current fed cattle supply and lower slaughter prices. However, current quarter cattle placements would be expected to be positively correlated with slaughter prices since increased placements circumvent the direct supply route to slaughter.

The price flexibility coefficients indicate the influence of beef prices in the wholesale market exceed the effect of cattle placements and slaughter by-products. Since slaughter demand is derived from wholesale demand, the price per unit of carcass and fabricated products would have a strong market influence on bidding activities of meat packers. The strongest impact of the wholesale market occurs in the third quarter, one of the larger slaughtering quarters of the year. In that quarter a one dollar increase in wholesale prices increases slaughter prices by 71 cents per hundredweight, or a 10 percent increase in wholesale prices increases slaughter prices by 11.5 percent.

By-product values, obtained from hides and offal, are significantly different from zero although their relative impact is small. In 1976, edible and inedible by-products were 10 percent of total gross farm value of a 1100 pound slaughter steer. The model indicates that a one dollar increase in the value of by-products increases slaughter prices by only 1 to 2 cents per hundredweight over the range of the four quarters. Value of by-products are usually important in covering the variable costs of slaughter.

Cattle placements (cattle placed on feed in the 23 major cattle feeding states) were specified in order to capture the "supply effect" on slaughter prices. Current quarter cattle placements are assumed positively correlated with slaughter prices since increases of cattle placed on feed imply a reduced number of calves and steers and heifers going directly to slaughter from range. Lagged placements were an indicator of the price effect of fed cattle marketings. However lagged placements were discarded since the results were not theoretically consistent; the linear combination of variables performed less satisfactorily in terms of explanatory power (adjusted R^2) and standard error of the estimate.

Results indicate that an increase in cattle placed on feed can augment steer slaughter prices from 12 to 16 cents per hundredweight, with the largest impact occurring in the third quarter (coefficient of price flexibility with respect to placements equal to .17). The third quarter of the year is the normal quarter in which feeder cattle placements seasonally increase. In 1976 the third and fourth quarters together accounted for nearly 60 percent of total annual placements.

Feeder Prices

Quarterly feeder steer prices are determined by current slaughter cattle prices, the price of corn, a cattle feeding margin and a time trend variable.

Slaughter steer prices are the price of the final product for cattle feeders and indicate, ceterus paribus, that an increase in the marginal value product of fed steers due to an increase in slaughter prices would increase the demand (price) for feeder cattle. Throughout the marketing year the marginal impact of a change in slaughter prices on the feeder market increases, beginning from a low of $1.63 cwt. in quarter 1 to a high of $2.27 cwt. in quarter 4.

Corn price, a key variable in the feedgrain market, serves as an important proxy for the influence of feed costs on the derived demand for feeder cattle. The marginal impact coefficients specific to a one dollar per bushel increase in corn price are large, ranging from a low of $5.19 cwt. in the fourth quarter to a high of $8.26 cwt. in the third quarter. The negative signs are consistent with the maintained hypothesis since on the margin an increase in feed costs would decrease derived feeder cattle demand.

The inclusion of gross cattle feeding margins was to capture the effects of cattle feeder expectations concerning the future probability of cattle finishing operations. The negative coefficients imply that an increase in current margins would decrease the derived demand (prices) for feeder cattle since feeders perceive future declining margins due to an increase in fed cattle marketings and lower slaughter prices. The marginal impact of a change in gross margins is small, staying near 7 to 8 cents per hundredweight from the first through the third quarters and increasing to 13 cents per hundredweight in the fourth quarter.

Senator BENTSEN. It would be very helpful to us, because I can assure you that we are going to get figures from others trying to refute these. We would like to end up with some hard numbers, if we can.

Governor JUDGE. This is Keith Kelly who is our agricultural coordinator for the State government of Montana.

Mr. KELLY. The study indicates that per 1 pound per capita consumption increase indicates on the margin a $2.79 price impact on domestic beef prices and then, as we conclude that there are 600 million ponnds that are shipped outside of the Meat Import Quota Act and divided by 200 million people, that is a 3 pound per capita increase in consumption throughout the United States.

That, just take it times the $2.79——

Senator BENTSEN. I can follow that very easily, but it is the $2.79 that I want to get at.

Mr. KELLY. To support the $2.79? That study was in its preliminary stages, but they were pretty firm with that and we will submit it for the record when available.

Senator BENTSEN. That would be helpful to us.

Governor, thank you very much. You have been very helpful.

[The prepared statement of Governor Judge follows:]

STATEMENT OF GOVERNOR THOMAS L. JUDGE

The cattle industry in Montana and across the nation has experienced severe financial losses since 1974.

The value of the national cattle inventory has decreased over 38 percent since 1973, from $37,446,717,000 in 1974 to $23,337,880,000 in 1976 (Table 1). During the 1975-1977 period, imports of beef and live cattle have been large and adverse to the financial survival of domestic producers. In addition, drought has plagued many of the western livestock producing states, resulting in further financial stress. Livestock producers are facing inflation-fueled costs on one hand and reduced product prices on the other, resulting in a critical financial situation.

As a result of herd liquidation, larger than normal numbers of cattle were slaughtered since 1973. For example, a 22 percent increase in the total United States production of beef and veal occurred in the period 1973-1976; 16.1 billion product pounds were produced in 1973 as compared to 19.6 billion product pounds in 1976 (Table 2).

Because of this increase in domestic supply and its effect in the quota level, the Meat Import Act has permitted additional imports of beef during 1974 through 1977. This has contributed to lower prices for United States producers who were, at the same time, reducing domestic production hoping to gain more equitable prices for their beef.

I have been and continue to remain a proponent of free trade. Free trade, however, too often ends at our own national borders.

With our meat products restricted from free access to many markets in the world, it became necessary for the United States to protect its own beef industry. The Meat Import Quota Law of 1964 was enacted to do just that. But it has not achieved the goals for which it was written.

Between 1960 and 1976, United States cattle production increased 69 percent, while impprts rose by over two and a half times.

I would like to discuss four areas of concern to Montana cattlemen, and offer specific recommendations to amend the Import Quota law to serve the best long range interests of the domestic producer, the American consumer and importing countries.

(1) The Meat Import Act should be expanded to include: All processed (canned, cooked, and cured) meats, as well as fresh, chilled, and frozen meats should be regulated by the act and subject to the quotas. Senate Bill 294, sponsored by Senator John Melcher (D-Montana) would accomplish this goal.

Since 1964, canned, cooked, and processed meat has comprised approximately 33 percent of the total meat imported into the U.S., and is not subject to the Import Qutoa Law of 1964. For example, total meat product weight imports in 1976 were over 1.8 billion pounds with only 1.2 billion pounds product weight subject to the law. Therefore, 607 million pounds of product weight meat entered the U.S. markets unrestricted, and displaced U.S. production.

Studies presently underway at Montana State University indicate that a one pound per capita increase per year in consumption of imported beef would reduce the price a Montana rancher gets for feeder animals by $2.79/CWT during the first half of the marketing year. Since over 600 million pounds of meat entered U.S. markets outside of the law, one can conclude that a Montana rancher's feeder cattle prices were negatively impacted by

$8.40/CWT in the first half of 1976. Montana ranchers were receiving approximately $30/CWT for their cattle sold during the first six months of 1976. Certainly limiting beef imports would not have cured all the economic ills of the industry, but an additional $8.40/CWT may have made the difference for the young, hard-working Montana cattleman who faced bankruptcy just after getting into the business.

(2) The import quota formula should be revised to provide an inverse (counter cyclical) relationship between domestic production and imports. Allowing imports to increase when domestic production increases is now proven madness. Such revision would stabilize the market for consumers and prevent the radical price variations that have occurred in the last several years.

(3) A thorough review of the foreign meat inspection program should be implemented. The Packwood Bill (S. 297 and companion H.R. 3130) should be enacted. This bill requires:

(a) The labeling of foreign meats at the retail level.

(b) Meats for export to the United States would be subjected to the same inspection requirements that apply to domestically slaughtered beef.

It is interesting to note that the antibiotic Chloramphenical is cleared for use in Canada, but is not allowed to be used by U.S. livestock growers. And Canada ships its beef with possible Chloramphenical residues to the United States, and that meat is not sampled for Chloramphenical by USDA meat inspectors at the present time.

Further, in 1976, there were 1,084 USDA certified foreign plants permitted under the meat inspection program to export meat into the U.S. There were also more than 8,338 inspectors employed by foreign governments in the plants which export to the U.S. However, there are only 20 USDA foreign program officers who inspect the large volume plants on a quarterly basis. Each USDA office must supervise 400 foreign inspectors scattered throughout numerous countries a minimum of twice annually and up to four times annually on large volume plants. This task appears humanly impossible.

As a comparison, there are 7,093 federally inspected slaughtering plants in the U.S. which are monitored by 8,370 USDA inspectors providing in-plant and relief inspection. I strongly endorse the intent of S. 297 and companion H.B. 3130; however, good intentions do not necessarily solve the problems. Not only must we have strong laws, but we must have strong enforcement of the provisions of those laws, and that requires money. Therefore, this bill must be expanded to include authorization for adequate funding for the entire meat import inspection program.

It is interesting to note that in 1976, Congress enacted enforcement legislation to ensure that U.S. grains destined for export complied with strict grading standards and weights. Considerable money was appropriated for an expanded Grain Inspection Service within USDA, yet we still continue to operate a foreign meat import inspection service with a skeletal staff. It is ironic that a foreign consumer of U.S. agricultural products is guaranteed more protection by the U.S. government than an American consumer of agricultural imports.

(4) Since 1964, the United States has imported an average of 920,000 head of live cattle annually with 917,447 head coming from Canada and Mexico. Mainly, slaughter cows have come from Canada and feeders from Mexico. Of great concern is that Montana and North Dakota share the brunt of the Canadian imports.

Both of these countries have imposed certain restrictions on U.S. feeder cattle and breeder stock, limiting our ability to sell to markets in these countries. Canadian testing procedures for Bluetongue and

Anaplasmosis and herd certification for DES (di-ethyl-stibestrol) free cattle have been restrictive to the point that the United States breeding and feeder stock exports have been greatly diminished since 1973.

Of greater importance, with respect to the importation of live cattle is the fact that Canadian and Mexican cattle are considered domestic production when slaughtered in the United States. This obviously inflates the base from which beef import entitlements are calculated, a procedure that is clearly contrary to the spirit and the intent of the Meat Import Act. An average of 546 million pounds of beef which originate in Canada and Mexico are considered as U.S. production, and contribute to a continually increasing import quota base.

Administrative procedures should be established to tabulate and account for the actual pounds of meat produced from these imported cattle so that it could be deducted from U.S. production before import quotas are calculated.

Although we recognize that live cattle imports have a substantial impact on domestic cattle prices, we also recognize the need for normalized live cattle trade; but it must be normalized in both directions.

In the absence of live cattle imports, domestic producer prices could have increased an average of $7.00/CWT in the first quarter of 1976.

We must wonder if the pattern of live cattle imports is not a mere circumvention of meat import quotas. Figure 1 tends to support the theory that when meat imports approach trigger levels, live cattle imports increase dramatically and then reduce just as dramatically when the new year of meat import quotas commences for the next importing year.

Montanans have learned to cope with a hostile climate, a remote location, and chronic shortages of working capital. But the intensity and number of adverse factors thrust upon us over the last eight years constitute a threat which we cannot independently meet. I believe that the problems we have discussed are of national significance and must be met with prompt Congressional action.

If we fail to act now, we not only will have destroyed a lifestyle and agricultural production system which are models for the world, we will have made our consumers permanently helpless in the face of large corporate domination of the industry which supplies our most basic necessity, food.

I would like to introduce further testimony prepared by Robert G. Barthelmess, Chairman of my Board of Livestock.

Testimony of Robert G. Barthelmess, Chairman of the Montana Board of Livestock, for the Senate Finance Hearing, on Meat Import Quota, Washingon, D.C., Monday, February 27, 1978

MEAT IMPORTS

My name is Bob Barthelmess. I am a cattleman, in support of our Governor and speaking for Montana's livestock people, the other business' in our state dependent upon a healthy cattle industry, and all consumers who demand from us a wholesome, nutritious, and honest product. I was raised from the proceeds of a cow and to know that my first allegiance was to family and country, and that the second was to the business that provides my living, and further that what happens to the first depends on what I do for the second. It is to this end that my life has been driven, and that I offer this testimony.

Yielding, to counsel, but with personal reluctance, I have been advised to give the information that after finishing High School, I returned to our rural community, have done most of my work and have lived there ever since; that I served as National Vice-President of the Future Farmers of America when I was 18, was elected President of a nine county livestock association at 26, to the Executive Board of the Montana Stockgrower's Association at 29 and the youngest President in its 93 year history at 38, I have served as Director of the American National Cattlemen's Association, was appointed by Orville Freeman to the Cattle Advisory Committee for the United States Department of Agriculture in 1964, and am now serving as Chairman of Montana's Board of Livestock. I tell you this not to enhance notoriety, because it holds little value to me, but only in that these facts of work may lend credence and validity to what I say for the livestock industry.

I am somewhat apprehensive however, in that our true voice, muted by diminished numbers, questioned by ulterior interests, and cracked by some of our own, is hard pressed to be heard. Also, the suppositions that this hearing is a formality only, that money from the affluent and that the organized will prevail, that state department will call the shots in the end, and that the federal government isn't honest anymore, have all been thrown up to me. How do you deal among your own people with these reservations caused by the massive ramifications of the impossible Watergate Affair, the sex scandals that blistered the United States Legislative honor, and the Korean pay-off that cut trust to the quick? I know that some of the instances for these feelings have happened and that some confidence has been shaken in the depth of our citizenry, but I also know that in spite of this it's up to me, for them to reconcile and resecure there reliance and to try and recindle fidelity. I offer testimony then in good faith, a patriot to the system, ask only for sincere consideration, and then a fair judgement.

In 1964, I called and ask our Senator, Mike Mansfield, to appear before the International Trade Commission and for the same cause. This he did but he stated emphatically that his appearance then was for the legitimate livestock producer, the man who derived the majority of his livelihood from the industry. The same is true with me. I am pleading the case for the man who raises, educates, and offers his family to society from the earnings of his ranch unit, for the man who contributes to the local economy, the man who sits on school boards, the one who pays his taxes and supports and participates in local government, and the one who holds up his share of the moral strength of the century. I think there is propriety in contending for and saving the man who appreciates the humility in land and livestock, who works both mentally and physically for it, and who holds in his conscience its use for those generations yet to come.

On the other hand, I have no commitment to the one who plowed up 60,000 acres of grazing land north of my home town to capitalize on five dollar wheat and to establish a high base for an eventually subsidized acreage allotment, to the professional man who paid $75 an acre for a border ranch when it will only produce at $15, to the man who prohibitively inflates ranch property in our community with his oil holdings elsewhere, and to the amalgamates who buy and lease ranches, operate them at a loss and then take tax advantages or write-offs. There is a difference in these people, those of a great majority that are solid, genuine, and patriots to the land who are counseling with you now and so dependent on your wisdom and the others, the few, who will <u>use</u> all and anything for monetary benefit and are not a part of our tradition or our allegiance.

You will ask, I am sure, why does an industry with the only legislated import protection on the federal books ask for additional considerations. I would answer, "That, is the only way we can go". We can't pass anything on to the consumer, we can't strike, we can't combat the boycotts, we can't set price, we can't control increased costs, we can't manipulate weather or nature, and we couldn't even prevail on Congress, to an extent, so that we could pass a self help beef referendum. The reason we can't, in our case, is because we are only a part of the deminutive four percent of our total population which is engaged in agriculture. Our position on the peck list is at the bottom.

Also, our image and support by the public is hurt by television and the movie picture industry which generally shows our people to be land barrens who run over the sod buster or nester, when in reality the large percent of ranches we are talking about run 200 head of cattle or less. Some wildlife enthusiast gets an article published in a national magazine which belabors land abuse by the cattlemen, when in actuality, if this stockman wants grass next year he has to protect it against overgrazing, erosion, and the fire hazard this year. The stockmen generally is our strongest conservationalist, our greatest protectorate and producer of wildlife. You don't have to belong to the Sierra Club, the Wildlife Federation, or be employed by the Federal Government in a land office to know right from wrong, nor to do something about it. My father diked and diverted water to flat ground, cutting erosion, increasing bird refuge, improving grass coverage, diminishing weed control, providing big game habitates back in 1927. He completed the first flood irrigation project in Eastern Montana by 1933. This was before most of our critics were even a part of the land. It's such a cruel injustice to blanket all of anybody with a defiled judgement, use it for exploitation, especially when it was caused but by a few.

Four months ago, I was forced to sell all of my foundation cattle due to drouth and grasshoppers. We had gotten only fifteen percent of normal rainfall, and the hoppers had licked us clean. We received $360 a pair, meaning that a mother cow and her calf brought nearly 40 percent below the rest of our economy. When one has owned these decendents of his first cattle, improved kind and quality for 45 years, and then sacrifices them to natural and manipulated economic causes, it rips your heart out. Only five of nineteen reservoirs on our ranch had water in them, our hayland produced five percent of normal and the cattle were eating tree leaves and cockleburs for subsistence. I had little recourse.

Would you, in my shoes, buy hay and put an additional $125 a head under obligation, would you ship them to grass with the same additional expense, and what are the other alternatives because where down the road is there any assurance of improvement? Labor costs, insurance costs, machine costs, homeliving costs, land costs, medical costs, taxes, and other expenses continue to go up and the administration in its energy program puts up an additional hurt by advocating taxation to make near one dollar gasoline. I am only one of 18,000 stockmen in Montana who help produce the beef you eat, who have expended most of their savings, used up a large part of the equity in what they own and still try to stay on the land. The only place we can look for relief, and keep our self respect, is in the direction of the large foreign supply.

Our Governor has presented four areas or alternatives for consideration. They are offered solemnly and with hope, in a conscientious attempt to put the livestock industry near the rest of our economy. The first one calls for the elimination of the loopholes in the 1964 Import Law.

We are advised, and legitimately so I think, by some legislative friends that to bring the law out for revision at this time might mean that we may loose it. We are told by still others, but with suspicion, that this will surely happen. Now in the first instance, we might hold the losing hand, and the proposition exists that what we have beats nothing, so why risk it. But in the second instance, these people are the same ones who were part and party to holding the loop holes open in the first place and are fearful that they might be closed. The foreign supplier, dealer, and processor have reaped large profits at the expense of the domestic producer and the consumer as well. Quantity has cut demand which hurts price to the United States stockmen and the consumer has seen no depreciation.

When we were working on the law in the early 1960's we researched the consumers case, and found no place where the cheap foreign product was identified and sold at a lower figure than domestic produced beef. In fact, I saw in a processing plant in Newark in 1962 where they were unpacking bales of this product; which had the appearance of wild game turned red by air exposure and were mixing it with clean, bright tallow from our fed cattle, for flavor and color; and then turned it into retail channels unmarked at still no less price. In addition, the assertion has been made by these same processors that domestic supply cannot meet demand of this kind of meat. Yet prior to 1958 when there were few imports this was no problem. It was a United Kingdom trade decision releasing commonwealth obligations that turned the majority of the cheaper foreign supply to our shores opening up the profiteering.

I think that nearly thirty-five percent of all beef imported into this country comes in outside the law under the processed stipulation. To make this as large as it was, the importer was changing the identity form to meet the regulation and then completely circumvented the intent of the law. To add to this impropriety, to make matters worse, and to show how preferential public officials were, they did nothing about the situation even though they knew, until the industry exposed and forced attention.

The state department was our strongest opponent and the most rigid insistence in favoring imports when the law was passed. They make the agreements, not the Department of Agriculture, on the level of product allowed. I think with forty-six countries last year, the near tonage dictated the law on the exclusions, though the obligations that this department of government has universally left us with the feeling of expendability because of deals they make to wield influence, to buy friends, and negotiate tolerance. When international obligations are made involving an industry like ours, exclusive many times of home court allegiance and beyond the point of reconsideration, something has to bend. That's why the exemptions, the state department, the pressures by foreign suppliers, and the american investments in the overseas cattle business caused their inclusion in the first place. We don't want to lose the protection we have, but we need processed beef included.

The second alternative called for by our state's governor asks that an inverse relationship between domestic production and imports be a part of the law's formula. It would work much like a water gravity storage reservior system serving a city, in a tributary of a river. When the natural run-off is adequate additional water would remain in its source, but if the level jeopardized need, and did not meet demand, the pumps would be started. Beef supplies in this country should be handled in the same way. When domestic produce is up, imports would be regulated down and visa-versa. This is a sound request and warrants serious consideration.

The third possibility presented by Governor Judge, asking for labeling legislation to the retail level and equal inspection requirements for both domestic and foreign produce, is a vital and a valid one. We are concerned that the consumer does not know when he is buying the low quality product. We are disturbed that excretment, hair, and other false material has a tolerance level in imports and should be known. We are not happy that imported beef is not looked at with the same rigidity and thoroughness as our domestic product, we are more than incensed that our high quality beef is being impersonated unbeknown to the public, and we are being used as a whipping boy.

Where have you seen hamburger noticed as eighty-five percent Australian beef and fifteen percent domestic tallow? Where have you see lunch meat advertised as fifty percent Argentine cow? And where have you seen corn beef posted as ten, twenty, thirty, or sixty percent from New Zealand cattle? Yet in our household on my son's catchers mitt is "Made in Korea"; on the scissors, "Made in Tiawan"; on the salad bowl, "Made in Kenya"; and on the transistor radio, "Made in Japan". If the consumer is informed and protected by knowing the origin of these products, why is he discriminated against on beef?

The domestic livestock or cattle producer is not afraid of competition on the quality of his product but feels the need for equal treatment with the consumer on identification, so that this "QUALITY" can fight a fair fight. The beef producer in this country is less than .8 of one percent of our total population, so there is a reason why we cannot stand deception to alienate our position with these people we depend upon so heavily. The cattleman and all of agriculture, though not thought of as such, is one of the largest single segments of our consuming public. To me then, and as a consumer also, it makes no difference what is grown or made edible in this country, its ingredients should be disclosed. Consistent and with justification and sharing need with the consumer its only fair that foreign meats be identified, that sanitary requirements for inspection and the physical inspection itself be equitable between domestic and foreign supply.

The last of the four considerations has reference to the live cattle crossing the International border into the United States. I guess it could be called a two armed bandit in that nearly one million head of cattle originating in Canada and Mexico came in last year, high grading whatcould have been that much domestic production. Additionally, its product poundage calculated in the formula, shows on the growth chart for United States production and the importers lifted seven percent of that in addition to th[illegible],000,000 pounds they got outside the law. So not only does it invade and add [illegible] production status in this country, but it doubles up in contributing to the increase in the other foreign product that reach our meat counters. If we could find a way to cut its impact, like deducting its weight on the import calculating scale, the results would be helpful.

Now in concluding my duty, it seems appropriate to counsel with history to check destiny and to seek out and understand the heart and soul of this industry.

Life has never been easy for them, hard physical work, drouth and depression, bitter winters, livestock disease, rural travel and communications, and constant market problems have plagued their existence. Tradition has held them to independence, however, to make for themselves, to meet adversity, to tend with discipline, and to deplore any hand out by government.

Fourteen years ago, they came to Washington on a legitimate and honorable mission, "THE ATTEMPT TO PROTECT AND SAVE THEIR MARKET".

The first thing Uncle Sam did was offer them an unwanted, an unjust subsidy. They were not interested in selling their self respect, in submitting to a tail up by the taxpaying public, or to degradation as wards of the state. All they wanted was time, for an honest appeal, consent to be heard, and a fair forum in consideration of entitlement for their industry. Strong insistence and a fairness by the judicious in government ended in the Import Act of 1964.

These people are subserviant to their obligations to the nations food supply, they are dedicated to the moral standards of the land, and they are given to home, community, and country.

They do not envy your position, they hope only for a fair judgment, they will accept your decision - so it is with us.

Table 1 -- Cattle and calves on U.S. farms, total number and farm value, as of January 1, 1970-76.

Year	Number	Farm Value as of Jan. 1	
		Per head	Total
	1,000 head	Dollars	1,000 Dollars
1970	112,369	$ 179	20,160,403
1971	114,578	184	21,112,904
1972	117,862	203	23,519,645
1973	121,534	252	30,582,529
1974	127,670	293	37,446,717
1975	131,826	159	20,963,981
1976	127,976	190	23,337,880

Source: Compiled from data obtained from the U.S. Department of Agriculture.

Table 2 -- Beef and veal: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1964-76.

(In millions of pounds) 1/

Year	Production	Imports	Exports	Apparent consumption	Ratio (per cent of import to consumption)
1964	19,442	1,085	96	20,431	5.6
1965	19,719	942	97	20,564	4.8
1966	20,606	1,204	87	21,723	5.8
1967	20,976	1,328	94	22,210	6.3
1968	21,582	1,518	94	23,006	7.0
1969	21,798	1,640	87	23,351	7.5
1970	22,240	1,816	104	23,952	7.6
1971	22,414	1,756	121	24,049	7.3
1972	22,839	1,996	124	24,711	8.1
1973	21,735	2,022	152	23,605	8.6
1974	23,624	1,646	130	25,140	6.5
1975	24,849	1,732	124	26,507	6.7
1976	26,475	2,027	170	28,210	7.1

1/ Production, imports and exports are reported on a carcass-weight equivalent basis as calculated by the U.S. Department of Agriculture; edible offats are excluded from all of the data.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

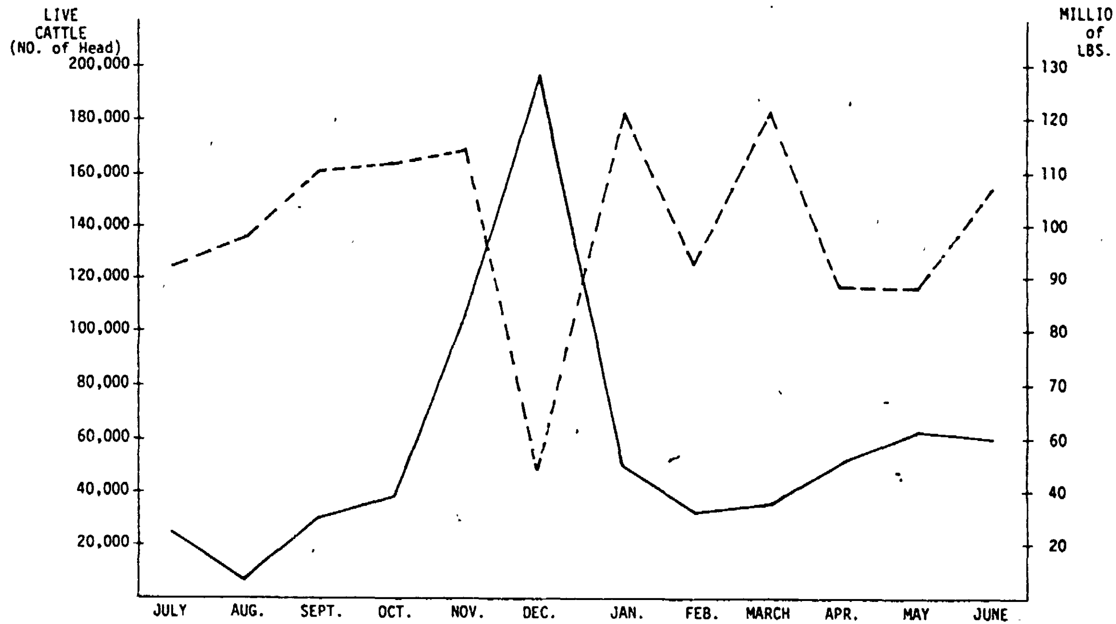
Conversion factor: Carcass weight x .74 = product weight.

MEAT SUBJECT TO U.S. IMPORT QUOTA RESTRICTIONS

AND

IMPORTED LIVE CATTLE NUMBERS
(1975-76 Ave.)

Figure 1



KEY: ----- Meat imported under quota
_____ Live Cattle Numbers

Senator BENTSEN. I would appreciate the administration coming to the witness table as a panel, if they will, so that we can hear each of them and be able to address our questions together.

Mr. Steven Bosworth who is Deputy Assistant Secretary for International Resources and Food Policy, Department of State; Mr. Tom Hughes, Administrator, Foreign Agricultural Service, Department of Agriculture; and Mr. James Starkey, the Assistant Special Representative for Agricultural Affairs, Office of the Special Representative for Trade Negotiations. And I have overlooked someone.

Mr. HUGHES. This is Turner Oyloe who is the Assistant Administrator of FAS who does our international trade policy.

Senator BENTSEN. Yes.

Now, who would like to lead off here?

Mr. BOSWORTH. Mr. Chairman, I thought that I could perhaps begin, and then Mr. Hughes from the Department of Agriculture would follow me.

Senator BENTSEN. You should identify yourself for the record.

Mr. BOSWORTH. I am Stephen Bosworth from the Department of State.

I have a statement, Mr. Chairman, which, with your permission, I would submit for the record and summarize very briefly at this point.

Senator BENTSEN. That would be fine.

STATEMENT OF STEPHEN BOSWORTH, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL RESOURCES AND FOOD POLICY, DEPARTMENT OF STATE

Mr. BOSWORTH. Mr. Chairman, as has been pointed out here this morning, the act of 1964 requires the President to limit imports of certain meats, for the most part, beef and veal, by quotas if, in the absence of such restraints, such imports will exceed 110 percent of the adjusted base quantity.

For 1978, this figure, also known as the trigger level, is at 1,302.3 million pounds, which equates to roughly 7 percent of U.S.-livestock production.

The program also provides, Mr. Chairman, that the imposition of quotas can be avoided if trade agreements are concluded to assure that imports will not exceed the trigger level. In order to avoid the problems posed by quotas and yet achieve the purpose of the act, we have sought, over the past several years, to achieve an orderly marketing of meat imports through negotiated agreements with exporting countries.

These so-called voluntary restraint agreements (VRA) obligate the government of the exporting country to limit its meat shipments to a specified maximum.

The total shipment permitted by all agreements is below the trigger level. In most years, such VRA's have been necessary to lower imports below that level.

With regard to the program now in force for 1978, Mr. Chairman, in the fall of 1977, a series of interagency meetings were held to prepare a recommendation to the President on what the U.S. meat import policy should be for 1978. The Secretary of Agriculture had determined that, in the absence of restraints, imports would exceed the level specified by the act by about 182 million pounds. It was estimated that these additional meat imports would reduce cow prices by 2 to 3 percent and fed cattle prices by something less than 1 percent. At the retail level, the additional meat would result in a 1 to 2 percent decline in beef prices.

Because of the domestic and international factors involved in the 1978 outlook, the recommendation sent to the President called for negotiating import restraints at or near the trigger level. The President accepted this recommendation and instructed the State Department to negotiate restraint agreements with the participating member countries.

The permissible level of imports from each country has traditionally been based on its historical market share of the U.S. market during a representative period when import restraints were not in effect. We have managed, Mr. Chairman, to successfully conclude the negotiation of these bilateral agreements for the 1978 program. These agreements have this year, and have had in the past, the following principal features:

Establishment of agreed limits on exports to the United States during a calendar year. A provision for export restraints by the supplying country and import controls by the United States. Provision to permit, but not require, the United States to reallocate to participating countries any shortfall in a permitted share of imports or any increase which the United States may allow in total imports. And provision for consultation and exchange of trade information concerning matters covered by the agreement.

For the 1978 program, we have concluded agreements with the Governments of Australia, Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, New Zealand, Nicaragua, and Panama. Canada, for technical reasons relating to the inability of the United States to control its meat exports to Canada, is unable to participate formally in the meat import program. However, United States-Canadian meat trade is agreed upon via an exchange of letters.

Ireland and the United Kingdom, which have in the past been suppliers of meat to the United States, were not expected to export any appreciable quantity of meat to the United States this year. Therefore, agreements with those countries were not concluded.

Mr. Chairman, what has been the effect of the Meat Import Act over the past several years? Annual imports of beef and veal have not varied greatly since the late 1960's. Since 1967, they have ranged between 1.3 and 2 billion pounds annually and supplied from 6 to 9 percent of all beef and veal.

In 1977, imports subject to the act totaled 1.2 billion pounds or roughly 86.6 percent of the total beef, veal, mutton, and goat meat brought into the United States. Virtually all of the remaining 11 percent consists of processed meat which do not come under the act.

I think it is important to point out in this context, Mr. Chairman, that the U.S. cattle industry produces primarily grain-fed table beef, which consists of cuts of meat such as steaks and roasts. Imported meat, in contrast, is usually—range-fed, leaner meat, and generally used for manufacturing purposes.

In our country, manufacturing beef is usually made into foods such as sausage or food products such as ground beef and hamburger, beef stew, corned beef and beef used in precooked dinners and stews. Because imported meats can be ground and mixed with the fats trimmings from domestic beef, they can enhance the value of U.S. production.

Inasmuch as imported meat moves largely into manufacturing, it competes primarily with the meat of cull cows and bulls, the primary domestic sources of such meat. Recently the prices for cull cows have increased substantially. Moreover, in recent months there has been significant parallel strengthening in prices of imported meats.

We would submit, Mr. Chairman, that meat imported under the terms of the act has basically complemented rather than competed with our meat industry.

Mr. Chairman, in conclusion, the Meat Import Act, we believe, serves our differing needs as producers, traders, and consumers. Its enactment in 1964 recognized that many diverse interests have a legitimate concern in the matter of meat imports. The situation has not changed. Obviously, the act is not without its critics.

By some, it is viewed as a protectionist measure that ignores the interests of American consumers and constrains the long-held market rights of our trading partners. Others complain that it does not supply adequate support to the Amercan cattle industry against unfair foreign competition.

Between these extremes, we would argue that, given the fact that the United States is the world's most open market for meat, the act provides the necessary discipline when the market is weak. Equally important, it permits the flexible policy response necessary to defend the interests of the American consumer in periods of short supply.

Thank you, Mr. Chairman.

Senator BENTSEN. Why do we not go ahead with the rest of the witnesses?

Mr. Hughes?

STATEMENT OF TOM HUGHES, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. HUGHES. Thank you.

My name is Tom Hughes. I am the Administrator of the Foreign Agricultural Service. I have also a prepared statement here which I would submit for the record and just paraphrase that for a few minutes, indicating what the production is for this year and some of our estimates.

The meat production in the major commercial import markets of the world is presently forecast at 47.3 million metric tons, or about 1 percent above 1977. Increases in poultry and pork production are expected to offset a 2..5 percent decline in the production of beef and veal.

World trade in beef increased from 2 million metric tons in 1974 to 2.9 million metric tons in 1976 and is expected to remain at that level through 1978.

The stability in world beef trade has been due to the fairly stable market characteristics which have been imposed by quotas in major commercial markets.

The United States remains a major world trader in livestock products. U.S. imports last year were valued at $2 billion with a major trade item being frozen, manufactured beef. Our major exports of $2.2 billion included cattle, variety meat itmes, hides and skins, and some frozen beef.

Domestically, our current prospects point to——

Senator BENTSEN. Does the witness have a prepared statement?

Mr. HUGHES. Pardon?

Senator BENTSEN. Does the witness have a prepared statement?

Mr. HUGHES. Yes, and that was submitted. It was about a 6-page statement, and it was brought up——

Senator BENTSEN. Please go ahead.

Mr. HUGHES. Domestically, our current prospects point to a continuing large supply of red meat and poultry this year. Due to the liquidation of our catle herd in recent years, total supplies of beef will probably be down this year. However, fed beef will be up.

Reduced supplies of grass-fed beef have already been felt in the market. And this is reflected on the price of imported, low-quality beef, which is up substantially from last year's level.

This year, consumers will find about the same total supply of meat as last year, but they will probably pay more for this meat than in 1977. The demand for meat appears to be very strong during the early weeks of 1978. Retail prices for beef and pork are averaging 7 cents per pound above a year ago. This year, the per capita consumption of beef will probably drop 5 to 6 pounds for a 1977 level of about 126 pounds. A 7 to 9 percent increase in pork consumption is expected, and retail pork prices will average near their 1976 level.

During 1978, retail beef prices will probably trend upwards while retail pork prices trend downward.

Increased supplies of poultry meat will continue to provide strong competition for red meat and consumption of poultry meats is likely to increase again in 1978. With this increased level of consumption will probably come a moderate decline in retail prices for broilers as retail prices for turkeys hold near last year's average.

I would be glad to respond to any questions. I hope you have the statement now. I apologize for its not being made available to you. I assumed it was sent to you at the same time the others were.

Senator BENTSEN. Will the next witness identify himself for the record?

Mr. STARKEY. Mr. Chairman, my name is Jim Starkey. I am Assistant Special Trade Representative of the Office of Special Trade Representative. I do not have a prepared statement, but I would like to——

Senator BENTSEN. It would be very helpful in the future if you would please send a prepared statement to us.

Mr. STARKEY. Yes, sir, Mr. Chairman.

STATEMENT OF JAMES STARKEY, ASSISTANT SPECIAL REPRESENTATIVE FOR AGRICULTURAL AFFAIRS, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. STARKEY. I would like to comment just briefly on the efforts that our office has undertaken in cooperation and close collaboration with the livestock industry and with our advisers from the livestock industry to expand markets for U.S. beef overseas through the reduction of trade barriers. These efforts have been both multilateral and bilateral as evidenced by the recent discussions with the Japanese. I believe that Senator Hansen earlier remarked that he and Senator Curtis were in Japan at the time of those discussions. I might say that their indications of concern to Japanese government officials and parliamentarians were instrumental, I believe, in complementing our efforts to get an expansion of beef sales to that market.

Senator HANSEN. Complement your efforts? The State Department expressed concern, did they not, about our being over there and taking the position that we took?

Mr. STARKEY. Senator, I am not aware of what concerns the State Department might have had. I know that Bob Strauss feels very definitely that your efforts were very helpful in this regard.

Senator HANSEN. Well, I think it would be nice, Mr. Chairman, if the Government could get its act together. I would hope to submit for inclusion in the record a cablegram that expressed a rather shocked dismay that we were saying anything about the quotas which were then in effect as being unacceptable.

Is that not your recollection, Senator Curtis?

Senator CURTIS. I think that is correct. A cable went from Tokyo back to State in which they—the tone of it was to criticize the appearance of Senators Hansen and Curtis over there and said that assurance had been given the Japanese that it was just two Senators speaking and to be regarded as such.

Senator BENTSEN. That is very interesting. It looks like you fellows are going to have to make some more trips, does it not?

Do you want to comment on that, Mr. Bosworth?

Mr. BOSWORTH. I have no knowledge of that, Mr. Chairman. I would be happy to check on it and get back to the committee.

Senator BENTSEN. Will you provide this committee with such a telegram or cable, if it exists?

Mr. BOSWORTH. I will endeavor to do so.

Senator HANSEN. I might point out, Mr. Chairman, if we cannot get it more quickly, it was included in the record of the Strauss hearing. I should observe, too, that we have no argument at all with Special Trade Representative Robert Strauss. He was very cooperative and helpful.

I was dismayed, as I know Senator Curtis was, that the State Department representative in Tokyo would take exception to our statements and to our presence in Japan.

Senator BENTSEN. Thank you very much, Senator.

Mr. STARKEY. Mr. Chairman, we pressed the Japanese very hard in these discussions and, as a result, the Japanese indicated they would approve an increase in the quantity of high-quality beef that will be permitted for importation into that country, and we will have an opportunity, as the world's largest producer of that type of beef, to compete actively for a large part of that market.

We are also very active in the multilateral trade negotiations both in pursuing our bilateral interests by expanding markets for our high-quality hotel quality beef and in supporting the principle, which I believe officials from the National Cattlemen's Association will discuss a little bit later, of global liberalization of beef trade. We believe that this is desirable, both in concept, and as an economic fact.

Mr. Chairman, we are in the final phase of the multilateral trade negotiations. We are on an accelerated schedule. We have been working closely with the livestock industry and with its advisers to us in formulating our requests in foreign markets. We will continue to work very closely with the livestock industry as we move through these negotiations, as we press to get global liberalization of beef trade as well as achieve our bilateral market access objectives.

Thank you, Mr. Chairman.

Senator BENTSEN. Thank you for your testimony.

Is there another one who will testify?

Do you have any questions, Senator Hansen?

Senator HANSEN. No; I do not.

Senator BENTSEN. Mr. Bosworth, I believe I recall you said that we had the world's most open market for meat.

Mr. BOSWORTH. I believe that is correct, Mr. Chairman, yes.

Senator BENTSEN. I have been provided with a chart here showing a very substantial increase in imports of beef from 1965, with very few aberrations in that line of increase.

Mr. Bosworth, would you advise me of the price of beef in Japan today?

Mr. BOSWORTH. I do not have that figure specifically at hand. I know it is substantially higher than the price of beef in the United States.

Senator BENTSEN. Would you like to make a guess?

Mr. BOSWORTH. I would say probably in excess of $4 or $5 a pound, depending upon the cut.

Senator BENTSEN. Will the Trade Negotiator advise me of the price of beef?

Mr. STARKEY. Mr. Chairman, in some of the high-priced restaurants, you can pay better than $30 for a steak and for supermarkets you will probably pay, for our quality beef, somewhere around $8 or $10 per pound.

Senator BENTSEN. Around $8 or $10 for steak in their supermarkets.

Mr. STARKEY. For our quality beef.

Senator BENTSEN. For our quality.

What would you pay in our supermarkets?

Mr. STARKEY. About $2 to $2.50, Mr. Chairman.

Senator BENTSEN. $2 to $2.50 for quality beef in our supermarkets as compared to theirs. Would you state it again, compared to what?

Mr. STARKEY. About $8 to $10.

Senator BENTSEN. $8 to $10.

Mr. STARKEY. It is about four times higher.

Senator BENTSEN. What would you pay for a Toyota in the United States?

Mr. STARKEY. I would have to guess. Somewhere around $3,800 to $4,200.

Senator BENTSEN. Mr. Bosworth, what would you pay for a Toyota in Japan?

Mr. BOSWORTH. I have no idea, Mr. Chairman. I suspect it would be somewhat higher than that because of domestic taxation. I think, actually, in this country the price of a new Toyota delivered to the East Coast is probably a bit higher than $3,800, but it is under $5,000.

Senator BENTSEN. Oh, I know that. Would it be comparable to the price in Japan?

Mr. BOSWORTH. Well, yes, it would be roughly comparable to the price there. The only difference would be perhaps in domestic taxation.

Senator BENTSEN. But you say that the price of our beef over there in their supermarkets would be three or four times what it is in our supermarkets.

Mr. BOSWORTH. That is the price of any beef of that quality in in their supermarkets, Mr. Chairman. The problem Mr. Starkey was addressing in his statement was that the Japanese have a quota on all imported beef which has been, traditionally, very small and that drives the price of their domestically produced beef up to those very high levels that he was describing.

Senator BENTSEN. Well, I have been a long supporter of free trade but, when it comes to trade, I will compromise. My feeling on trade is that we should do unto others as they do unto us.

I do not want just a little bit of concession. I want equity in our trade. I feel very strongly about that. I think Ambassador Strauss has done a remarkable job in bringing about some change of attitude in Japan. I am certainly pleased he was there, and in that regard, we were not just depending on the State Department.

But I feel it is time that we put on some countercyclical quotas in this country to try to provide some stability for the beef industry. I think what the Department of Agriculture in South Dakota has come up with is a very good one.

Now, I regret that to some degree we complicate the Ambassador's problems. But I am interested in having some of these other countries understand the depths of our feelings and I think perhaps we ought to have some more Senators attending those negotiations and trying to accomplish some of the things that Senator Hansen and Senator Curtis did.

Senator Hansen.

Senator HANSEN. Mr. Chairman, following along on the observations you are making, I would ask our witnesses from the State Department and the other agencies of Government, am I right in recalling that the tariff we impose on Japanese exported automobiles to the United States is about 3 percent. Is that right?

And is it not true that Australia imposes a tariff of about 35 percent on Japanese imported cars to that country?

Would anyone know? I think we heard that over there, but I am not certain.

Mr. BOSWORTH. I am not aware of that, sir.

Senator HANSEN. Is it not true that, by far and away, the largest proportion of meat that is imported by Japan comes from Australia and possibly New Zealand. Do you know? Would any of you gentlemen know what the percentage is of total meat that goes to Japan coming from Australia.

Mr. HUGHES. About 80 percent.

Senator HANSEN. That was the figure that I recall having heard. I appreciate your confirming it.

Well, the thing that struck me over there, and I think that struck Senator Curtis also, was that we really provide a whale of an important market for Japanese products; and yet it seemed to us that they were totally unrealistic in recognizing the importance of making that trade a two-way street, that they were reaping a bonanza of around an $8 billion or perhaps even a $9 billion trade surplus with the United States and yet, when we talked to them about trying to increase the import of American beef, they said: Well, they would try to work that over but it would take maybe 15 years. It had to be done very slowly and very carefully because they spoke about the political situation in Japan and said that they had about a one-point margin in their diet—their legislative body is what I am referring to—and that if they lost my support, why the country would likely go Communist. I could not envision Japan or Russia, either one, developing a very good market for Japanese products. Nevertheless, we were told that.

I just felt that they were almost unrealistic in appreciating the most equitable balance of trade that had great appeal for us.

Thank you, Mr. Chairman.

Senator CURTIS. Mr. Chairman?

Senator BENTSEN. Senator Curtis.

Senator CURTIS. I would like to ask of Mr. Hughes, what about the so-called hamburger market? How much has it increased in the last decade?

Mr. HUGHES. Percentage?

Senator CURTIS. Yes.

Mr. HUGHES. I do not have—Turner, do you have that?

Thirty-five percent in about the last 10 years.

Senator CURTIS. In other words, the American people are turning to the hamburger merchants, whether it is MacDonalds, BurgerKing, or what have you, for a sizable portion of their meat diet, is that not correct?

Mr. HUGHES. Yes; that is right.

Senator CURTIS. And there may have been a time when the hamburger market was relatively small and that it only impacted upon cow beef and bulls and rather low-grade critters at that. That is no longer true, is it?

Mr. HUGHES. That is right.

Senator CURTIS. So when it is contended that imports do not hurt very much because they go into manufactured meats, that is disregarding the present trend of the market, is it not?

Mr. HUGHES. Well, that is true. The fast-food industry has grown a great deal. Part of it, of course, is that our beef here is of a higher quality and so its does not compete directly with that but it is an important factor to point out.

Senator CURTIS. It can no longer be filled by the cull beef of this country?

Mr. HUGHES. No.

Senator CURTIS. Now, what is true of the hamburger market is also true of the precooked foods that are sold in our food markets, is that not correct?

Mr. HUGHES. That is true, the various types of dinners and frozen foods and precooked hamburgers.

Senator CURTIS. So, in other words, when we are talking about ground meat, we are talking about a very sizable portion of the American market, are we not?

Mr. HUGHES. That is right, yes, sir.

Senator CURTIS. It would be my hope that the State Department would come into this decade in reference to viewing what is taking place in the buying habits of the American people.

I would like to ask, Mr. Bosworth, do you favor any of these bills—does the State Department favor any of these bills—that would restrict beyond existing law the importation of meat into this country?

Mr. BOSWORTH. I am not quite clear, Senator, what bills you are referring to. Are you referring to bills dealing with the countercyclical program, or live cattle, or——

Senator CURTIS. Yes. Those that have been discussed this morning while you have been here.

Mr. BOSWORTH. Well, those specifically, with respect to the countercyclical program, the State Department does not have a formal view on those. I might say personally that there, as has been pointed out this morning, are some very strong arguments which can be made in favor of such bills.

On the other hand, as has also been pointed out by some of the other witnesses, the existing meat import program had, as one of its original criteria, an attempt one, to maintain the rough percentage market share of imported beef and two, it does have the effect of keeping down the price of manufactured beef which, in general, is not an area in which U.S. meat competes.

But notwithstanding those two issues, I think the question of a countercyclical program is one that should be seriously considered, yes.

Sentor CURTIS. In other words, you are not prepared to state that the Bellmon bill for the countercyclical handling of this were to be enacted whether or not you would recommend a veto or not?

Mr. BOSWORTH. Not at this point, no, Senator. That would require further study both within the Department of State, but primarily with other agencies involved, including the agencies who are present with me here this morning.

Senator HANSEN. If you would yield, Senator Curtis, for just one additional question, the statement has been made repeatedly that this manufacturing beef really does not compete significantly with American livestock production. I think that that is not an accurate statement.

Senator BENTSEN. I thoroughly agree with you, Senator. I have listened to that statement several times and I am glad you brought it up.

Senator HANSEN. I have heard it several times too, and I happen to be in the cow business and we do not sell any fattened cattle. We sell feeder steers and feeder calves, but, throughout the West, there is an enormous amount of tonnage every year that goes to market that represents the culls from breeding herds, animals that, for one reason or another, may be in excess and may need to be disposed of, and there are a lot of cows, bulls, that go to market and are not—and they go directly to this business.

Anyone who is familiar with the livestock business in the West just has to know that this industry is terribly depressed and anyone cannot tell me that it would not help out a little bit if the price of those canners and cutters and cattle that are not fattened could bring a higher price.

I just think that the statement as we heard repeated here several times this morning that this does not compete displays a lack of awareness on the part of witnesses as to what, really, the cow business is all about in this country.

Senator CURTIS. Would you yield right there?

Senator HANSEN. I would be happy to.

Senator CURTIS. I think it also must be pointed out that by reason of the increased use of ground meat, or what they call manufactured meat in the fast food services, the hamburger chainstores and the like, but also in the precooked, in the grocery stores, it is having a— it is taking a greater portion of the available meat and therefore is directly impacting upon the better qualities of meat plus the fast food industry is so competitive between these giants that are in the business, that they have to go to a higher quality meat, and they are telling their customers that they are doing that.

So it is far different than it was two decades ago.

Senator BENTSEN. I do not know where they think those bulls and culls go to, some great roundup in the sky, I suppose, but they are an integral part of the program.

I have listened to this stuff for so long about how we give up the less profitable part of the business so the Japanese come in as in the black and white TV and then they ended up with all of the TV business. So that is an integral part of the business and it is important part of the business and it is important to us.

We have with us now Senator Dole who has long been interested in this and played a very prominent part in his concerns on this issue.

Senator DOLE. I do not have any questions except to point out that the Senate Agriculture Committee is now holding hearings at the same time on the agriculture problem. I want to emphasize the farmer's concern about meat imports. It has been expressed privately, publicly, all across the land, and I commend the chairman for having these hearings.

I have submitted a statement which has been made a part of the record. I have introduced countercyclical legislation which would reverse the present law. It seems to me that it has merit. I would hope that we would have a chance to hear the views of the Department and the State Department on this bill.

I was pleased when I heard this morning on TV that no more imported meat would be used in the school lunch program. Do we use any imported meat now in the school lunch program, Tom?

Mr. HUGHES. No; we do not. U.S. procurement regulations require the USDA to purchase domestically produced meat.

Senator DOLE. Somebody announced the big news on TV this morning.

Senator BENTSEN. We cannot have speaking from the audience, sorry.

But I would like—let me state this. I see that two of the people holding up their hands are previous witnesses, and we would like very much to include your rebuttal in the record and if you will prepare it for us, if that is what you were about to do.

Senator DOLE. I saw it as a positive step. However, if we are not now using any imported foreign meat in the school lunch program the announcement must be meaningless.

Mr. HUGHES. It would be some—buying cattle and having them fed in this country and then processed, but existing regulations require that USDA purchase domestically produced meat.

Senator DOLE. Perhaps we could put that release in the record. It was just a brief item on CBS News this morning. It sounded good. Maybe it did not have any substance.

Mr. HUGHES. Well, as I indicated earlier, we are not buying foreign meat for the school lunch program. Now, unless it is some imported cattle that are then fed in this country and then processed, that would be the only possibility I know of.

Senator DOLE. Thank you.

[The following was subsequently supplied for the record:]

MEAT USDA BUYS MUST COME FROM U.S.-PRODUCED LIVESTOCK

WASHINGTON, Feb. 27.—Secretary of Agriculture Bob Bergland said beginning today, all firms selling meat to the department for school lunch and other feeding programs will have to certify that the meat originated from livestock produced in the United States.

"Our food purchases have always been intended to help American farmers as well as to provide good wholesome food for school children, the elderly and all who participate in our feeding programs," the secretary said. "That is the stated purpose of the laws that give us authority to buy food."

Secretary Bergland pointed out that present regulations prevent the use of imported meat in purchases by the department. This is done by requiring that ground beef and other meat products sold to the department originate from animals slaughtered in federally inspected U.S. plants.

Under a new requirement announced today, the department will further require that meat used in these products does not come from imported livestock slaughtered in U.S. plants. Sellers will be required to certify U.S. origin, keep purchase records and make those records available for USDA review.

"Under our present regulations, a plant could slaughter imported livestock in the U.S. and technically still be in compliance with our requirements," the Secretary said. "Our new requirements are intended to eliminate that possibility."

Senator BENTSEN. My understanding, from one of the previous witnesses, that what is done, they circumvent the law by bringing in live cattle from Mexico and Canada.

Mr. HANSEN. Mr. Chairman, as Sentor Curtis just called to my attention in an aside, there is no way under the food stamp program that imported meat cannot go into consumption in this country. You would agree with that, would you not?

Mr. HUGHES. Yes.

Senator BENTSEN. Let me ask Mr. Bosworth, since live cattle are not subject to the existing 1964 act, what would be the position of the Department about closing that major loophole?

Mr. BOSWORTH. Well, I think that any action on restricting import of live cattle, Mr. Chairman, should take into account the fact that most live cattle imports come, as has been pointed out, from Mexico and Canada. The imports coming in from Mexico are primarily feed cattle, feedstock.

In our trade with Canada, it is very much a two-way trade. We do import large numbers of live cattle from Canada, but also we export large numbers of live cattle to Canada. Therefore, I would think that any action that we might take with regard to those imports should take into account very carefully what impact, if any, it could have on our exports.

Senator BENTSEN. Are there further questions?

Senator HANSEN. You spoke about it being a two-way deal. Do you mean they send us the cattle, we send them the dough?

Mr. BOSWORTH. No; we send them cattle and they send us cattle. It is a very integrated market along the Canadian border, Senator.

Senator BENTSEN. If there are no further questions at this time, thank you, gentlemen, for your testimony.

[The prepared statement of Mr. Bosworth and Mr. Hughes follows:]

STATEMENT BY STEPHEN W. BOSWORTH, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL RESOURCES AND FOOD POLICY

INTRODUCTION

Mr. Chairman, I welcome the opportunity to discuss with this committee today the meat trade policy of the U.S. Meat is a dominating issue for almost all Americans for a wide range of reasons. Culturally, we have become one of the great meat eating countries of all time. For the vast majority of Americans a diet without meat, and by that we mean largely beef, would be a disturbing development. I need only refer you back several years to the period when the housewives of America organized to bring down beef prices. But meat is not only vital to Americans as consumers, it is vital to Americans as an economic unit. The cattle industry is one of the major segments of our economy. The U.S. beef industry dominates the quality meat market in the world. As other countries become more prosperous their demand for quality beef will increase. Our industry will have the opportunity to help satisfy that demand.

Mr. Chairman, these remarks are as a prelude to a discussion of the current situation. Our cattle industry today is enduring very difficult times. It has passed through the trough of one of its most severe production/price cycles. However, there is now strong evidence that the industry is now on the up swing of the cycle. My colleague from the Department of Agriculture will address this prospect. For my part, I would like to discuss in some detail the nature and workings of the Meat Import Act of 1964.

I. THE ACT

As you know the Act requires the Presidents to limit imports of certain meats—for the most part beef and veal—by quotas if in the absence of such restraints such imports will exceed 110% of the adjusted base quantity stipulated by the Act. For 1978 this figure, also known as the trigger level, is 1302.3 million pounds which equates to roughly 7% of U.S. livestock production. The imposition of quotas can be avoided,

If trade agreements are concluded to ensure that imports will not exceed the trigger level.

Successive Administrations have sought to avoid imposing unilateral quotas under the Meat Import Act because such quotas would 1) place the U.S. in violation of its obligations under the General Agreements on Tariffs and Trade (GATT) and thereby render the U.S. liable for the payment of compensation for trade damages and/or trigger retaliation by supplying countries which are parties to the GATT; 2) undermine our efforts to get other countries to reduce their non-tariff barriers; and, 3) lessen the prospects for trade liberalization in the Multilateral Trade Negotiations. In order to avoid the problems posed by quotas and yet achieve the purpose of the Act, we have sought to achieve an orderly marketing of meat imports through negotiated agreements with exporting countries. Such so called voluntary restraint agreements (VRAs) obligate the government of the exporting country to limit its meat shipments to a specified maximum. The total shipment permitted by all agreements is below the trigger level. In most years, such VRAs have been necessary to limit imports below that level. In entering into such agreements with the United States, exporting governments waive their GATT rights. The agreements thus avoid the adverse trade policy consequences connected with the application by U.S. of unilateral quotas.

For the first time in the 12 year history of the Meat Import Act, unilateral quotas were imposed in October, 1976 when it became evident that unresrained imports from Canada with whom we did not have a restraint agreement would bring total imports over the trigger level. These quotas were terminated December 31, 1976, when the 1977 restraint program began. As a result of this experience an arrangement to cover the two way cross-border trade in meat with Canada was negotiated for the first time in 1977.

II. THE 1978 PROGRAM

It may be helpful to review the development of the 1978 Meat Import Program to given you an appreciation of the process involved. In the Fall of 1977, interagency meetings, involving all interested government agencies, were held to prepare a recommendation to the Prsident on what the U.S. meat import policy should be for 1978.

The Secretary of Agriculture had already determined that in the absence of restraints, imports would exceed the level specified by the Act by about 182 million pounds. It was estimated that these additional imports would reduce cow prices by 2 to 3 percent and fed cattle prices by less than 1%. At the retail level the additional meat would result in 1 to 2% decline in beef prices.

Domestically the International Trade Commission, in hearing a petition initiated in 1977 for import relief under Section 201 of the 1974 Trade Act, had found that imports of live cattle and meat of cattle "are neither causing nor threatening serious injury to the U.S. industry producing cattle and beef". At the same time there was, and continues to be, a perception on the part of many cattlemen that meat imports were a visible threat to a domestic industry facing its fourth year of severely depressed meat prices.

The cattle industries of Australia and New Zealand, which respectively supply 51% and 21% of our total meat imported under the Act, were depressed. The cattle cycles of all producing countries were symetrical thus exacerbating price effects. Australia and New Zealand meat exports to the United States account respectively for 58% and 62% of their beef export market. A number of Central American and Caribbean developing countries, were also anxious to increase their meat exports or at a minimum retain their level of meat exports to the United States.

Because of these domestic and international factors the recommendation sent to the President called for negotiating import restraints at or near the trigger level. The President accepted this and instructed the State Department to negotiate restraint agreements with participating member countries.

The permissible level of imports from each country has traditionally been based on its historical share of the U.S. market during a representative period when import restraints were not in effect, taking account of special factors affecting trade in meat.

The agreements have had the following principal features:

(1) Establishment of agreed limits on exports to, and imports into the United States during a calendar year;

(2) Provision for export restraints by the supplying country and import controls by the United States. Import Controls would be at the point of entry, or withdrawal from warehouse, for consumption.

(3) Provision to permit, but not require, the United States to reallocate any shortfall in a permitted share of imports or any increase which the United States may allow in total imports, taking into account increases and decreases in the estimated level of imports from countries with which we do not conclude agreements;

(4) Provision for consultation and exchange of trade information concerning matters covered by the agreement.

For the 1978 program, we concluded agreements with the Governments of Australia, Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, New Zealand, Nicaragua, and Panama. Canada, for technical reasons relating to the inability of the U.S. to control its meat exports to Canada, is unable to participate formally in the Meat Import Program. However, U.S./Canadian meat trade is agreed upon via an exchange of letters. Ireland and the United Kingdom, which have in the past been traditional suppliers of meat to the U.S., were not expected to export any appreciable quantity of meat to the United States this year. Therefore, agreements with those countries were not concluded.

III. THE EFFECTS OF THE ACT

What has been the effect of the Meat Import Act? Annual imports of beef and veal have not varied greatly since the late 1960's. Since 1967, they have ranged between 1.3 billion and 2.0 billion pounds annually and supplied from 6 to 9 percent of domestic consumption of all beef and veal. In 1977, imports subject to the Act totaled 1.2 billion pounds or roughly 88.6% of the total beef, veal, mutton and goat meat brought into the United States. Virtually all of the remaining 11% consists of processed meat which do not come under the Act.

The U.S. cattle industry produces primarily grain fed table beef which consists of cuts of meat such as steaks and roasts. Imported meat in contrast is usually range fed 'eaner meat used for manufacturing purposes. In our country manufacturing beef is usually made into foods such as sausage or food products such as ground beef and hamburger, beef stew, corned beef and beef used in precooked dinners and stews. Because imported meats can be ground and mixed with the fats trimmings from domestic beef, they can enhance the value of U.S. production.

Inasmuch as imported meat moves largely into manufacturing, it competes primarly with the meat of cull cows and bulls, the primary domestic sources of such meat. Recently the prices for cull cows have increased substantially. Moreover in recent months there has been significant parallel strengthening in prices of imported meats.

Meat imported under the terms of the Act has thus basically complemented rather than competed with our meat industry.

IV. LIVE CATTLE

Although not covered under the Meat Import Act, imports of live cattle are often cited as posing potential or real problems for the U.S. industry. I would like to comment on these briefly. The imports of live cattle have fluctuated considerably. From 1965 to 1973, such imports averaged over 1 million head of cattle per year. In 1974, 1975, and 1976 respectively they were 556,000, 383,000 and 973,000. Canadian and Mexico account for virtually 100% of these imports.

From 1967 to 1974 approximately 80% of the number of cattle were in the 200 to 699 pound category. Generally speaking these feeder cattle are placed in U.S. feed lots and eventually slaughtered.

As a share of the U.S. domestic supply of cattle, imports of live cattle have remained below 1% of the annual total. The International Trade Commission in November 1977 indicated that there was no significant regional price impact of live cattle imports.

V. PRICES

Average retail prices for red meat are expected to rise slightly in 1978 supported by rising consumer income and a continued strong demand for meat. Retail beef prices during the first half of the year average 6 to 8 percent above the prices of a year ago.

Abundant grain and soybean meal supply with lower feed prices plus the expectation of higher beef prices are increasing the amount of cattle on feed. The January 1, 1978 inventory of cattle on feed was 7% above a year earlier. A much lower inventory of cattle outside feedlots along with good grazing conditions means non-fed cattle slaughter should decline. USDA estimates that slaughter of non-fed cattle will decline significantly in 1978 resulting in a substantial reduction of domestic supplies of non-fed or lean beef.

The average price of imported cow meat (port of entry, per 100 lbs.) was \$77.81 in January 1978 compared to a \$68.42 yearly average in 1977. U.S. boneless beef in January 1978 was \$82.26 as opposed to \$72.49 in 1977. The price of choice steers was \$42.62 in January 1978 versus an average of \$40.28 in 1977.

The strengthening of prices, the increase of cattle on feed after years of heavy herd liquidation suggests that the worst of the depressed cattle cycle may be behind us. Indeed, the sharp rise in imported meat costs along with the projected decline in non-fed U.S. cattle slaughter may mean that food costs for processed meats may rise significantly. This poses obvious concerns for consumers interest.

VI. SHORT SUPPLY

If domestic non-fed U.S. cattle slaughter does decline as expected the U.S. economy, the meat processing industry and consumers will benefit from the ability to import meat. The major suppliers of such meat have established reliable export industries. The comparative advantage of those industries rests in non-fed cattle. In contrast, ours is based much more on the feedlot technology of land, feedgrains and protein supplements and a means for delivering products to the consumer's table.

If we were to impede the access of our traditional suppliers to the United States, the consumers of manufactured meats and the industries involved in producing these products, would have to pay higher prices for such meats. In the short term this would increase prices for a wide range of now relatively low cost meat products.

Over the long term our traditional suppliers, faced with a fluctuating export market in the U.S. due to government regulation, could not afford to maintain their herds and export capacities at present levels. If these were not maintained then the United States could not be assured of adequate supplies of lean meats at reasonable prices.

VII. CONCLUSION

The Meat Import Act serves our differing needs as producers, trader and consumers. Its enactment in 1964 recognized that many diverse interests have a legitimate concern in the matter of meat imports. This situation has not changed. Obviously, the Act is not without its critics. By some it is viewed as a protectionist measure that ignores the interests of American consumers and constrains the long held market rights of our trading partners, all of whom have friendly governments. Others complain that it does not provide adequate support to the American cattle industry against unfair foreign competition. Between these extremes we would argue that given the fact that the United States is the world's most open market for meat, the Act provides a necessary discipline when the market is weak. Equally important, it permits the flexible policy response necessary to defend the interests of the American consumer in periods of short supply.

Before concluding, I would like to relate the Act to the broader trade interests of the United States. Foreign supplying countries, all of which have close ties to the United States, follow this legislation carefully. Because of their economic stakes in meat exports, they understandably fear any measures which could affect them.

Their concerns should not be taken lightly. As you know, our efforts to liberalize the world's agricultural trade are high in the Administration's priorities. We cannot take actions which are protectionist and expect at the same time to encourage other countries to liberalize their trade.

STATEMENT OF THOMAS R. HUGHES, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Meat production in the major commercial import markets of the world is presently forecast at 47.3 million metric tons or up by about one percent from the 1977 level. Pork and poultry production are forecast to rise by about 4 percent, offsetting the expected decline presently forecast of about 2.5 percent in beef and veal production.

In the major exporting countries of Latin America and Oceania beef and veal production in 1978 will probably be slightly below the 7.1 million metric tons produced in 1977. Even though Australia has had severe drought conditions in recent months, any increases in slaughter will, due to lighter weights, not increase overall production.

Beef and veal are by far the most important meat items in world trade. In recent years world trade in beef increased from 2 million metric tons in 1974 to 2.9 million metric tons in 1976 and remain at the level last year. We anticipate that world trade in beef and veal will continue at about 2.9 million metric tons this year.

Several factors have contributed to the stability in trade during the past major exporting countries due to the relatively high level of slaughter, which is characteristic of the downward phase of the cattle cycle. On the demand side, a number of Mideastern countries became active in the international market. This new demand, coupled with the fairly stable market characteristics imposed by quotas in major commercial markets, has tended to assist in stabilizing world demand. This situation is expected to continue through 1978.

The United States is the major world trader in livestock products. Last year our exports were valued at $2.2 billion and included tallow, variety meats, hides and skins and some frozen beef. U.S. imports were valued at $2.0 billion with the major trade item being frozen manufacturing beef. The bulk of our beef imports are subject to the 1964 Meat Import Law. During the past few years imports have been regulated by a series of voluntary restraint agreements with major suppliers. U.S. imports in 1978 are subject to a similar restraint program at a level of 591,000 metric tons (1292.3 mil. lbs.). Which is one and one half percent above the 1977 level. The bulk of the imports are classified as 85 percent or 90 percent lean beef. These beef imports are primarily mixed with beef trimmings for the production of hamburger and other processed meats. The price of this imported manufacturing beef has shot up dramatically in the past few months from 68 cents per pound wholesale New York on December 1 of last year to 87.5 cents per pound last week. This increase is in part due to the reduction in domestic cow slaughter which is expected to decline by 10-15 percent this year compated to last. Beef imports constitute about 7 percent of our beef consumption.

The other major importers of beef includes the European Community, the Soviet Union, Japan and a host of smaller countries especially OPEC in the Arabian gulf area. The Soviet Union has become an important importer of Oceania beef in the past two years. USSR imports from Oceania which were 40,000 m.t. in 1975 are estimated to have reached 127,000 m.t. in 1977.

THE U.S. LIVESTOCK AND MEAT OUTLOOK FOR 1978

Current prospects point to continued large supplies of red meat and poultry in 1978. However, the mix will be different from 1977 as beef production declines and pork and poultry production increases. Also, the 1978 beef production will consist of more fed beef and less nonfed or lean beef than 1977. This situation is expected to result in higher cattle prices and lower pork and poultry prices.

Liquidation of the cattle herd continued at a rapid pace last year. This was the third consecutive year of liquidation and at 116.3 million head on January 1, 1978, the total inventory was about 12 percent below the 1975 peak of 132 million. A massive selloff has also occurred in the beef cow herd which has declined 15 percent since 1975.

This sharp reduction in the inventory points to lower beef production and higher prices over the next few years. However, the real brunt of this declining cattle inventory may not be felt until late this year or perhaps not until 1979. Also, current circumstances almost assure another decline in the total inventory during 1979.

Abundant grain supplies with resulting lower feed prices have prompted cattle feeders to substantially increase the number of cattle placed on feed. Since last summer, placements of cattle on feed in the 7 major cattle feeding States was 9 percent above the year-earlier level. With placements expected to continue above year-earlier levels at least through this spring, fed cattle marketings will remain large this year, perhaps 4 to 6 percent above last year.

The slaughter of nonfed steers and heifers, calves, and cows is expected to drop sharply this year. Even though the feeder cattle supply has declined, this lower slaughter of nonfed steers and heifers and calves will make it possible for placements on feed to rise.

Beef production during the first half of 1978 may be only slightly below the year earlier while second half production could be down 5 percent or more. Lean beef supplies will be sharply lower, however, as nonfed cattle slaughter declines. Also, imports of beef are expected to be only slightly above last year. The Meat Import Law will allow imports to rise slightly in 1978.

Choice steers at Omaha are expected to remain near to only a few dollars below their late February level of near $45 per cwt. through the spring. As beef production continues to decline during the second half of the year, Choice steer prices are expected to rise to the mid-to upper-$40 per cwt. range.

Price for Choice yearling steers have already risen to the mid $40's. With good grazing conditions and continued ample supplies of grains, Choice yearling steer prices probably will move to the high $40's or maybe the low $50's this summer. Lightweight feeder cattle will probably continue to sell at a premium to the yearlings.

Lower grain prices and relatively favorable hog prices last year and early this year have provided the impetus for expanding pork production this year. Sow farrowings have been on the rise and on December 1, 1977, producers' intentions indicated 9 percent more sows would farrow in the December 1977–May 1978 period than a year earlier. Increases of this magnitude would support much larger pork supplies during the second half of this year.

In spite of weather related marketing problems and slow rates of gain, pork production during January was up 3 percent from a year earlier. Production for the first quarter of this year could be up 4 percent or more. Year-to-year increases of 9 percent or more are likely for the remaining 3 quarters of 1978. This is expected to result in an 8 to 10 percent increase in pork production this year.

As pork production rises this year, hog prices are expected to decline. From the very high levels of early this year, hog prices are expected to trend downward throughout the year. For the year, barrow and gilts at 7 markets are expected to average in the mid-to upper-$30's with the lowest prices occurring during the fall.

Poultry production is also expected to increase again in 1978. Broiler production could be up 5 to 7 percent this year. Rates of increase probably will be greater during the first half of the year than during the last.

These larger supplies of poultry meats, combined with larger pork production, are expected to result in lower prices for broilers and turkeys during 1978 than in 1977.

Returns for cow-calf producers will be improved during 1978 as prices for calves continue to rise above levels of the past few years. Rising prices for feeder cattle, however, cause the profit outlook for cattle feeders to remain mixed. Even with the expected higher fed cattle prices, cattle feeders may bid up feeder cattle prices to where there is little, if any, margin of profit left. Profits for hog and poultry producers should remain relatively favorable throughout most of the year.

This year, consumers will find about the same total supply of meat as last year. But, in total they will probably pay more for this meat than in 1977. The demand for meat appears to be very strong during the early weeks of 1978. Retail prices for beef and pork are averaging several cents per pound above a year ago.

This year per capita consumption of beef will probably drop 5 to 6 pounds below the 1977 level of about 126 pounds. A 7 to 9 percent increase in pork consumption is expected and retail pork prices may average near their 1966 level.

During 1978, retail beef prices will probably trend upward while retail pork prices trend downward.

Increased supplies of poultry meats will continue to provide strong competition for the red meats. Per capita consumption of poultry meats will increase again in 1978. With this increased level of consumption will probably come a moderate decline in retail prices for broilers as retail prices for turkeys hold near last year's average.

Senator BENTSEN. I see Senator Bartlett of Oklahoma is here, and we would be very pleased to hear Senator Bartlett at this time.

Let me advise the additional witnesses that—who have not been able to testify thus far—that we will reconvene this meeting at 1 o'clock, and Senator Bartlett will be the last witness this morning.

STATEMENT OF HON. DEWEY F. BARTLETT, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator BARTLETT. Mr. Chairman, gentlemen of the committee, I compliment you for having these hearings. I think they are very timely, very important, and I understand the feeling on the committee is to report out a bill, and I certainly commend you for wanting to take some action, because I do think it is long overdue.

This is the second time that I have appeared before the Senate Finance Committee to testify on the need to change the beef import formula, and this is the second Congress in which I have had legislation pending to amend the formula.

Over the period of nearly 4 years that my legislation has been pending, little has changed concerning the depressed economic situation of the Nation's cattle producers. Prices have continued to be extremely low, and the catttleman has been forced to liquidate his herd in order to decrease his operating expenses.

Liquidation, when coupled with continued high import levels, has exacerbated the poor market situation.

The 1964 Meat Import Act was drafted in such a manner as to allow imports from other countries, primarily grass-fed beef straight from the range, to be increased in proportion to total domestic production—including nonfed and fed cattle. This approach to beef imports has been counterproductive and has further complicated an already difficult situation.

It makes little sense to allow more imported beef into the country when there is greater domestic beef production and to allow less imported beef when there is lesser domestic production.

The reverse, which does make sense, is the central provision of my legislation. The bills which I have introduced during the 95th Congress and previously had introduced in the 94th Congress are Senate bill 237 and Senate bill 239. These bills deal with the problem through a revision of the existing formula and additional language in the tariff schedules to refine the existing definitions.

Briefly, Senate bill 239 revises the formula by using a new base period of 1969–72. This was a period when the cattle market was relatively stable, and the resulting ratio of grain-fed beef slaughtered to total beef slaughtered, 73 percent, is representative of this stable market.

Additionally, a new import base level of 750 million would be used in the formula. This compares to a limit of 725.4 million pounds under the current meat import law which was adjusted during the domestic overproduction of 1975 to 1.3 billion pounds, which has been continued up to date.

If the ratio of domestic grain-fed beef slaughtered decreases in comparison to total slaughter, foreign beef imports would be reduced on an equivalent basis. This situation usually occurs when production is high and demand is low. The lower price being received by the rancher makes it impractical to continue feeding the larger number of cattle.

However, if this ratio increased above the 73 percent established under the base period, imports would increase accordingly. In such a case, we could exceed the 750 million pound level.

Mr. Chairman, I would like to insert an example of the formula's operation for the years 1973–77. This exhibit demonstrates the effect of the formula, and I believe will be of assistance to the committee. It is attached as exhibit 1 to my remarks, and you will notice that for the year 1973, there would have been permitted an annual importation of beef of 739 million tons. That would have dropped in 1974 to 606 million tons to 472-plus in 1975, 533.9 million tons in 1976, and 565 tons in 1977.

My second bill, Senate bill 237, was introduced to close what appears to be an oversight in the definition contained in the tariff schedule. Senate bill 237 adds language to insure that partially processed meat products do not escape inclusion in this formula.

The two terms dealt with are fresh, chilled, or frozen and prepared or preserved. They are defined as follows: Fresh, chilled, or frozen covers meat even though detendonized or deboned, but does not cover meats which have been prepared or preserved. Prepared or preserved covers meat even if in a fresh, chilled, or frozen state, if such meats have been ground, comminuted, diced, or cut into sizes for a stew meat or similar uses.

I looked up comminuted because that was not in my vocabulary, and I found that meant to pulverize, reduce in size. Rolled and skewered or specially processed into fancy cuts, special shapes, or otherwise made ready for particular uses by the retail consumer and also covers meat which has been subjected to processing, such as drying, curing, smoking, cooking, seasoning, flavoring, or to any combination of such processes.

The legislation would include, within the meaning of these items, meats on which further preparation or preservation must be done after it reaches this country.

Mr. Chairman, I would like to insert, at this point, an additional exhibit showing the amounts of each of these items being imported to this country on an annual basis. The committee should note that the total of this meat amounts to approximately 8.6 million pounds for 1977; 1976 was 16.9—18 million pounds in the two categories shown on exhibit 2. And you can see the amounts of previous years going back to the year 1970.

One additional matter needs to be addressed. The senior Senator from Oklahoma, Senator Bellmon, my colleague, recently introduced Senate bill 2484 which seeks, in part, to address the problem of importation of live cattle, and I will be a cosponsor of his legislation.

I personally have requested further information on this subject regarding the importation of live cattle from the Department of Agriculture but, as of this date, have not received any information. This matter was brought to my attention during meetings with a number of Oklahoma farmers over the last several weeks. The Oklahoma farmers, as well as many others, contend that a substantial number of live cattle are entering the United States from Canada and Mexico which are not being counted under the formula.

It is possible that some cattle are entering the country legally because of loopholes in the formula definition. Some may be crossing the borders illegally.

It is my belief that no one has a firm grasp on the actual situation, and I would encourage the committee to review fully the problem. Further, if the committee determines that the problem actually exists with either legal entry which is not included under the formula or illegal shipping, that steps be taken to insure that these cattle are counted toward the formula quota.

I heard in the time I was waiting to appear discussions on the importation of cattle, and I am glad that this committee is very concerned about that.

Thank you, Mr. Chairman and members of the committee.

[The exhibits referred to by Senator Bartlett follow:]

EXHIBIT ONE

FORMULA -- $$\frac{\dfrac{750(RT)}{.73}}{4} = \text{QUARTERLY RATE}$$

$$RT = \frac{\text{FED BEEF SLAUGHTERED}}{\text{TOTAL BEEF SLAUGHTERED}}$$

1969-72 BASE PERIOD RATIO: .73

ONE YEAR IMPORT BASE LEVEL 750 MILLION POUNDS

1973

$$\frac{25,890,000}{36,063,000} = .72$$

$$\frac{\dfrac{750(.72)}{.73}}{4} = 184,932,000$$

ANNUAL = 739,726,000

1974

$$\frac{23,880,000}{40,524,000} = .59$$

$$\frac{\dfrac{750(.59)}{.73}}{4} = 151,541,000$$

ANNUAL = 606,164,000

1975

$$\frac{21,210,000}{46,317,000} = .46$$

$$\frac{\frac{750(.46)}{.73}}{4} = 118,151,000$$

ANNUAL = 472,602,000

1976

$$\frac{25,040,000}{48,182,000} = .52$$

$$\frac{\frac{750(.52)}{.73}}{4} = 133,484,000$$

ANNUAL = 533,934,000

1977

$$\frac{25,750,000}{47,237,000} = .55$$

$$\frac{\frac{750(.55)}{.73}}{4} = 141,267,000$$

ANNUAL = 565,068,000

EXHIBIT TWO

Tariff schedule

ITEM 107.6 MEAT VALUED OVER 30 c/LB — Year:	Millions of pounds	ITEM 107.55 MEAT NOT VALUED OVER 30 c/LB — Year:	Millions of pounds
1970	25.5	1970	0.7
1971	41.6	1971	.6
1972	24.4	1972	.3
1973	6.0	1973	0
1974	3.4	1974	.3
1975	2.7	1975	.7
1976	16.9	1976	1.1
1977	8.4	1977	.2

Senator BENTSEN. Are there any questions of the witness?

Senator CURTIS. I want to thank the distinguished Senator for appearing here and I recall his previous appearance. I believe there is sentiment in the country now in favor of doing something for agriculture that did not exist in the last year or two, and I hope it will bear fruit.

Let me ask you this one question. If we give a greater portion of the domestic market to our producers of meat, do you think that will materially help all of agriculture, the grain farmers and others, clear across the board?

Senator BARTLETT. It is my opinion that it will. I think it will boost the morale. I think it will have an effect that will be beneficial. It will show the cattlemen and those grain producers who have cattle— and in our state, most of them do have—it will show them that the Government is interested in their problem and in dealing with them.

Before, I think the Senator from Nebraska would agree, the Government showed interest in the problem but did not show enough interest in dealing with it to help try to resolve it and to provide some relief. I think the relief would be very helpful.

Senator CURTIS. That is all I have.

Senator HANSEN. I do not have any questions, Mr. Chairman, but I would like to compliment the distinguished Senator from Oklahoma for his appearance here and his perceptive analysis of the problems plagueing the cattlemen in the United States. I happen to be a cosponsor of two bills which he has referred to. It seems to me that they, like your bill, take note of the importance of some countercyclical arrangement that will help in not exacerbating a problem that would certainly be the situation under present law.

Senator BENTSEN. Thank you, Senator Hansen.

Senator Bartlett, you have covered the subject in a relatively short time. You have done it very effectively.

I know of your long concern, and we appreciate very much your counsel on this.

Senator BARTLETT. Thank you, Mr. Chairman, and again, I congratulate you for having these hearings and for your dedication in helping resolve the problem.

Senator BENTSEN. Thank you.

We will stand in recess until 1 o'clock.

[Thereupon, at 12:05 p.m. the committee recessed to reconvene at 1 p.m. this same day.]

AFTER RECESS

Senator BENTSEN. These hearings will come to order.
Is Mr. McDougal here?
Mr. McDougal is president of the National Cattlemen's Association. And who do you have accompanying you, Mr. McDougal?
Mr. McDOUGAL. Mr. Chairman, it is with appreciation that we do appear before the committee here. Accompanying me, to the table is Mr. C. W. McMillian, the executive vice president of Washington Affairs here from the National Cattlemens Association.
Senator BENTSEN. Mr. McDougal, I am sorry to delay you to 1:00. I understand we have a very important vote that will come up around 2:00, and I was hoping we could get most of this testimony done of the remaining witnesses prior to that, plus I am committed to preside in the Senate at 2 o'clock, so if you would go ahead, sir?
Mr. McDOUGAL. All right.
In the interests of the expeditious use of our time, I will just comment from my statement which has been presented to the committee and answer any questions that you or the committee might have.

STATEMENT OF RICHARD A. McDOUGAL, PRESIDENT, NATIONAL CATTLEMENS ASSOCIATION

Mr. McDOUGAL. I currently serve as president of the National Cattlemens Association, which is headquartered in Denver, Colo. There are 64 affiliated State cattlemens associations and affiliates. We represent more than 280,000 cattlemen all across the Nation.

As I mentioned, I appreciate the opportunity to appear here before this committee to comment on the Meat Import Act, Public Law 88-482 and any proposed legislation related to it.

I want to commend the committee in recognizing that inequities do exist and they have been uncovered since the development of the Meat Import Act of 1964, and I appreciate that you are looking seriously to amend that law to correct those inequities.

As we view it, there are three basic points in the rationale behind the original act. First, through its limitations, it keeps the United States from becoming a dumping ground for beef surpluses which may develop around the world. It helps assure more stability for the important domestic cattle industry, the largest segment of American agriculture.

Second, a more stable import situation adds to the stability of domestic prices for both producers and consumers.

Third, the law incorporates the principle of market access to freely trade at world market prices. Meat exporting nations are assured a share of the growing U.S. market for beef.

Major inequities that we continue to accept meat from other nations while, without exception, all other countries through arbitrary tariff and nontariff barriers refuse to accept beef from the United States and other major exporting nations.

Senator BENTSEN. Where are you reading now?
Mr. McDOUGAL. I am at the middle of page 2.
Senator BENTSEN. All right.
Mr. McDOUGAL. Point No. 3.

Not only does this sap the vitality and efficiency and productivity of our system, it produces vulnerability to the United States from dumping actions.

Imports obviously are a significant factor in our market and that makes the import law important. Some private estimates in 1977 indicated that if it were not for the voluntary restraint agreements, imports would have been at least 25 percent higher.

In view of various contries' embargoes during the past 3 to 4 years, were it not for the Meat Import Act, imports into the United States would have been more than double the recent amounts.

We, in the NCA would like to see the Meat Import Act improved to include the following points.

First, countercyclical formula based on per capita supplies of commercial cow beef to adjust the quota allowable under the law. We have attached a suggested formula to the paper.

Adjusting the formula on a countercyclical basis permits imports to increase when domestic supplies are limited and prices are high and requires imports to decrease when domestic production is cyclically large and market prices are depressed. This type of formula would provide more stability of supplies and prices for both the economically important beef cattle industry and for the consuming public as well.

The proposal is based on sound economics and would keep periodic controversy over the matter to a minimum. As it is now, the current formula, tied directly to average domestic production, regardless of economic conditions, becomes a matter of unnecessary controversy about every 10 years as domestic production increases cyclically to large amounts.

Second, quotas should be determined on a quarterly basis rather than on an annual basis. This is necessary so that we do not have a disproportionate share of a year's quota crowded into a single quarter of the year, thus having an abnormal economic impact in a short period of time.

Third, the act should prevent disproportionate shipments through given ports of entry. If virtually all of the imported meat enters the United States through only a few ports, the economic impact is unnecessarily greater in those particular areas than in other areas of the nation.

Fourth, the act should include all beef and veal regardless of form or origin. Such expansion of coverage is necessary to avoid circumvention of the act and of the intent of Congress, such as we have experienced the last few years.

Dealing with live cattle imports, in our opinion, circumstances dealing with live cattle imports are considerably different from those of meat. In the first place, with the exception of breeding stock, we import live cattle from only two countries, Canada and Mexico. In contrast, current restraint agreements on meat subject to the law are in force with 13 countries.

The NCA feels some type of agreement must be made with both Canada and Mexico on a bilateral basis to bring about a more stable flow of cattle across the borders. We do not feel, however, that it is practical to incorporate live cattle import quotas into the current meat import law.

The NCA feels that, in the case of live cattle imports, we must first approach our counterparts on an industry-to-industry basis before we can determine whether or not legislative or administrative actions are necessary.

In the area of world market access, while the industry for many years has been concerned with problems dealing with imports, the NCA believes that a positive approach to the trade situation is to direct our attention to exports and world market access as well. We understand that the Senate Finance Committee certainly has jurisdiction in this area.

The most important role our Government can and should play during the critical trade talks now underway is to insist on access to foreign markets for U.S. agricultural goods, including livestock products. This means seeking tariff reductions and the breaking down of nontariff barriers which stand in our way.

A good example of the type of access which other countries should grant is the U.S. Meat Import Act of 1964. The NCA would like to see each importing country grant access for imported beef in the amount of 5 pounds per capita, or 5 percent of domestic production, whichever is the greater, with this access obtained over a 5-year period. We call this the "Principle of Fives."

We feel that the principles of international trade in meat should also include the following:

First, the orientation of food prices to the private marketplace. This would be in the foreign country.

Second, elimination of the governmentally mounted price/supply/purchase schemes that result in artificially restricted per capita supplies and high consumer prices.

Third, encouragement of marketing more U.S. grain through the vehicle of larger per capita red/white meat consumption in other countries.

We might also include a comment about meat inspection here in that we feel that, while it is the jurisdiction of the Senate Agriculture Committee to consider meat inspection, we certainly would subscribe to any logical bill that would address the necessity of comparable meat inspection on foreign product coming into this country, because we are fully aware that other countries are sending meat products into this country which have been fed various ingredients which we are not lawfully able to use in the husbandry in this country.

So we would certainly support any act such as the Packwood bill to this end.

I would like to make a comment on one point, and I am sorry that the representatives from the State Department are not here, but he justifies the expansion of the meat import law and the product that comes in by saying that it is helpful to our industry in providing lean meat.

Our industry stands ready and is willing and able to meet any market for beef in this country that is economically justified, in our sense, to be met. If there is an economic incentive there to meet that market, we can and we will meet it, in spite of whatever the U.S. State Department might feel.

We certainly do appreciate this opportunity afforded us to present our position here before the committee and look forward to working with you in future months not only on import-related matters but also the very, very important issues related to the multilateral trade negotiations going on in Geneva now.

Senator BENTSEN. Mr. McDougal, is there any imported meat being used in any Government programs that you know of such as food stamps or the school lunch program, any imported meat being used?

Mr. McDOUGAL. There has been product being brought in from Canada, cattle being killed and the United States having gone into the school lunch program. Those cattle were not fed here in the sense of being finished out. They were brought across the border, immediately slaughtered, and then they were eligible to go into the school lunch program.

It is our understanding that, from time to time additionally, that imported frozen beef has been used also in the school lunch program.

I might ask Mr. McMillian to comment further on that point if I might, Senator.

Mr. McMILLIAN. Just briefly, Senator, we find often that we hear criticisms about imported meat being used in the school lunch programs. Upon running it down, we find that it is more brought on by the local situation than by anything else.

The USDA has a regulation which requires that the beef be purchased through their school lunch program and supplied by the Department of Agriculture must come from federally inspected plants. As Mr. McDougal said, the announcement this morning, I think, is going to take care of the problem of foreign beef, foreign live animals, such as cows from Canada that are slaughtered in domestic plants which, up to this point are considered to be domestically produced and they are plugging that loophole.

On the question of food stamps, however, there is no restriction however to the issuance of food stamps on whether or not the product is domestically or foreign produced.

Senator BENTSEN. Let me understand what that statement was this morning. You said they plugged the loophole insofar as live cattle being imported and then processed as manufactured meat. Is that what is happening?

Mr. McMILLIAN. That is correct. Those would be cattle, for example, purchased in Mexico, brought directly into the United States for slaughter, which is a common practice.

Senator BENTSEN. Yes; I understand that.

Mr. McMILLIAN. I meant Canada, yes, sir.

Senator BENTSEN. Mr. McDougal, I notice you are from a border State. Are you in the business of importing cattle? Do you import cattle?

Mr. McDOUGAL. No; I am from Nevada and——

Senator BENTSEN. Well, that is a border State, is it not?

Mr. McDOUGAL. It is bordered by other States.

Senator BENTSEN. That is right. I beg your pardon. It does not reach down there that far. All right.

Mr. McDOUGAL. And I am not in the business of importing any cattle.

Senator BENTSEN. You do not.

Now, I was interested in your statement that quotas should be determined on a quarterly basis rather than on an annual basis. Now, we had a previous witness testifying that they wanted it on a semiannual basis and they were concerned about aberrations, such as in October, with excess sales.

How do you answer that problem?

Mr. McDOUGAL. Well, I think that we are striving to address that, find an answer to a problem which does exist there whereby we can at periodic times during the year see excessive supplies during the year that might have been in storage during periods of time when they could be extremely depressing to our cow market.

What we would attempt to do here again would be to see annual quotas established based upon a new formula but that those quotas being developed would be, say, more than 30 percent of the annual quota would not be allowed to come in during any one quota to prevent excessive loads of imported beef hitting the market.

Senator BENTSEN. We have substantial imports of cattle and they impact on our local situation.

Why do you think it is not practical to incorporate live cattle import quotas?

Mr. McDOUGAL. The feeling we had addressing the live cattle imports was that the Meat Import Act is essentially addressing a product rather than cattle in total. We are addressing a problem on a nationwide basis. There are many, many countries involved in it.

We feel that the problem exists in live cattle essentially with two countries, Canada on the one hand, Mexico on the other.

Primarily with Canada, it is cows that come down across the border which are slaughtered in the United States. Mexico, on the other hand, is typified by feeder cattle moving in an[1] having an impact on the feeder market.

It is our feeling that, nothwithstanding the expertise of our negotiators within the State Department and other departments that probably, on an industry-to-industry basis, we could set up a more meaningful agreement between the two countries, that we would then bring to the Government for consideration as the viable response to meet that problem.

Senator BENTSEN. I still do not understand. I do not understand what is impractical—and that is what I really want for the record. I want you to educate me. Why cannot we put a limitation on the importation of live cattle with some kind of a quota system, even though it is involving two countries? Why can we not do it?

Mr. McDOUGAL. I think that we are both interested in seeing the same thing, it is just a matter whether it is appropriate to be included under the meat import law or whether it would be appropriate to be dealt with separately.

We do not have any arguments with what you are espousing either in the sense that we should have quotas. You might be in a better position than I with your experience than dealing with amendments to laws and this sort of thing as to whether it would be appropriate.

Our concern, at this point, is that we look at the necessary amendments to the meat import law in the sense that dealing with the product that is dealing with today and then we addressed the live cattle separately from that.

Senator BENTSEN. But you are concerned about the importation of cattle?

Mr. McDOUGAL. We certainly are. Very, very concerned. Yes, sir. It would be a bilateral agreement——

Senator BENTSEN. I understand that very well.

Senator Hansen?

Senator HANSEN. This morning, when the Government witnesses appeared before us I think they made the statement, or at least left me with the clear impression, that no imported meat went into the consumption in this country via any Federal program with the possible exception of the food stamp. I think it is pretty obvious—and I assume that they would have had this in mind, that the way hamburger is treated, to deny that imported meat to go into consumption via food stamps would be totally unaware of how most hamburger may be manufactured.

I assume you would agree with that, would you not?

Mr. McDOUGAL. We do not agree with the——

Senator HANSEN. No: I mean you would agree that imported meat can wind up in the baskets of people who purchase groceries with food stamps?

Mr. McDOUGAL. Yes, sir.

Senator HANSEN. Would you not also agree that it could go into school lunch program?

Mr. McDOUGAL. It has, heretofore.

Senator HANSEN. Well, I understand the law, the Federal Meat Inspection Act, section 20 of that act provides, among other things, that meat and meat products prepared or produced in foreign countries may not be imported into the United States unless they comply with all the inspection, building construction standards, and all other provisions of this chapter—that is chapter 12 of the meat inspection—and regulations issued thereunder, applicable to such articles in commerce in the United States.

Section 20 further provides that all such imported articles shall, upon entry into the United States, be deemed and treated as domestic articles subject to the provisions of this chapter—chapter 12 of meat inspection—and the Federal Food, Drug and Cosmetic Act, 21 U.S.C. 301.

Would you infer from that, Mr. McDougal, that once meat has met these foreign standards and has been certificated, as indeed it must be a foreign country seeking to export meat from its country to the United States, once it has gotten in here then, for all intents and purposes, does it not become to be deemed and treated as domestic articles? Would that seem clear to you?

Mr. McDOUGAL. Yes; as you state it, it does.

Senator HANSEN. Well, it certainly would seem so to me, and I wish the State Department and the USDA people were here to respond specifically because I see no reason, Mr. Chairman, to conclude that once these regulations of the law have been complied with it gets into this country, there is no reason why it could go into any form of use that domestically produced meat could go into.

Now, maybe I am missing something, but do you know of anything that I may be missing, either you or Mr. McMillian?

Mr. McDougal. As you read the law, I believe you certainly read it accurately. One of our main points of concern in this area is that, in fact, those cattle had not been subjected to the same inspection standards as far as, among other things, residue.

Senator Hansen. Well, of course, the law is specific on that point, as I understand, if I can find it. I think it requires that an exporting country certifies that—Thus, section 20 intends that the foreign meat exporting country enforce inspection and other requirements with respect to the preparation of the products at least equal to those applicable to preparation of like products at federally inspected establishments in the United States, and that the imported products be subject to inspection and other requirements upon arrival in the United States to identify them and further to insure their freedom from adulteration and misbranding at the time of entry.

However, section 20 does not provide that the imported products be inspected by U.S. inspectors during their preparation in the foreign country.

Now, I guess what you are implying, Mr. McDougal, is that it may be that such feeding additives as DES and others can be used nearer the time of slaughter in a foreign country than would be permissible in this country and that the present law does not prohibit the export of foreign meat to this country from animals that could have been an additive that would have been limited or restricted in the United States. Is that what you are saying?

Mr. McDougal. Yes, sir. That is absolutely correct.

Senator Hansen. I think that is an important point to pursue, but it seems to me as though the thrust of this simply is that we shall take the word of a foreign country that they have done as good a job as we are doing and yet everything that I know inclines me to believe that, with the exception of a very few countries—Canada being one of them—there is every reason to believe that few countries, or few other countries, do half as good a job or are half as demanding and discerning as our American inspectors here in domestically operated plants. I do not hear that at all.

Most plants are inspected every day. Every day that slaughter is taking place, there is an inspection.

Mr. McDougal. This is our concern not only from a competitive situation basis, Senator, but also from the point of view that if an inspection were made on a hamburger product, for instance, here, and a residue, an illegal residue, is found, it would not impact that importer or the person who exported it from a foreign country. It would impact the U.S. producer probably more than anybody else in offering adulterated product.

Senator Hansen. Well, I am extremely proud of the tough inspection standards that we maintain in this country. I know personally of packing plants that have shut down and gone right out of business simply because of the upgrading of the standards that are required of slaughtering plants. And yet, it seems as though we just turn our back and close our eyes when we look at foreign countries, and I would like to see legislation enacted that would guarantee the American housewife that when she goes into a market, if she buys beef that is offered as domestically produced beef, she would know that that is what she is getting. And if it is imported, I do not care if it has manufacturing beef in it and if there is beef from a foreign source that goes into the makeup of that hamburger. I think she has a right to know that.

Would you think that that would square with what your cattlemens association recommends?

Mr. McDOUGAL. I think we could be supportive of that and, most particularly, as to address the inspection aspect of it so that we are just as interested in seeing the buyers of our product guaranteed a wholesome product as anybody here in this——

Senator HANSEN. I know there was concern that, despite the fact that—at least a number of us have a feeling that the 1964 law has not been as good as it well might have been, that perhaps we ought not to try to amend it any because it might be that we would get it out on the floor and it would be weakened.

Does the National Cattlemen's Association feel that you—I think you have testified here, have you not, that you would like to see some of these countercyclical concepts included into a law, if it is amended, and that the other points that you made in your excellent testimony be incorporated as well?

Mr. McDOUGAL. Yes. You might recall, Senator, that in 1964 we pressed the point for a countercyclical approach. It was not accepted by Congress at that time. We still believe it to be a proper approach.

We do have concerns, concerns of political reality, that we do not want to see the meat import law go to the floor and be lost or anything like that, because we do need protection of the law, because we could see an absolute dumping take place.

So that we, from our point of view, want to see the law amended when we feel that the water is warm enough to be plunged into.

Senator HANSEN. Well, a lot of tractors around this country, I think, for 2 months have sort of warmed the waters up a little bit. I believe there is an awareness that farmers and ranchers do have problems.

I do not want further to take the time, Mr. Chairman, of you nor of the witnesses. I did read this morning a review of what has taken place in the 12 full years that this law has been in effect, and I noted that meat imports have exceeded the base quota nine times and have exceeded the trigger level five times.

In six instances, the President proclaimed the required base quotas, but in five of those instances, in the years 1970–74, he simultaneously suspended them in view of the overriding economic interest. And in the sixth instance, in 1976, he increased the beef quota level, again in view of the overriding economic interests to a level equal to the trigger level.

Voluntary restraints. I think that has been one of the salutory effects of this law, that we have been able to use it to encourage countries to enter into voluntary agreements in restraint of their exports to the United States, were negotiated with most of the major exporting countries in 5 of those years.

I call that to the attention of the witnessess in order that—I know they understand this fact very well, but I think that we may be under the illusion, if we did not know better, that this law has been put right into effect and had a very decisive effect in restraining imports, and I think that most of that has come about probably through the impetus that it gave to the entering into voluntary agreements.

Would that be an opinion shared by you gentlemen?

Mr. McDougal. It certainly would.

Senator Hansen. I have no further questions, Mr. Chairman.

Senator Bentsen. Thank you very much, Senator Hansen.

Mr. McDougal, I know the fine work of your association and your concern in this regard, but I do not know anyone that can give you any certainty tbout what is going to happen when one of these pieces of legislation hits the floor. Sometimes you just have to take a deep breath and go ahead.

I listened to the State Department this morning say that we had the world's most open market for meat. When you are hurting that much, I am not sure you are going to hurt much more, and sometimes you have to take the risk and see if you cannot improve the situation.

I would like to know what our situation is with our major trading countries around the world, the Europeans for example, and the Japanese. What kinds of trade restrictions do we have on beef insofar as their importing it to their countries, or our exporting it to them?

Mr. McDougal. Well, sir, we have had, up until just recently, had the ability this past year, at least, to send approximately 1,000 tons of product into Japan for what is known as HRI trade—hotel and restaurant-type trade. That was increased by approximately 2,000 tons and then an additional 8,000 tons was under the general quota, was increased on high quality beef so that, ostensibly, if all of the loose ends are tied together, we will have the ability to export to the Japanese market something around 11,000 tons for the fiscal year, Japan fiscal year, 1979, starting in April.

Senator Bentsen. 11,000 as compared to what, now? Would you restate that?

Mr. McDougal. About 1,000 this last year, a substantial increase, but a literal drop in the bucket when you compare the imports that are coming into our country here. We feel that there should be—we pressed the Special Trade Representative to attempt to develop an increasing agreement whereby that amount going into the Japanese market might have a growth factor involved, too. Currently, they were unsuccessful on this issue.

That product that goes into the European community, I am not aware of any amount of any consequence that does go into the European community presently.

I think that, when the State Department said that we had most open market in the world, he said it within a sense of accomplishment. We look on it in a little different light. We look on it in the sense that we are probably some of the biggest fools in the world by the fact that here we are, allowing 1,292 million pounds to come in during 1978 and we get a mere pittance to allowed to export when we have good product to export.

Senator BENTSEN. Well, Mr. McDougal, you know, they have a Latin desk down there, and they have an African desk down in the State Department, and I suppose an Asiatic desk. Sometimes I think they need an American desk down there.

Mr. McDOUGAL. I agree with you.

Senator BENTSEN. My deep concern is, so they go from 1,000 tons to 11,000 tons. I would like to know where we started from. What I am really interested in is seeing that we have quid pro quos with these countries and as I cited the example this morning of a Toyota that sells probably at a comparable price in Japan and here, and then talk about selling our beef for two or three times, or four times, as much as we sell it for in this country, there is something wrong. All you have to do is look at the end results.

The same thing with the Germans, and you can go on down the list. And I do not want them to say we are going to improve your lot by 2 percent when I find a great disparity to start with. I want to get to even.

I think that we can compete with these people around the world, and do it very effectively if they will take out some of this discrimination that we see.

Mr. McDOUGAL. We have very few products that we can compete successfully on, and we feel that certainly agricultural products is the premiere product that does have a world market and that beef, good beef, produced in this country with American labor involved in it is a very logical export item.

Senator BENTSEN. Mr. McDougal, if you have nothing further, if you want to extend your remarks, we would be delighted to have it in the record and we appreciate very much your comments and your contribution.

Mr. McDOUGAL. Thank you, sir.

[The prepared statement of Mr. McDougal follows.]

STATEMENT OF RICHARD A. McDOUGAL, NATIONAL CATTLEMEN'S ASSOCIATION

My name is Richard A. McDougal; and I live in Lovelock, Nevada, where I manage a cattle production and feeding operation as a family enterprise. Our operations also include irrigated crop production—alfalfa, hay, barley, and wheat.

I currently serve as President of the National Cattlemen's Association, which is headquartered in Denver, Colorado. Through its 64 affiliated state cattlemen's associations and breed affiliates, NCA represents more than 280,000 cattlemen all across the nation.

I appreciate the opportunity to appear here today before this committee to comment on the Meat Import Act (PL 88–482) and proposed legislation related to it.

Before I present the Association's recommendations, I would like to make some general comments about the current Act and what it means to our industry.

It was the predecessor organizations of the NCA—the American National Cattlemen's Association and the National Livestock Feeders Association—that in 1964 worked so hard to obtain the Meat Import Law.

We probably are more familiar with this law and its implementation than any other industry organization. We know its weaknesses as well as its strengths.

Since the passage of the Act fourteen years ago, we feel that the intent of Congress has been ignored and abused at times by the Executive in carrying out its enforcement. There have been obvious and blatant acts of circumvention of Congressional intent and the principles of the Act. Proposed legislation to amend the Act, as well as our recommendations for change, would strengthen the Act and prevent the previously mentioned circumventions.

As we view it, there are three basic points in the rationale behind the Act:

1. First, through its limitations, it keeps the U.S. from becoming a dumping ground for beef surpluses which may develop around the world. This helps assure more stability for the important domestic cattle industry—the largest segment of American Agriculture.

2. Second, a more stable import situation adds to the stability of domestic prices for both producers and consumers.

3. Third, the law incorporates the principle of market access at freely traded world market prices. Meat exporting nations are assured a share of the growing U.S. market for beef.

A major inequity is that we continue to accept meat from other nations, while without exception, all other countries, through arbitrary tariff, and non-tariff barriers, refuse to accept beef from the U.S. and other major exporting nations. Not only does this sap the vitality, efficiency and productivity of our system, it produces vulnerability to the U.S. from dumping actions.

Imports obviously are a significant factor in our market, and that makes the Import Law important. Some private estimates in 1977 indicated that if it were not for the voluntary restraint agreements imports would have been 25% higher. In view of various countries' embargoes during the past three to four years were it not for the Meat Import Act, imports into the U.S. would have been more than double the recent amounts. Where else would exporters have gone but to the U.S. market?

As mentioned earlier, I believe we recognize the shortcomings of the Act as well as its strengths. Now that we have seen the Law function through one complete cattle cycle, we can see that certain changes are appropriate.

The NCA at its recent convention adopted a resolution which pointed out specific areas where we think the Act could be strengthened in the interest of the industry and the general public as well.

The NCA would like to see the Meat Import Act include the following:

1. A counter-cyclical formula—based on per capita supplies of commercial cow beef to adjust the quota allowable under the Law. (NCA's suggested formula is attached.)

Adjusting the formula on a counter-cyclical basis permits imports to increase when domestic supplies are limited and prices are high, and requires imports to decrease when domestic production is cyclically large and market prices are depressed. This type of formula would provide more stability of supplies and prices for both the economically important beef cattle industry and for the consuming public.

The proposal is based on sound economics and would keep periodic controversy over the matter to a minimum. As it is now, the current formula—tied directly to average domestic production, regardless of economic conditions—becomes a matter of unnecessary controversy about every ten years as domestic production increases cyclically to large amounts.

2. Quotas should be determined on a quarterly basis, rather than on an annual basis. This is necessary so that we do not have a disproportionate share of a year's quota crowded into a single quarter of the year, thus having an abnormal economic impact in a short period of time.

3. The Act should prevent disproportionate shipments through given ports of entry. If virtually all of the imported meat enters the U.S. through only a few ports, the economic impact is unnecessarily greater in those particular areas than in other areas of the nation.

4. The Act should include all beef and veal, regardless of form or origin. Such expansion of coverage is necessary to avoid circumvention of the Act and of the intent of Congress, such as we have experienced.

LIVE CATTLE IMPORTS

In our opinion, circumstances dealing with live cattle imports are considerably different from those of meat. In the first place, with the exception of breeding stock, we import live cattle from only two countries—Canada and Mexico. In contrast, current restraint agreements on meat subject to the Law are in force with thirteen countries.

We have historically imported about one million head of cattle per year, with the exception of 1974 and 1975. Mexico exports feeder cattle almost exclusively; and Canada exports, depending on conditions, are a mix of feeder cattle and cows direct for slaughter.

Total live cattle imports are not large in relation to total domestic cattle population. However, the shipment of live cattle does create a significant impact on markets in states located on or close to the borders. This does present a very serious problem to our cattle producer in these states.

The NCA feels some type of agreement must be made with both Canada and Mexico on a bi-lateral basis to bring about a more stable flow of cattle across the borders. We do not feel, however, that it is practical to incorporate live cattle import quotas into the current Meat Import Law.

The NCA and U.S. market interests are currently engaged in discussions with our counterparts in Canada. In these talks, we are attempting to work out our differences on a number of issues dealing with trade matters and health regulations. These talks could lead to correction of some of the current problems. I feel the same types of arrangements with the Mexicans can be undertaken.

The NCA feels that, in the case of live cattle imports, we must first approach our counterparts on an industry-to-industry basis, before we can determine whether or not legislative or administrative actions are necessary.

WORLD MARKET ACCESS

While the industry for many years has been concerned with problems dealing with imports, the NCA believes that a positive approach to the trade situation is to direct our attention to exports and world market access, as well.

It is extremely important for members of this Committee and the Congress as a whole to focus attention on the current "Tokyo Round" of the Multilateral Trade Negotiations underway in Geneva.

The most important role our government can and should play during these critical trade talks is to insist on access to foreign markets for U.S. agricultural goods, including livestock products. This means seeking tariff reductions and the breaking down of non-tariff barriers which stand in our way.

A good example of the type of access which other countries should grant is the U.S. Meat Import Act of 1964. The NCA would like to see each importing country grant access for imported beef in the amount of five pounds per capita, or five percent of domestic production, whichever is the greater, with this access obtained over a five-year period. We call this the "Principle of Fives."

We feel that the principles of international trade in meat should also include:

1. Orientation of food prices to the private market place.
2. Elimination of governmentally managed price/supply/purchase schemes that result in artificially restricted per capita supplies and high consumer prices.
3. Encouragement of marketing more U.S. grain through the vehicle of larger per capita red/white meat consumption in other countries.

The Trade Reform Act of 1974 set up the structure for private sector trade advisory committees, and our industry is represented at most levels on these committees. We are anxious to work with our government officials in assuring sound, meaningful results of the MTN. I reiterate, it is important for this Committee to remain close to these negotiations; and, if necessary, oversight hearings should be conducted by the Congress to assure implementation of the 1974 Act in accordance with Congressional intent.

In conclusion, we appreciate this opportunity afforded us to present the NCA position on trade and look forward to working with this Committee in future months not only on import-related matters but also the very important issues related to the MTN in Geneva.

Attachment.

Proposed Formula to Amend
Meat Import Law of 1964 (PL 88-482)

$$A \times \frac{B}{C} = \text{New Proposed Quota}$$

A = Adjusted Base Quota as calculated under the 1964 Meat Import Law

B = Base period - This is a ten-year moving average of the per capita supply of commercial cow beef production. It is the 10 years prior to year under consideration.

C = Average of two-year per capita supply of commercial cow production. It includes the year previous to and an estimate of the year under consideration.

Example for 1977 (A)		(B) / (C)		new proposed quota
1165.4 million pounds	x	$\frac{17.98 \text{ lbs}}{23.25 \text{ lbs}}$	=	897.4 million pounds

Senator BENTSEN. Our next witness this afternoon is Mr. T. A. Cunningham who is president of the Independent Cattlemen's Association in Texas. Mr. Cunningham has been a leader in efforts to improve the economic well-being of the cattlemen.

He has testified before this committee in the past and we appreciate having the benefit of his expertise in this area and I see he has brought his aide along with him.

Mr. CUNNINGHAM. Thank you, sir. With me here is Cash Cunningham, executive of our association.

STATEMENT OF T. A. CUNNINGHAM, PRESIDENT, INDEPENDENT CATTLEMEN'S ASSOCIATION, ACCOMPANIED BY CASH CUNNINGHAM, EXECUTIVE, INDEPENDENT CATTLEMENS ASSOCIATION

Mr. CUNNINGHAM. Mr. Chairman, we appreciate your having these hearings and allowing us to come before you once again. You have certainly heard a lot today of the same things that I would have said, or would like to say, or would like to endorse. You have my statement, and if you will enter it into the record, rather than repeat a lot of things that have just been said, I would like to make a short statement and then answer any questions that you might have.

Of course, you know that we have stormed the country and romped and stomped and preached and done everything in the world for the last 3 years trying to call attention to what we considered the bad things in the 1964 law, or better known by the cattlemen is the bankruptcy law of the seventies. I think we refer to it as the bankruptcy law more than we do as the 1964 law.

We certainly want all meats, included in any law. We do not think that any—the bill that you are going to introduce, what we have seen of it, and Mr. Bellmon's bill, will not work properly without all cattle and all meats being included.

We want to congratulate you on it. We know that you understand the problem. Certainly, live cattle from Mexico have been very detrimental to the Texas cattlemen and certainly the cattle coming in from Canada have certainly hurt those markets in that part of the country by coming in at those areas.

Of course, any beef coming in has depressed our market more.

We have sat and watched this and run just about every kind of analysis in the world on it, trying to figure out the best way to go or to try to come up with something that we thought we could get through the House and the Senate, and we certainly endorse the statements you made that in the condition we are in, anything will be better.

But, getting down to the facts of this, we would like to touch on the lunch meat program and the inspection and labeling. USDA does not monitor the meats that they purchase all the way to the school where it can be commingled and where you cannot trace it back is from the local packer, local level, wherever it comes into. As far as welfare people, well, certainly they can buy any of it at any store. There is no monitor on it, period.

We also have been unable to find any way to monitor imported meat after it once leaves the box that is marked with the country of its origin, or where it was from—say Australia—and once it is busted open; we cannot trace it any farther when it is commingled and prove it.

We do, as you know, we do endorse the inspection and labeling bills that have been introduced. The inspection bills, for instance, foreign meat, I believe you have 20 inspectors, 12 full time, in foreign countries to spot check them and that is worthless. Then, when it comes into this country, it can be commingled and it is USDA-inspected meat.

At the same time, in our state of Texas, our local state plants have to be equal to, or better, than a USDA plant, yet we cannot ship across the state line, yet it cannot be commingled. Now, you know that is real strange if we think more of foreign inspectors than we do of inspectors in the state of Texas that is under USDA supervision and it has to be this good and, at the same time, we cannot ship this meat across state lines.

Now, we have heard here that we could not supply the kind of meat that was needed, cows, bulls, and this type of meat. At the same time, we have closed a lot of our plants because they did not meet the inspection standard. So not very long ago we had cattle stacked up—I know at several weeks in San Angelo, Tex., there was from five to seven head of cows backed up because there was no place to kill them. The price went down to 11 from 15 cents a pound, on the hoof.

Now, all they would tell us is that we overproduced. Now, if we overproduced, it was ridiculous for us to go out and buy over 50 percent of all the meat that was expected from all of the other countries in the world.

The ranchers now are very concerned. This boom to bust is the thing that is killing us. It is killing us with the banks and everything else.

There is not any reason for it. It is not the countercyclical reason particularly, it is a manmade thing. Whenever you dump in a market this way—there is no use in going from boom to bust. With the type of legislation that you have to introduce, it will make a more of a rub board effect out of it. Certainly it would go up and down but it would not break the consumer and it would not break the producers.

At the same time, the bankers would have a little confidence that the bottom was not going to fall completely out and they could loan a little money on cattle.

All of these things that we have brought before the committee before and have in our full statement will be, we think, the best way to get it done is to go with the percentage or with the price and to go in a way that would protect our consumer, because it is our customer. If beef gets too high we are in trouble because they put everything in the world in it and it hurts our customer, our consumer. It hurts the cattle producer because his product is not as good when it gets to the consumer and certainly, if it goes too low, it breaks our producer.

So we in the cattle industry do not ask for any support from the Federal Government other than legislation. We do not want a subsidy, period. We do not want controls, period. But we, if outside interests or outside countries are going to control our markets, we sure want legislation to control that where it will not go from boom to bust. It is just about that simple.

Thank you, and I will answer any questions I can, sir.

Senator BENTSEN. How long do you think the present herd liquidation is going to last?

Mr. CUNNINGHAM. I think we are coming out of it now. We have killed roughly 15 percent of our mama cows or more and we have just killed down far enough that we are down below the amount that is going to be imported so we will start—our price will start climbing out now.

Senator BENTSEN. We had some additional testimony from some of our witnesses this morning on this same question that you have addressed about the purchase in Government programs of imported beef. They provided information, that the USDA has purchased imported beef believing it to be domestic. One loophole is live cattle purchased on the roof; cattle from Canada and Mexico are killed as domestic production and they have been purchased by USDA to be used in school lunch programs, food stamp programs, or commodities used on Indian reservations.

Two, the second loophole is a customs law that states the manufacturer is the ultimate consumer. When meat is ground or otherwise processed, it becomes a domestic product. Under USDA specifications, meat stored in authorized warehouses can be purchased by

USDA. Therefore, it is possible that such imported meat can be purchased by the USDA.

Three, they show conferring with elementary and secondary education food service departments in South Dakota that they purchased 10 carloads of ground beef from Meilman Packing in South Dakota through the USDA. Meilman is the name of a packing concern, apparently.

In 1977, Meilman Packing imported 31,069 head of imported Canadian cattle. They were used in the school lunch program.

Furthermore, Assistant Secretary of Agriculture Carol Foreman admitted the use of such meat from plants in Wisconsin, Minnesota, and other areas.

That was submitted by Mr. Charles J. Bellman in response to a question this morning. That is along the lines of some of the comments you have made, Mr. Cunningham.

Senator Hansen?

Senator HANSEN. This morning, Mr. Cunningham, when Governor Judge was testifying he said, "Studies presently underway at Montana State University indicate that a 1 pound per capita increase per year in consumption of imported beef would reduce the price a Montana rancher gets for feeder animals by $2.79 per cut weight during the first half of the marketing year.

"Since over 600 million pounds of meat entered the U.S. markets outside of the law, one can conclude that a Montana rancher's feeder cattle prices were negatively impacted by $8.40 per cut weight in the first half of 1976. Montana ranchers were receiving approximately $30 per hundredweight for their cattles sold during the first 6 months of 1976."

I read that to ask you, in your statement, you say, "It has been estimated that the act has cost livestock producers about $1.6 billion in 1975. The 1976 figures are substantially higher at $1.8 billion." And then you go on to say that "cow prices in 1975 would have been 26.2 percent higher and 30.2 percent higher in 1976."

Are you familiar at all with the figures that Governor Judge of Montana used? I was just wondering, do his conclusions and those of yours seem to mesh?

Mr. CUNNINGHAM. It is about the same. We arrived at it a different way.

If a market is running level and you dump 5 percent on it, you break the market, any market. That is because your stock markets—because it is illegal for you to dump, and so on.

If you dump 5 percent on, you break the market, and if you keep adding 5 percent, it keeps going down. The more you add, the faster it goes down.

And, of course, anybody can make a chart and make a chart read the way that they want to.

We have done a lot of research and a lot of work on this, not that we thought that anybody was going to reimburse us the billions of dollars we lost——

Senator HANSEN. No.

Mr. CUNNINGHAM. But to try to figure out at what point that this should be stopped to keep from bankrupting the cattle industry. The reason I went back to the 5 percent is because it is kind of a rule of thumb that has been used of all my life. I have always heard that, in dealing stocks that you had to be careful of this, so in bringing this down, I would like for Cash to finish answering this, since he has been burning the phone up and working with South Dakota people and everyone else and A. & M. in bringing this down.

Mr. CASH CUNNINGHAM. Senator Hansen, these figures we came up with here were done by a study done by Texas A. & M. University that uses three different economic models in determining that, and I will provide that.

Senator HANSEN. You would not question the authenticity of those research figures then, would you, Senator Bentsen?

Senator BENTSEN. I would attest to them.

Mr. CASH CUNNINGHAM. I would assume that Governor Judge's figures also took into consideration the impact of the live cattle imports, on the terminal effect. In other words, as it reduced the price in the markets in, let's say, Montana, they would then have a terminal effect in the reporting of those prices received in that terminal. By the time it reached the next, than that is where it would start out at the next day across the nation.

So this is one of the impacts that we did not take into consideration in the A. & M. study.

Senator HANSEN. Just for the record, it would be helpful to me if you might submit the studies that—from which you have developed these figures here. I should think that would be helpful to us, would you not think, Senator Bentsen, in answering some of our critics?

Mr. CASH CUNNINGHAM. Yes, sir, we will provide that.

[The following was subsequently supplied for the record:]

FOOD AND FIBER ECONOMICS—IMPACT OF BEEF IMPORTS

By Ernest E. Davis, Extension Livestock Marketing Economist

Cattlemen of this nation have maintained a market structure more closely representing a perfectly competitive model as exists in the United States today. As defined by economic theory, a pure or perfectly competitive industry, such as the cattle industry, offers its product at prices equal to the average cost of production and results in the greatest economic efficiency. Unfortunately, the cattle industry, for the most part, markets its product at prices below average cost of production. A cattleman can only hope to cover production cost four or five years out of the ten to twelve years of a cattle cycle. The logical question is how do cattlemen stay in business? If it were not for land appreciation, mineral resources, and supplemental nonagricultural jobs, many cattlemen could not have stayed in business.

As would be expected under such an economic environment, U.S. beef prices respond to market forces quickly and are highly influenced by current supplies of beef and veal, per capita disposable income, and supplies of other meat and poultry products. Imports of beef, of course, add to the total supply of our domestic beef, consequently lowering the price of cattle to our producers. Unfortunately, since world beef supplies fluctuate similarly to our domestic supplies, peaks in beef available for importation have often coincided with peaks in domestic supplies of beef.

Since the U.S. cattle industry is composed of nearly 2 million cattle producers, each is such a small part of the total that no individual rancher or group of ranchers' actions can have much influence on the market. Acting as individuals a ranch will expand in reaction to profits. Total cattle numbers increase, supply exceeds demand and cattle prices plummet. Consequently, ranchers will be forced to reduce their herds or go completely out of business. Since production plans are made 2½ to three years in advance of the product coming to market, once price falls to signal over-supply there are still two to three years of over supply and low prices yet to come.

If we are to have a healthy cattle industry in this country, we must aid cattlemen by regulating supplies during periods of over production. This would also provide more consistent supplies of beef with less price fluctuation to consumers. At least in the shorter run we probably do not have a more effective alternative than regulating beef imports inversely with our cattle cycle.

The U.S. has been the largest market for frozen boneless beef since 1960. If it were not for the quota enacted in 1964, it is likely that even greater quantities would have been imported in 1975 and 1976 when U.S. cattle prices were at depression levels. It is important to note that the European Common Market, traditionally the largest beef importing area of the world, had an embargo on beef imports during 1975. Japan did also and Russia imported only modest amounts in 1975 and 1976. Therefore, the U.S. was the only available market for much of the world's surplus beef and the result was tragic losses for beef producers in this country.

Imported frozen boneless beef competes directly with cull cows from beef and dairy herds and with increasingly larger portions of the lean meat from choice and good grade carcasses that is being used for ground beef. Imported beef also competes indirectly with U.S. fed beef by increasing total supply of beef. When ground beef is in heavy supply, the market begins to substitute ground beef for more expensive cuts and stocks of higher quality beef begin to build up and the price falls.

There have been several studies published in reputed journals that have shown a significant adverse effect of beef imports on domestic cattle prices. Table 1 lists four such studies that were independently completed at Texas A&M University, Australian National University and Iowa State University cooperating, Washington State University and the University of Wyoming.

The coefficient in Table 1 show direction and amount of price change in dollars per hundredweight given a 200 million pound increase in beef imports. It estimates impact on cull cows, feeder calves, choice slaughter steers, and a general classification including all cattle. Note the relatively large impact of beef imports on cull cow prices. Remember, during times of large domestic beef production, i.e., during herd liquidation periods caused by low prices, cull cow marketings make up sizeable proportions of total slaughter cattle marketings (28.2% in 1975 and 24.4% in 1976, Table 2). Ranchers depend on sales of cull cows for sizeable proportions of their income.

The price of beef as any other commodity sold on a free market is influenced by the last unit of the commodity placed on the market. When marketings are unusually large, an extra unit becomes very critical, as in beef when large quantities place consumer demand at the inelastic portion of the demand schedule. This means for an additional unit to clear the market price must fall proportionately more than was necessary for the previous unit of beef. Consequently, in times of depressed prices when a rancher is struggling to pay out-of-pocket or variable costs of production, every dollar received is vital. Any additional beef supplies could be the final straw for some cattle producers, especially for small low income farm families.

Table 3 lists actual average prices received during 1975 and 1976 for utility cows, choice slaughter steers, and choice feeders and what prices might have been had imports been at 1964 levels when the Meat Import Law PL88–482 was passed (1,197 million pounds). Notice in the Graeber-Farris model, cow prices would have been 26.2% higher in 1975 and 30.2% in 1976 had imports been at 1964 rates. These are significant figures when one compares this to losses sustained by cattlemen during this period.

TABLE 1.—ESTIMATED EFFECTS ON INCREASED BEEF IMPORTS ON CATTLE PRICES

[In dollars per hundredweight]

Cattle classification	Study: Farris and Graeber [1]	Rausser and Freebairn [2]	Folwell and Shalpouri [2]	Ehric. and Usman [2]
All cattle			−1.41	
Cull cows	−1.91	−1.09		−1.08
Slaughter steers	−.24	−.60		
Feeder calves		−1.16		

[1] Estimated at 1 lb per capita (202 million lbs) increase in beef imports.
[2] Estimated at 200 million lb increase in beef imports.

TABLE 2.—CATTLE PLACEMENTS ON FEED, SLAUGHTER CATTLE MARKETINGS, AND ESTIMATED TOTAL LIVE WEIGHT, 1975–1976

Cattle classification	1975	1976
Catte on feed placements—23 States (1,000 head)	24,691	25,499
Liveweight estimate of feeder cattle placements (million pounds) [1]	14,074	14,448
Commercial Cattle Slaughter (1,000 head)	40,911	42,654
Liveweight estimate of commercial cattle slaughter (million pounds) [2]	40,747	43,464
Fed steers and heifers (1,000 head)	21,210	25,040
Liveweight estimate of fed steers (million pounds) [3]	15,589	17,526
Cows (1,000 head)	11,557	10,619
Liveweight of cows (million pounds) [4]	10,979	10,088

Sources: USDA "Cattle on Feed," USDA "Livestock and Meat Situation," and USDA "Livestock Slaughter."

[1] Estimated from proportion of steers and heifers on feed 1975 (70 pct. steers) and 1976 (66 pct. steers) using average weights of 600 and 500 lb for steers and heifers, respectively.
[2] Estimated using average liveweight of commercial slaughter cattle for 1975 (996 lb) and 1976 (1,019 lb) as reported in USDA Livestock Slaughter.
[3] Estimated using proportions as in footnote 1 and 1,050 lb average weight for steers.
[4] Estimated using average liveweight of cull cows at 950 lb head.

TABLE 3.—LIVE PRICES FOR COWS, FED STEERS, AND FEEDERS AND ESTIMATED PRICES USING 1964 BEEF IMPORT LEVELS, 1975–76

[In dollars per hundredweight]

Classification	Actual prices 1975	Actual prices 1976	Graeber and Farris 1975	Graeber and Farris 1976	Freebairn and Rausser 1975	Freebairn and Rausser 1976	Ehrich and Usman 1975	Ehrich and Usman 1976
Utility cows	21.09	25.51	26.62	32.95	24.28	29.72	24.25	29.68
Choice slaughter steer	44.61	39.11	45.31	40.07	46.37	41.54		
Choice feeders	33.91	39.40			37.30	44.09		

Source: USDA "Livestock and Meat Situation."

TABLE 4.—ESTIMATED TOTAL RECEIPT IMPACT FROM BEEF IMPORTS GIVEN 1964 IMPORT LEVELS, 1975–76 [1]

[In millions of dollars]

Classification	Graeber and Farris 1975	Graeber and Farris 1976	Freebairn and Rausser 1975	Freebairn and Rausser 1976	Folwell and Shapouri 1975	Folwell and Shapouri 1976	Ehrich and Usman 1975	Ehrich and Usman 1976
Utility cows	607.1	770.7	350.2	444.9			346.9	440.8
Choice slaughter steers	109.1	168.2	274.4	425.9				
Choice feeders			477.1	677.6				
All slaughter cattle					1,647.2	1,792.6		

[1] Estimated using price difference (dollars per hundredweight) from table 3 multiplied by liveweight production estimates from table 2.

Table 4 estimates additional total revenue that would have been received by stricken ranchers had beef imports been reduced to 1964 levels. The Freebairn and Rausser model published in the *American Journal of Agricultural Economics* estimates revenues lost to larger import rates relative to 1964 rates to total $1.1 billion in 1975 and $1.5 billion in 1976. Most critical to cow-calf operators is estimated income lost from lower prices of cows and feeder calves. The Washington State model of Folwell and Shapouri estimates even larger unrealized revenues from all classes of beef cattle ($1.6 billion and $1.8 billion for the respective years of 1975 and 1976).

Statistical analysis is unable to separate out effects of imports on beef price with absolute precision because there are generally several factors influencing price simultaneously. Therefore, different statistical models will provide different estimates and these estimates will change depending on time period and model used. In all studies reported herein price effect of imports was high for U.S. utility grade cows because the product had essentially the same end use. Estimates of these models relate to effects of imports on beef price at the average level of imports during the time period of the data. Therefore, when domestic production of beef is at an all time high as in 1976, imports are also at record levels, and quantities marketed are at the inelastic portion of the demand function one must conclude that the estimates of the statistical models are conservative. Consequently, the impact is greater as you move further from the mean and extend beyond the range of the data. The larger coefficients may provide closer estimates of the real effects.

As stated by Dr. Donald E. Farris in a paper prepared for the Record of Public Hearings:

"The United States has attempted to maintain low trade restrictions on meat imports for a variety of reasons. A reason often given by federal officials is that we want to encourage other countries to reduce restriction on U.S. agricultural imports into their countries and, in general, encourage freer trade throughout the world. There is little evidence that this has been effective since most countries establish import restrictions in response to pressure from domestic interest groups. Another reason offered is that it provides some insurance against exceptionally high retail prices of meat. From the standpoint of the entire economy these are laudable objectives, but from the standpoint of domestic meat producers this helps to create a heavy domestic supply situation that has generally resulted in low rates of profit compared to other agricultural enterprises and other industries in the American economy (Farris and Mallett). Furthermore, it appears that imports have not contributed to domestic price stability, but there is some evidence that suggests that they have added to instability. Imports generally have been high when supplies were abundant and prices were low in the U.S."

In summary, during times most critical to U.S. cattlemen, i.e., liquidation periods accompanied by large supplies of beef and low prices, substantial beef imports have continued to enter the country and further depress prices. The current U.S. Meat Import Law allows an escalation of meat imports in line with domestic production. This means, more imports at times when less is critically essential to U.S. cattlemen.

TABLE 5.—QUARTERLY BEEF AND VEAL IMPORTS AND QUARTERLY DOMESTIC BEEF PRODUCTION, 1975–76

[In millions of pounds]

Year and quarter	Beef and veal imports	U.S. beef production
1975:		
I	482	5,842
II	380	5,593
III	492	5,942
IV	428	6,296
Year	1,782	23,673
1976:		
I	492	6,492
II	559	6,145
III	535	6,618
IV	419	6,412
Year	2,005	25,667

Source: USDA "Livestock and Meat Situation."

COSTS AND RETURNS FOR COW-CALF PRODUCERS IN TEXAS

(By Kenneth W. Stokes, Research Assistant, and C. Richard Shumway, Associate Professor, Department of Agricultural Economics, Texas A. & M. University)

It is common knowledge that the cow-calf producer has been suffering from from low price relative to production costs for a number of years. The current situation has been documented in cost and return budgets for cow-calf operations developed by Farm Management Economists with the Texas Agricultural Extension Service.

Using both published and unpublished research in combination with their own observations, area farm management economists have developed budgets for cow-calf operations in all parts of Texas, ranging from the humid areas of East Texas to semi-arid areas of West Texas. In East Texas, budgets are based on the cow-calf operation being a supplementary enterprise of 20 to 50 cows to farming operations, utilizing woodlands, idle croplands, and cropland which has been converted into improved pastures. In the western portion of the state, budgets reflect herds of 200–600 cows being grazed primarily on native range pasture, improved in some cases by seeding and brush clearing. Within each area, it is recognized that a wide range of ownership patterns, resource situations and management systems do exist.

Table 1 summarizes budgets for four of the major cow-calf areas to reflect major cost items as they vary across production systems. Feed cost is a mixture of purchased feeds, supplemental forage costs, protein supplements, and pasture improvement costs. Across the state, forage quality drops considerably during the winter months requiring protein supplements and/or hay in order to maintain body weight. Feeding of hay varies with stocking rate and pasture condition going into the winter months. During extended dry periods, hay may be fed from early fall into late spring. Long feeding periods require cost of production to increase dramatically. Some budgets include range improvement as a feed cost.

Labor requirements per cow show slight variations by area and by herd size. Highest labor requirements occur during winter feeding months and at calving time.

Interest on operating capital, equipment, and livestock investments in a major cost item. Livestock producers invest considerable amounts in breeding herds either in the form of purchased herds or through genetic improvement over time. Investment in the breeding herd constitutes the major portion of this item.

Each of the four budgets estimates a return to land this year which is insufficient to meet normal rental charges. Three provide a negative return to land. Thus, using standard farm management budgeting techniques, total estimated cost of cow-calf operations exceeds expected returns. This situation prevails across nearly all of the 21 area estimates.

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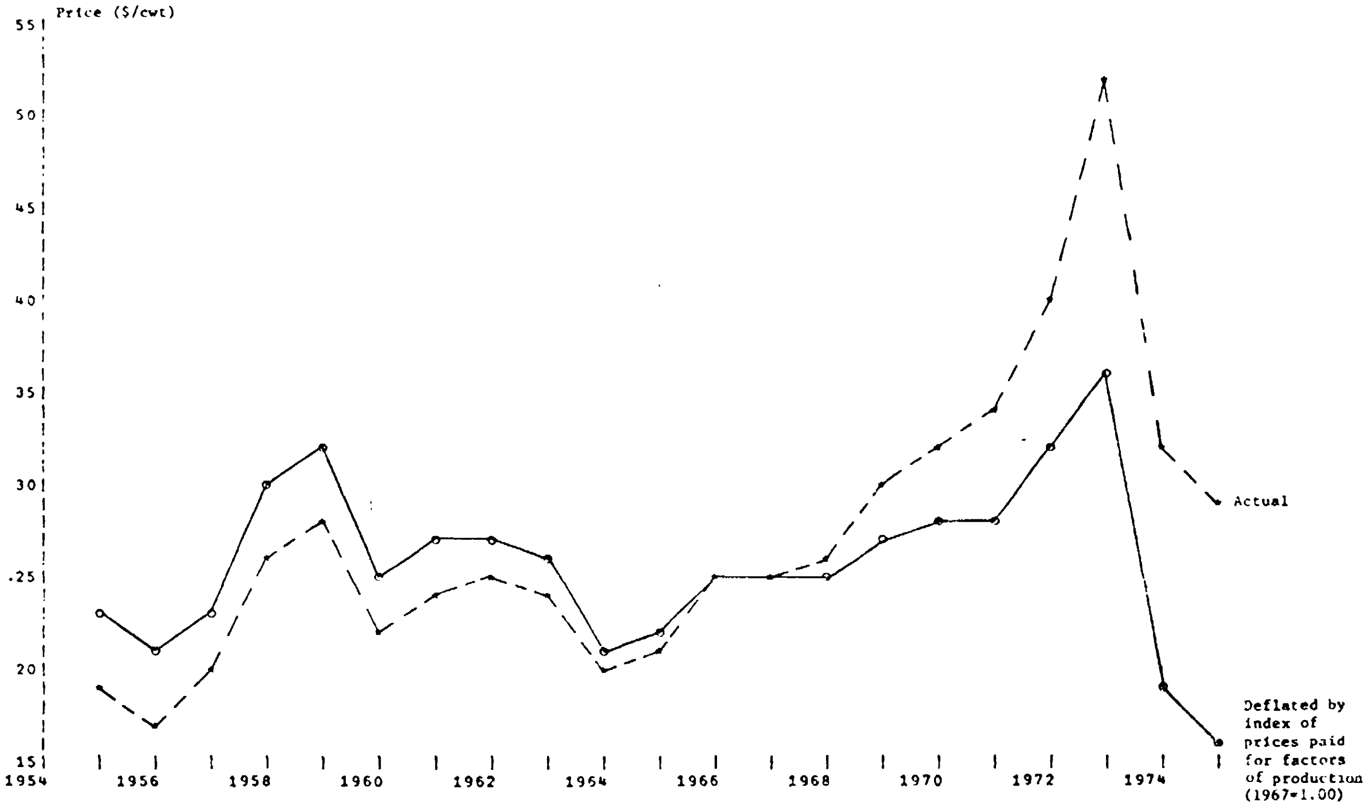

Figure 1. Annual Prices, 500-700 Pound Steers, San Antonio Market

TABLE 1.—ESTIMATED COSTS AND RETURNS OF COW-CALF PRODUCTION, PER COW BASIS, FOUR AREAS OF TEXAS 1976–77

Location	Northeast Texas	South Texas	High plains I	Rolling plains II
Production levels:				
Cow number	30	192	512	302
Percent calf crop	86	76	86	86
Cow replacement rate	14	15	12	12
Cow death loss	2	3	1	1
Land area (acres)	60	960	7,680	5,440
Gross returns	[2] $190.12	$120.24	$151.01	$158.58
Expenses:				
Hay and pasture improvements	$99.64	$25.25	$36.00	$27.52
Supplements	4.50	4.50	16.20	9.30
Labor	25.72	24.38	22.57	20.95
Interest	30.45	29.66	38.84	35.29
Machinery	15.63	20.71	10.35	8.77
Other [3]	65.06	25.92	29.62	26.62
Subtotal [4]	241.00	130.42	153.58	128.45
Returns to land	−50.88	−10.18	−2.57	30.13
Estimated land rent	15.00	62.50	60.00	45.00
Net returns	−65.88	....	−62.57	−14.8

[1] Full details of individual items available on request.
[2] Includes some hay sales.
[3] Includes depreciation, veterinary medicine and miscellaneous expenses.
[4] Assumes 1976–77 prices for all expense items.

HISTORICAL EVIDENCE

Before considering implications of these low returns, we will examine changes in production costs and returns over time.

Feeder calf prices have varied substantially over the past two decades (see Figure 1). An upward trend is apparent in the San Antonio Market prices with the peak occurring in 1973. When deflated by the index of prices paid for factors of production, little trend is apparent. The peak still occurred in 1973, but the lowest price was in 1975.

A 1956 study of Southwestern cattle ranches conducted by New Mexico State University included the Trans-Pecos area of Texas and reported negative returns in 9 out of the 15 years between 1940 and 1954. Positive returns occurred only in 1941, 1942, and 1948–51. Studies conducted in Mississippi and Montana for a comparable time period resulted in similar conclusions. In the mid-sixties, Texas A&M researchers examined economic and operational characteristics of several ranching areas in Texas. These studies found that when inputs were priced at current levels, the ranchers in the sample had low estimated returns on investment. In 1967, the most profitable Rio Grande and Trans-Pecos ranchers had a 3.8 percent rate of return while less profitable ranchers averaged only 0.3 percent. Estimates covering the period of 1960 to 1975 indicated cow-calf producers earned positive returns in only four years, 1971 to 1974.

Time series data from the USDA's "Farm Costs and Returns" bulletin indicate southwestern cattle ranches have one of the lowest returns on investment rates (1.8 to 3.0 percent) of all agricultural enterprises. Further, returns to farming in general were substantially below the average for the rest of the U.S. economy from the mid-1950's through 1960's.

Yet, in the face of considerable price uncertainty and apparently low rates of return, Texas cow numbers have increased 89 percent over the last 35 years. We can explain short-term continuation of production from our estimated budgets, since variable costs can still be recovered in most cases. The current liquidation of cow herds is most likely being carried out by marginal producers who are facing returns less than variable cost and by producers looking for higher returns to their capital, labor, and management. In the eastern part of the state, variable costs and crop alternatives appear to induce efficient producers to reduce cow herds and short-term losses. Most areas will continue to produce during short periods of low prices and high costs.

Why have they expanded at all with such low long-term returns? Partial explanations include tax incentives and real estate appreciation. Ordinary income losses offset by capital gain income of equal magnitude result in a positive after-tax income. Losses in the cow-calf industry have been offset by large capital gain income largely due to appreciation in real estate values. Tax laws governing depreciation and investment credit on purchased stock inputs are also important. Agricultural land prices in Texas have risen at an average rate of more than 10 percent during the decade, 1966–1975. This amounts to a current estimated land appreciation per cow ranging from $80 to $362 for our four Extension Service areas. Consequently, land appreciation may offset the previously estimated negative returns and provide an estimated profit of $14 to $348 per cow in the four areas (mostly taxed as capital gains income). The landowner who owned no cows would have done better in this year of very low calf prices.

Senator HANSEN. Thank you very much, Mr. Chairman.

Senator BENTSEN. Thank you for your very excellent testimony. It will be very helpful to us.

[The prepared statement of Mr. Cunningham follows:]

STATEMENT OF T. A. CUNNINGHAM, PRESIDENT OF THE INDEPENDENT CATTLEMEN'S ASSOCIATION OF TEXAS

SUMMARY OF T. A. CUNNINGHAM'S STATEMENT

The 1964 Meat Import Act has caused serious damage to American livestock producers and consumers. The law creates instability in the market place which promotes extended depression periods in the livestock industry and allows consumers to fall victim to windfall profits on the wholesale and retail level.

It has been estimated that the Act has cost livestock producers about $1.6 billion in 1975. The 1976 figures are substantially higher at $1.8 billion. Cow prices in 1975 would have been 26.2 per cent higher and 30.2 per cent higher in 1976. Although the figures aren't available yet, 1977 will probably be the worse year ever.

Consumers have suffered greatly as a result of the Meat Import Act. It is hard to estimate the actual dollars and cents that have been lost or the nutritional impact suffered by those who could not afford beef at inflated prices.

Changing the Meat Import Act by making it more responsive to supply and demand will actually benefit foreign producers. A change would help stimulate the foreign nations' own cattle prices. The world beef market is set by the U.S. market. Allowing more beef imports when our market needs them rather than letting them in during our liquidation periods would increase meat prices in the foreign countries.

Several methods have been proposed to stabilize our markets. Any method adopted must be counter-cyclical. This means less imports when domestic supplies are adequate and more imports when they are needed. It is important that the method adopted be responsive to the actual supply and demand of our domestic product. This can be achieved by tying import quotas to prices received by the producer in relation to prices paid for production costs. Legislation which accomplishes this has been introduced by Sen. Henry Bellmon of Oklahoma.

Mr. Chairman, members of the Committee, I appreciate this opportunity to present this statement concerning the inadequacies of Public Law 88–482 on behalf of the Independent Cattlemen's Association of Texas.

Public Law 88–482, better known as the Meat Import Act of 1964, has caused serious damage to the livestock industry and the consumers of this nation. The law creates instability in the market place which, in essence, promotes extended depression periods in the livestock industry and allows the consumer to fall prey to windfall profits on the wholesale and retail level.

Damages to the Livestock Producers and Why

It has been estimated that the 1964 Meat Import Act has cost the American livestock producer about $1.6 billion dollars in 1975. The 1976 figures are substantially higher at $1.8 billion dollars. Cow prices in 1975 would have been 26.2 per cent higher and 30.2 per cent higher in 1976. Although the figures aren't available yet, 1977 will probably be the worst year ever.

The 1964 Meat Import Act is ineffective in these areas:

1. The current law allows an escalation of meat imports in line with domestic production. This means more imports at times when less is critically essential to U.S. cattlemen.

2. The quotas set do not include all processed meats and live cattle. The present law includes only boned beef allowing any processed beef such as diced, cubed or whole cuts to bypass the quotas. More than one million head of live cattle came into the United States last year, and 970,000 in 1976, that were not included in the present quotas.

3. The 1964 law did not account for upswings in population or the dramatic rise in per capita consumption.

Damages to the American Consumer and Why

The consumers of this nation have suffered greatly by the affects of the 1964 Meat Import Act. It is hard to estimate the actual dollars and cents that have been lost or the nutritional impact suffered by those who at times could not afford beef at inflated prices.

The consumer has been damaged by the following:

1. The 1964 Meat Import Act causes wide fluctuations which promote a great "rip off" of the American consumer. In 1973, cattle prices reached an all time high due primarily to the unresponsiveness of the 1964 law. In the following year, cattle prices reached an all-time low, but the retail prices remained about the same. Packers and retailers across the nation received windfall profits at the expense of the American consumer. This will happen time and time again until the markets of the American livestock producer become more stable avoiding a boom-bust syndrome.

2. Imported beef is inedible unless co-mingled with fat trimmings. This promotes the consumption of more fat beef rather than lean beef.

3. Imported meat products are not labelled as such. The American consumer has the right to know what he or she is purchasing.

4. Imported meats do not meet the same rigid inspection standards that domestically produced meats do. At the present time, more than 1,100 packing plants in foreign countries are shipping beef to the United States. The U.S. Department of Agriculture has only 20 inspectors to inspect these packing houses which are found in 46 countries. Of those 20 inspectors, only 12 are actually on duty at a time. This allows the plants to be inspected only one to four times a year. What is even more astounding is that these inspections are announced ahead of time, giving slaughter plants ample notice that an inspection is coming. In comparison, the United States requires that all domestic plants have an inspector on hand at all times. Also, imported meat products are not tested for chemical residues or pesticides that might be present in the meat.

Changing the 1964 Meat Import Act Will Not Interfere With Foreign Trade

Changing the meat import act by making it more responsive to supply and demand will actually benefit foreign producers. Foreign producers will benefit for the following reasons:

1. A change would help stimulate the foreign nations' own cattle prices. The world beef market is set by the U.S. market. Allowing more beef imports when our market needs them rather than letting them in during our liquidation periods would increase meat prices in the foreign countries.

2. There would be relatively little change in dollar transfer. The foreign countries would be sending less beef at times, but for substantially better prices.

An Alternative Solution

Several methods have been proposed to better stabilize our markets through responsive meat import allocations. Any method adopted must be countercyclical in nature. That means less imports when domestic supplies are adequate and more imports when they are needed. It is important that the method adopted be responsive to the actual supply and demand of our domestic product. This can best be achieved by tying the import quotas to prices received by the producer in relationship to prices paid for production costs. Legislation which would require this method has been introduced by Oklahoma Sen. Henry Bellmon. The legislation requires quotas to include all processed meats and live cattle as well as boned beef.

His method provides a formula which determines import quotas as a percentage of domestic production. The index referred to as the production cost price index, triggers import levels. The floor is set at 80 per cent on the index allowing two per cent of domestic production in imports. As market prices rise increasing the index above 80 per cent, imports are allowed to increase. At 100 per cent on the index, imports are allowed 10 per cent of domestic production. Whenever the index falls below 30 per cent, imports are held at 2 per cent of domestic production and a duty is attached to those imports.

The floor is set at 80 per cent of the production cost price index because the cattle industry over the past two cow cycles has averaged 83 per cent of parity. The two per cent of domestic production allowed as imports would provide returns to producers with the 80–90 per cent range on the index. Although that two per cent is presently below the 1964 original quota level, it would function as a floor to stabilize equitable returns in the marketplace.

Import quotas would be determined quarterly. Domestic production would be based on a 12-month sliding scale, while the price index would be determined from a six-month average. Quotas for April through June would be determined on January 1, thereby giving exporters a six-month time frame to operate in. Their market knowledge of allowable imports would include the three months of current quotas as well as the consecutive quarters allotment.

Under this proposal's operations, consumers have protection from extremely high meat prices. Imports would serve to adjust supply and curtail excessive economic profits in the industry. The fundamental concept of pure competition would come into play. As profits are realized more firms (imports) enter the market bringing the market prices back to a reasonable profit level below 100 per cent of parity.

Quotas would be allocated based on each country's present market share as a percentage of the total quarterly quota.

USDA would be responsible for maintaining the necessary data (all of which is presently compiled and published). They would then compute import quotas every three months. The state department would then have the responsibility of informing exporting countries of those quota levels. It is very possible that after a short period of market adjustments, annual import levels could be the same as at present and in some years of cattle cycle even greater than allowed in by the 1964 Meat Import Law.

After four years of operating under the 1964 law, many small operators have been phased out of the industry. Also, as cattle prices improve, we face the danger of overinflated prices at the retail level, promoting another consumer rip-off.

In order to assure complete consumer protection, it is important that imported meats be required to meet the same rigid inspection standards that our domestic inspection systems call for. Many countries are experiencing problems that no contaminated meats reach the consumers' tables. It is also important that the imported products be properly labelled so that the consumer will know where the products are grown.

Gentlemen, I hope these facts will direct you toward a solution for the problems we in agriculture are coping with. If I can be of any further assistance to you, please let me know.

Senator Bentsen. Our next witness is Mr. Charles Ball, the executive vice president of the Texas Cattle Feeders Association. He is accompanied by Mr. Bliss, first vice president.

Mr. Ball. Mr. Chairman, Mr. Bliss will deliver our statement.

Senator Bentsen. Gentlemen, I will look forward to reading your testimony. I am committed to preside over the Senate at 2 o'clock, and so I will be going over there now and I am going to turn this responsibility over to one of our premiere experts on the cattle situation, Senator Hansen.

Those boots he wears, I assure you he wears them legitimately and he is not just a windshield rancher.

Senator HANSEN. Thank you, Mr. Chairman.

You may proceed, gentlemen.

STATEMENT OF ROBERT L. BLISS, FIRST VICE PRESIDENT, TEXAS CATTLE FEEDERS ASSOCIATION

Mr. BLISS. Thank you

My name is Robert Bliss. I am the first vice president of the Texas Cattle Feeders Association.

The Texas Cattle Feeders Association, headquartered in Amarillo, represents about 90 percent of the cattle fed in Texas, New Mexico, and Oklahoma. Presently, our 140 feed-yard members have a combined one-time capacity of 2.8 million head. Last year, Texas fed 4.2 million cattle, which was about 17 percent of the U.S. total and slaughtered over 6 million cattle, which represents 15 percent of the U.S. total.

On January 1 of this year, there were, in Texas, 14.5 million cattle and calves representing 12 percent of the total cattle in the United States. So Texas is a significant producer of beef and Texans are extremely interested in our beef import and export policies.

In consideration of the amount of time allotted and because some of the things we would have to say would be repetitious, I propose to delete parts of the testimony as it was written and move to some positive recommendations.

Senator HANSEN. I appreciate that, Mr. Bliss. Your entire statement will appear in the record as though you had read all of it, and you may proceed in whatever fashion best suits your purposes.

Mr. BLISS. Fine, thank you.

Let's talk about some recommendations. The ultimate goal of any changes in U.S. meat import policy should be those that would add stability to U.S. beef supplies and to prices for the mutual benefit of producers and consumers.

Short-term solutions such as variable tariffs and non-tariff trade barriers are not desirable solutions. They may even create additional problems since it would be extremely difficult for U.S. producers to project future demand needs when operating under an on-again off-again import restriction.

As far as the import act itself is concerned, we believe that the Meat Import Act of 1964 has provided some protection to U.S. cattlemen and to U.S. consumers, but we would like to strengthen the act with these changes.

First of all, quotas to be set in inverse relationship to domestic production. This would permit more imported beef during periods of lower domestic production and less imports during times of large domestic production, resulting in more stable supplies and prices.

Second, all superficially processed meat, fresh, frozen, or chilled be counted under the act, as intended when the act was passed.

Third, all cooked, canned, and cured beef be counted under the act. This would have placed 13 percent more of the imported beef under the act in 1976 alone.

Fourth, labeling of imported beef as to the country of origin should also be considered, since nearly all other imported goods are so labeled.

Although imports of live cattle may not appear significant to overall production, they can be significant to cattle close to the Mexican and the Canadian borders. Therefore, we recommend the voluntary restraint agreements with Mexico and Canada for all live cattle.

Let's talk about exports for a minute. It may not be advantageous to completely embargo all beef and live cattle imports because of the possibility of jeopardizing U.S. exports. In recent years, the value of the exports of cattle, of beef, and of byproduct to the United States has exceeded imported value.

A real potential exists for increasing exports of U.S. beef and we urge this committee to use its influence to help develop that potential.

It could not only help the beef industry but it would benefit the grain farmer, it would enhance our balance of payments and help the U.S. economy in general.

In conclusion, we believe that the consumers and the producers would benefit if the Meat Import Act of 1964 were strengthened, thereby providing stability to U.S. beef supplies and prices.

Thank you.

Senator HANSEN. Mr. Bliss, I appreciate your statement. I agree completely with the four points you make that address the need to strengthen the act. I think they are very positive and would be beneficial. I hope they can be incorporated into the law when we change this act, if and when we do get it changed.

Mr. Ball, did you have a statement?

Mr. BALL. No, sir.

Senator HANSEN. I have no questions. Thank you very much.

[The prepared statement of Mr. Bliss follows:]

STATEMENT BY R. L. BLISS, FIRST VICE PRESIDENT, TEXAS CATTLE FEEDERS ASSOCIATION

The Texas Cattle Feeders Association, headquartered in Amarillo, Texas, represents about 90% of the cattle fed in Texas, New Mexico and Oklahoma. Presently, TCFA's 140 feedyard members have a combined one-time capacity of 2.8 million head.

Last year, Texas fed 4.2 million head (17% of the U.S. total) and slaughtered 6.1 million head (15% of the U.S. total). On January 1, 1978, there were 14.5 million cattle and calves in Texas—12% of the U.S. total.

So Texas is a significant producer of beef and Texans are extremely interested in U.S. beef import and export policies.

STATE OF THE INDUSTRY

Cattle feeding losses.—From January 1974 through December 1978, Texas cattle feeders have marketed 15,140,000 fed cattle at an estimated total loss of $519,496,490. That's an average loss, over a 48-month period, of $34.31 per head. Since October of last year, the market seems to have turned around; that is, fed cattle are showing a modest profit. But it will take some time to make up for four years of losses; and some cattlemen never will make up, because they are out of business.

Production adjustments.—Almost all experts agree that the main reason for the severe economic losses by U.S. cattle producers during the past four years has been over-supply. Total U.S. cattle numbers have decreased from 131.8 million on January 1, 1974 to 116.3 million on January 1, 1978—a 12% reduction.

Imports.—In 1974-75, while U.S. cattlemen were shifting production patterns, liquidating herds and reducing total inventory numbers, imports also dropped. But in 1976—at the peak of our liquidation, which resulted in record slaughter and the largest over-supply of beef in history—beef imports increased 13% (over 1975) and live cattle imports increased 153%.

Why did imports increase? Because of a fallacy in the Meat Import Act of 1964, which permits imports to increase as domestic production increases.

Meat inspection.—Another reason for losses by U.S. cattlemen has been high production costs. One area of increased production costs—government regulations—can be related to imports.

It is generally accepted that sanitation in U.S. slaughter plants, meat inspection and drug residue monitoring are more stringent for domestically-produced beef than for imported beef. We have no quarrels with stringent inspections, because cattlemen want to produce a safe product. But we believe that domestic producers and foreign producers should "play the game by the same rules."

RECOMMENDATIONS

Goal of recommendations.—The ultimate goal of any changes in U.S. meat import policy should be to add stability to U.S. beef supplies and prices—for the mutual benefit of producers and consumers. Short-term solutions, such as variable tariffs and non-tariff trade barriers, are not desirable solutions. They may even create additional problems since it would be extremely difficult for U.S. producers to project future demand needs when operating under on-again and off-again import restrictions.

Import Act.—We believe that the Meat Import Act of 1964 has provided some protection to U.S. cattlemen and to consumers. But we would like to strengthen the Act with these changes.

1. Quotas be set in inverse relation to domestic production. This would permit more imported beef during periods of lower domestic production and less imports during times of large domestic production, resulting in more stable beef supplies and prices.
2. All superficially-processed meat—fresh, frozen or chilled—be counted under the Act, as intended when the Act was passed.
3. All cooked, canned and cured beef be counted under the Act. This would have placed 13% more of the imported beef under the Act in 1976.
4. Labeling of imported beef as to country of origin should also be considered since nearly all other imported goods are labeled.

Live cattle.—Although imports of live cattle may not appear significant to overall production, they can be significant to cattlemen close to the Mexican and Canadian borders. Therefore, we recommend voluntary restraint agreements with Mexico and Canada for all live cattle.

Exports.—It may not be advantageous to completely embargo all beef and live cattle imports because of the possibility of jeopardizing U.S. exports. In recent years, the value of exports of cattle, beef and by-products from the U.S. has exceeded imports. A real potential exists for increasing exports of U.S. beef and we urge this Committee to use its influence to help develop that potential. It could not only help the beef industry, but help grain farmers, help our balance of payments, and help the U.S. economy in general.

In conclusion, we believe that consumers and producers would benefit if the Meat Import Act of 1964 was strengthened. This would provide stability to U.S. beef supplies and prices.

Thank you.

Senator HANSEN. Our next witness will be Mr. John E. Ward, vice chairman, Meat Importers Council, accompanied by Mr. Rufus E. Jarman, Jr., who is counsel to the Meat Importers Council.

Mr. JARMAN. Senator, I am Rufus Jarman of Barnes, Richardson, and Colburn. I regret that John Ward, although we thought that he would be able to be here when we filed our appearance, could not be here.

With your permission, I would like to move the written statement, which I believe you have, into the record, and——

Senator HANSEN. Just a moment. I do not happen to have your statement here. Oh, yes. Yes, I have it.

It will be included in the record as though read. If you would like to summarize it, that would be fine.

Mr. JARMAN. I would like to summarize it at this point, Senator.

Senator HANSEN. Yes, sir. Please proceed.

STATEMENT OF RUFUS E. JARMAN, JR., ESQ., COUNSEL FOR MEAT IMPORTERS COUNCIL OF AMERICA, INC.

Mr. JARMAN. The statement is filed on behalf of the Meat Importers Council of America, Inc., which is a trade association made up of U.S. corporations. They import most of the meat which is covered by the quota law.

Imported beef of the type covered by Public Law 88–482 is strictly of a lean, grass-fed, processing or manufacturing variety. This meat is always at least 85 percent chemically lean. It is not suitable for consumption by the retail consumer in the imported form.

Instead, it is a raw material and it has to be substantially transformed by manufacturing processes in combination with other materials in order to produce consumer products.

Typical of such operations would be the production of hamburger by grinding together lean manufacturing grade beef with fatty trimmings from domestic origin. I regret that there is one typographical error in this statement, Senator. It comes at the end of the second paragraph, where the intention was to make it clear that lean manufacturing beef might come either from imported or domestic sources.

Senator HANSEN. I am not sure if I know where the typo is. Would you call my attention again——

Mr. JARMAN. It is in that first full paragraph in section I, second to last line from the bottom, where it says, "either domestic."

Senator HANSEN. And how should it read?

Mr. JARMAN. It should read "either domestic or imported."

Senator HANSEN. "Or imported."

Mr. JARMAN. Yes, sir.

Senator HANSEN. All right.

Mr. JARMAN. I do not think we have any more of those.

The high-fat meats with which lean beef is mixed are fat trimmings which come from U.S.-fed cattle. These are roughly 50 percent fat and they are the portions, and they are quite significant, which are left over after the table cuts such as steaks and roasts and so forth are removed.

Because of their low cost relative to steaks and roasts and other table cuts, manufactured or processed products such as hamburger are of the greatest importance to the low income consumer. However, all of our consumers have shown a dramatic increase in demand for products such as ground beef over the last few decades.

This morning, someone mentioned, I believe, from the administration, an estimate of 35 percent. Well, from what we hear, it is more generally agreed these days that it is up to 40 percent of the beef that is consumed in this country today is in ground or similar form, and the popularity continues to grow. It is predicted that it could continue to go upward.

Because of the emphasis of the domestic cattle——

Senator HANSEN. If I could interrupt you right in that particular point in your testimony, let me ask, Mr. Jarman, would you say that this imported lean meat does not compete with American-produced meat?

Mr. JARMAN. No, I would not, Senator. It competes with——

Senator HANSEN. That was the testimony, I think, of some of the State Department witnesses this morning. Essentially they said it was practically noncompetitive.

But you know that it is 40 percent and it could go up to 50 percent?

Mr. JARMAN. Well, the percentage of beef consumed in this country which is consumed in ground form, or similar form, is, we generally agree these days, or estimate it, to be somewhere around 40 percent. You hear different figures, but the ones we hear are about 40 percent and it could go up.

Senator HANSEN. And you go on to say that it could reach 50 percent in the next decade?

Mr. JARMAN. We have heard this estimated from a number of sources.

Senator HANSEN. Do you agree with those estimates?

Mr. JARMAN. It certainly appears that there is a continuing growing consumer demand for more and more manufactured meat products such as hamburger and all of these Burger Kings and MacDonalds continue to pop up everywhere, hundreds and hundreds a year.

We have no reason to disagree and our agricultural economists seem to confirm that.

Senator HANSEN. Thank you, sir.

Mr. JARMAN. It is not our position that there is no competition between imported, manufacturing meat and domestic meat. We do distinguish, however, between the two basic types of U.S. beef.

On the one hand, we have fed meat, which is produced for table cuts, such as steaks and roasts. On the other hand, we have lean, manufacturing beef, which comes basically from cull cows, bulls, canner and cutter grade animals.

The basic point which we wish to make concerning U.S. production of these meats is that there is no U.S. industry in the business of producing lean beef as such. We have always maintained that lean beef is essentially a byproduct. It is produced, but it is produced as a byproduct from producers of fat beef, as well as dairy producers.

Now, as a result of a petition for import relief under section 201 of the Trade Act of 1974 and then as a result of requests by members of both Houses of Congress, the U.S. International Trade Commission conducted sweeping, extensive concurrent hearings during the summer and the fall of 1977.

The 201 investigation was specifically to determine whether imported beef and cattle was causing injury, or threatening injury, to the U.S. industry in any substantial sense. A second investigation under section 201 was a general investigation into conditions of competition between imported and domestic product.

After this inquiry, the Commission, correctly, I think, determined that imported beef was not a substantial cause of the problems which were conceededly being faced by the domestic industry. Furthermore, in the section 332 report, the Commission refrained from making any recommendations for legislative change, even though it have been encouraged by the letters from members of Congress to recommend such change if they found that that would be in the national interest.

Senator HANSEN. May I interrupt again right there, Mr. Jarman, to ask you—you have heard—I think you were here when Mr. Bliss testified, were you not?

Mr. JARMAN. Yes, sir.

Senator HANSEN. He testified that—I think I should be referring to Mr. Cunningham's testimony.

He testified that this act, now he is not speaking of the imported beef, but he is speaking overall of the act. This cost producers about $1.6 billion in 1975, $1.8 billion in 1976, and he observes that cow prices in 1975 would have been 26.2 percent higher and 30.2 percent higher in 1976, absent-the act, I guess, is what he is saying.

Governor Judge testified this morning that a study at the University of Montana, or the State University of Montana, I have forgotten which, indicated a substantial loss—I do not happen to see his figures right before me.

Would you agree or disagree with the statement of those two witnesses?

Mr. JARMAN. I cannot express any opinion as to the particular numbers, Senator. Certainly, I would agree that had there not been any imports, cow prices—and I specifically mean cull cow prices would have been somewhat higher. However, this is really looking at only one side of the overall picture.

As I mentioned before, cull cows are essentially a byproduct. Most producers, for reasons that—the likelihood is that had there been no imports, the total return to U.S. beef producers might have been significantly lowered as a result of their inability to upgrade the fatty trimmings which would go with the imported lean beef and receive the price of ground beef for those trimmings rather than selling them to make soap or candles.

Senator HANSEN. Well. I would agree with you that, generally speaking, the marketing of lean, unfattened cattle is a necessary part of the overall operation of the livestock industry to take advantage, and good advantage, as we all agree, of everything that is introduced. It may be that you would agree that it is a byproduct.

I guess, by the same token, hides are a byproduct and tongue and a lot of other-things which we export significant amounts of are also byproducts.

But you would not disagree that they are a very important part of the overall operation and the price of all of these things taken together can determine whether an operation is financially profitable or not. Would you not agree with that?

Mr. JARMAN. Yes, sir. I agree with the proposition that the price the cattleman receives for not only his choice or high-grade cattle, for the beef from those cattle, but also from his culls and also from the hides and also for the tallow and everything else that he gets money for, all go together to determine whether he is conducting a profitable operation or not.

Senator HANSEN. Well, then, we should not overly minimize the significance of cull cattle prices to a western livestock operator, should we?

Mr. JARMAN. No, sir.

Senator HANSEN. Thank you.

Mr. JARMAN. Now, the determinations and recommendations of the International Trade Commission which I alluded to before came out respectively in November and September in 1977. I was interested that nobody previously in these hearings has mentioned them at all, I do not believe.

I would like to identify these reports. They are USITC Publication 834 and USITC Publication 842, which we believe both of these are hundreds of pages long and contain much data and we think they are very relevant to these hearings and we bring them to the committee's attention.

Now, since that time, when these recommendations found no substantial injury as a result of imports, and did not recommend legislative changes, there have been substantial changes in prices, and I have noted, just as exemplars, a couple of examples here.

Domestic boneless beef from December 1, 1977, to February 13, 1978, up from 74 cents a pound to 90 cents a pound. Comparable imported product up from 68 cents a pound to 89 cents a pound.

We think that it is against this general background that proposals to change the law should be viewed.

Senator HANSEN. If I could just interrupt there again, you are referring to page 4 of your statement now?

Mr. JARMAN. That is where we set out the prices.

Senator HANSEN. Yes. If I read the statement correctly in the second complete paragraph on that page, about the fourth line, I find this language: "After this exhaustive inquiry, the Commission correctly determined that imported beef was not a substantial cause of the problems concededly faced by the domestic industry." The word "correctly" there, whose opinion is that?

Mr. JARMAN. That is the opinion of the Meat Importers Council of America, Inc.

Senator HANSEN. Thank you, sir.

Mr. JARMAN. We have listed certain of the principal types of proposals which are before Congress which would amend the law and I would like to briefly discuss each of those which are listed. Most of these have been mentioned this morning.

Proposals which are somehow tied to levels of parity. I might make the category a bit broader—proposals which are proposed for the stated purpose of helping the domestic cattle industry.

Again, I allude to the International Trade Commission findings. The proposition that since imports are not substantially injuring—were not then, when things were much worse, were not then substantially injuring the domestic industry, it is very unlikely, we believe, that in cutting back imports, any substantial benefit could be given to the domestic industry.

I would like to note that, historically, domestic prices very seldom come close to parity, and that is in good years and bad years.

I would like to move on to the loophole proposals.

Senator Hansen. If I could, and I apologize for interrupting you so many times, but these thoughts occur to me when you testify, your use of the word "substantially" there, they would not substantially help—and I agree with you that we are not about to get the parity, by any means.

I am reminded of an old cattleman who took his cattle to market. The fellow says, how did you do? He says, well, I did not get what I expected, but I did not expect to anyway.

I guess the word "substantial" may be 1 inch of water is not very substantial, but if your nose is a half an inch under water or a half an inch out of the water, it makes a substantial difference in how well you are going to get along.

Would not the same thing apply here, if the price of cows and cull animals that are not fattened could be improved somewhat, would you not agree that it might make a substantial difference in the ability of a rancher to stay in business?

Mr. Jarman. Senator, I could not agree with that over the broad spectrum. I suppose it is conceivable that you might find a case here or there.

Senator Hansen. Well, I was talking with a group of Wyoming bankers a little over a year ago and they told me that they were not aware of a time during which the livestock industry was in a more depressed situation. Just about a year ago, actually, than was the case then. And they said that these were, I think, some 40 bankers from all parts of Wyoming and they said that the livestock industry was in the worst state that they had seen it in going back to their records, since about in the 1930's.

I submit that the range cattle part of the business is in a very critical position. Would that be an opinion shared by you, or would you not believe that is the case?

Mr. Jarman. Well, Senator, I attended all the ITC hearings this summer and they had five sessions in five different cities. I heard many hundreds of witnesses, most of whom were domestic producers, and I certainly would not disagree with what you said.

The testimony that was put forward was extremely compelling. We do not doubt that there are serious problems faced by the livestock industry in this country—or at least there have been, or still exist. Hopefully, they are getting better.

Senator Hansen. I would hope so, too.

Mr. Jarman. The signs are that things are turning around.

We do not, for a minute, believe that U.S. producers do not have terrible problems. Does that answer your question?

Senator HANSEN. Yes, it does, and I apologize for interrupting you.

Mr. JARMAN. Many proposals would add other articles to the existing quota. Some of these have been mentioned as loopholes this morning, I believe.

For example, adding live cattle to the present quota. Well, the absence of live cattle from the present quota is not, we do not think, a loophole. They are totally different kinds of businesses.

People who import frozen, boneless beef from countries such as Australia and New Zealand are involved in international trade. They are involved in vessels, and financing, and things of that sort. The people that import cattle usually are connected in some way with the cattle industry in this country. They are feeders, or processors, or sometimes cattlemen themselves.

We agree completely with, I think it was Mr. McDougal and some others who have testified before. If there is any reason to put a quota on cattle, put it on cattle, but do not put it under the same quota for imported frozen, boneless beef.

The same thing is true of these other products, prepared and preserved products, which are not under the quota. Nobody mentioned that many of these products—indeed, I think the biggest single volume, prepared or preserved beef item, is canned corned beef. I am sure you have seen it in supermarkets—labeled, by-the-way, for example, "Product of Paraguay" because it comes in in the form where it goes to the final consumer, rather than——

Senator HANSEN. I have not only seen it; I have eaten it .

Mr. JARMAN. I like it.

In any event, this is a product that is not even commercially made in this country. Do not ask me why; I do not know why. I dare say many others in the room today do not know why either.

So, before taking it and putting it under an existing quota for boneless, fresh, chilled, frozen manufacturing beef, we submit that there should be careful study, about that product as such, or any other product that Congress might think of putting it under a quota.

If you do put it under a quota, put it under its own quota for the facts that relate to that product, rather than throwing a disparate product under the existing product which is covered.

Many of the proposals would change annual quotas into shorter term quotas, such as quarterly or 6-month quotas. Our principal objection to this is that it would make it even less possible for the imported product to respond to market demand and supplement the existing supply when this is necessary.

We have terrible problems now as the end of each quota year comes around in the years where imports do reach, or are near, the quota level. These are commercial problems, legal problems, sometimes price problems. In other words, erratic price fluctuations in the market due to the sudden change in these supplies which are available.

If this happened four times a year, the problems would be quadrupled, and it would, we believe, make it much more difficult for the

Secretary of Agriculture to carry out his duties under the act and I suspect it would make it harder for the Special Trade Representative, State Department and others, to negotiate voluntary restraining agreements if, in fact, there had to be four a year instead of one.

Proposals which would restrict imports by port of entry—that was noted this morning. I will just note that meat importers conduct national business to a much greater degree than live cattle. Imports go throughout the United States regardless of the ports where they enter.

We have suggested above that the need for imported beef does not vary merely as a function of U.S. production of lean beef, even though its principal function is to supplement U.S. production of lean beef. This is because the more fed beef we produce, the more lean beef is required. If we do not have enough lean beef any given year, then the excess fatty trimmings produced by U.S. cattlemen have to go for nonfood uses and this could lower, or at least deplete, cattlemen's overall return.

Senator HANSEN. Now in your printed testimony, you say, without sufficient lean beef in any year, excess fatty trimming would go for nonfood uses, lowering the cattlemen's overall return. You have rephrased that so as to be not quite as positive as the written statement is.

Do you deny that if the overall price were to rise that despite the fact that some of the fatty trimmings that would go to nonfood uses might not go to that use, but still, the overall return to the cattleman could be higher than it would be otherwise?

That has been the testimony, or the thrust of it, I think, of those who appeared earlier today.

Mr. JARMAN. I am not sure I fully understand your question, Senator. I can try to answer it.

I think this is an area that needs much more serious study than it has received. We, my client, the Meat Importers Council, and I, personally, have been interested in this subject for a long, long time, ever since the 1964 law was passed.

Our experience has always been that lean, imported beef is beneficial to the U.S. cattleman. It allows the excess fat to be used in a profitable manner.

Now, just as cull cattle is not the whole story, that is not the whole story either, but it is an important part of the story. I do not think that anyone has ever scientifically studied this or tried to quantify the extent to which the factors predominate. I think this should be done and I point out—I think it is mentioned in a footnote here somewhere—that unfortunately, neither the USDA nor any other Government agency to date, to my knowledge, maintains figures which distinguish between manufacturing beef and table beef. They are now distinguishing between fed and nonfed beef. They did not used to do that.

That is a hint, but not the full story. Taking that one step further, the extent that there are economic changes in the overall return of the cattlemen, the extent that he is able to utilize his fat trimmings is something which no one really knows the dollars and cents answer to.

Senator HANSEN. Mr. Jarman, is your organization supported in this philosophical part of your statement, to your knowledge, by any livestock producer groups? You express concern for their economic well-bearing and suggest that the importation of lean beef will result in their being better off economically overall than would be the case absent the importation of lean beef.

I was just wondering, do you have any indication from any livestock groups as to whether they share that opinion?

Mr. JARMAN. No, Senator, I cannot name any livestock groups that officially take that position.

With specific reference to the formula in the bill, I think cosponsored by Senator Dole which is S. 2942, which keys calculations to various averages of commercial cow production, I just want to note that commercial cow production is not the only source of lean manufacturing beef in this country. I mentioned bulls before, and there may be some others, if an accurate figure is desired. Furthermore, we have not been able to figure out exactly the ramifications of using per capita figures in that particular formula with respect to commercial cow beef production. This may be one reason why over the time period set out in the Congressional Record, S. 1208, on February 6, the total net amount of imports under that formula, even though it would have gone up in some years and down in others, on a net basis, it would have been reduced by over 700 million pounds.

We think that probably is result of the per capita element. We are not sure that the per capita element makes logical sense.

In closing, I would just like to note, as I think Mr. Bliss or Mr. Ball did, that we do enjoy a favorable balance of trade in this country, not in beef per se, but in all of the other things, some of which you were talking about before, Senator, such as tallow and hides. In other words, the overall return that a producer receives for the various products of his animals. In other words, the imports are less in those products than the exports.

In another sense, we have a favorable overall trade balance with just about every country that is a substantial supplier of beef to this country. I say practically every, because I think there is one exception: Canada. But with all the other countries with any significant quantities, we have a very favorable overall balance of trade.

This statement has not covered labelling proposals or inspection proposals, because we are not aware that there are any proposals to amend the Meat Import Quota Act along those lines.

That concludes my statement.

Senator HANSEN. Thank you very much for your appearance and for your testimony, Mr. Jarman.

[The prepared statement of Mr. Jarman follows:]

STATEMENT OF THE MEAT IMPORTER'S COUNCIL OF AMERICA, INC.

INTRODUCTION

This statement is filed on behalf of the Meat Importers' Council of America, Inc., a trade association whose members import an estimated 85% or more of meat imported into the United States and classified under Items 106.10 and 106.20 Tariff Schedules of the United States. Such meat, primarily beef, is the subject of Public Law 88–482, the Meat Import Quota Act, which is the subject of this hearing. The Council is a national organization with members throughout the United States and principal offices in New York City and San Francisco, California.

I. DESCRIPTION OF THE IMPORTED PRODUCT AND ITS USE

Imported beef, covered by the quota law is strictly lean, grass fed, processing or manufacturing type meat. Such meat is 85% to 90% chemically lean and is not suitable for consumption by the retail consumer in its imported form. Rather, it is a raw material which must be substantially transformed by manufacturing processes and combination with other materials in order to produce consumer products. Typical of such manufacturing operations is the production of hamburger which involves the grinding together of lean manufacturing beef, either domestic) with high fat content domestic beef trimmings.

These high fat trimmings, sometimes called "belly cuts" or "50–50 trimmings" (because the fat content approximates 50%) come mainly from domestic fed steers and heifers raised for high quality steaks, roasts and other table cuts. After these table cuts are removed, the fatty trimmings are left over.

Production of hamburger exemplifies the complementary interdependence of lean manufacturing beef and domestic fatty trimmings. The former, while valuable for their lean content, must be processed to be used. The latter by themselves are suitable only for production of tallow and the like. But through combination with lean material, these fatty trimmings are upgraded into a product for which the U.S. consumer is prepared to pay the price of ground beef. Together these two articles—lean manufacturing beef and fatty trimmings—make up U.S. processing beef supply.

Hamburger with 18–20% fat content represents the level most generally acceptable to the American consumer. Amazingly, to reduce the fat content to 20% for ground beef, it takes about 610 pounds of 85% lean beef for every 100 pounds 50% fat belly cuts.

Because of their low cost relative to steaks, roasts, and comparable table cuts, manufactured or processed products are of greatest importance to the lower income consumer. However, among all consumer levels there has been a dramatic increase in demand for these products over the last several decades. It is now generally estimated that about 40% of the U.S. beef consumption is in ground or similar form. Popularity of these items continues to swell as hamburger chains such as McDonalds open many hundreds of new stores annually. It is predicted that the ground beef percentage could reach 50% within the next decade.

Imported quota beef makes up only about 7% of the total U.S. beef supply. Our statistics indicate that imported quota beef makes up about 19% of the total U.S. supply of manufacturing beef.[1]

II. THE DOMESTIC INDUSTRY AND ITS PRODUCT

The complex which has produced annually since 1965 over 20 billion pounds (carcass weight) of edible beef and veal is not simple. In general terms, however, the basic U.S. beef production industry consists of ranchers such as "cow/calf operators" and feeders in the business of producing fed cattle for table grade beef.

Because of its emphasis on fed beef, the U.S. industry produces insufficient amounts of lean manufacturing beef to satisfy consumer demand, much less upgrade all of the fatty trimmings generated by desired finished beef production. There is no industry in this country devoted, *per se*, to lean beef production. Instead, the beef and dairy industries generate lean canner and cutter cattle (the domestic source of lean manufacturing beef) as a by-product. Thus, a cow-calf rancher or dairy farmer "produces" manufacturing beef when he liquidates cows and bulls, and receives, in effect, a salvage value.

There are indications that the U.S. industry may be starting to respond to the massive consumer demand for more ground beef by experimenting with the production of leaner animals nicknamed "hamburger cattle". However, there

[1] Unfortunately, neither the United States Department of Agriculture, nor any other recognized official source, collects and reports beef and veal data distinguishing between manufacturing grade and table grade.

is as yet no evidence of any substantial change. Further, none is likely soon because lean beef may not be economically produced except as a by-product under conventional techniques. New breeds and new technologies will be required before any substantial change can occur. According to the January 1978 U.S.D.A. Foreign Agriculture Circular (FLM 1-78, p. 2) "[M]eat production in the United States in 1978 is expected to contain more fed beef, but less non-fed beef."

The need for imported beef is made apparent by the following recent findings of The International Trade Commission:

"Hamburger is produced largely from the meat from cull cows and bulls (the type of beef with which the bulk of the imports compete) and the trimmings from fed cattle. U.S. prices of cull cows, like those of all cattle, have declined in recent years. However, as steer prices declined from 1975 to 1976, cull cow prices rose. This firmness of cow prices obviously reflects the growing demand for beef for hamburger. The firm cow prices have persisted despite increased supplies resulting from herd culling and liquidation and imports of manufacturing type beef." (U.S. I.T.C. Pub. 842, Nov 1977, p.xii.)

As a result of a petition for import relief under Section 201 of the Trade Act of 1974 (19 U.S.C. 2251), the United States International Trade Commission conducted an investigation to determine whether beef articles were a substantial cause of serious injury, or threat thereof, to a domestic industry. After receiving requests from members of the Senate Committee on Agriculture, Nutrition and Forestry and the House Committee on Public Works and Transportation, the Commission commenced a second investigation pursuant to Section 332 of the Tariff Act of 1930, as amended, (19 U.S.C. 1332) to study the conditions of competition in U.S. markets between domestic and foreign cattle and meat. These Congressional requests encouraged the Commission to recommend legislative changes if needed.

Throughout the Summer and Fall of 1977 the Commission conducted thorough and sweeping studies in these concurrent investigations holding public hearings in South Dakota, Texas, Missouri, New York, and Washington, D.C.

Time and again throughout these hearings and investigations domestic producers of beef and beef cattle compellingly demonstrated the problems which they were facing in trying to make a living, or even cover their costs. After this exhaustive inquiry the Commission, correctly determined that imported beef was not a substantial cause of the problems conceededly faced by the domestic industry. Further, in its Section 332 report the Commission did not recommend changes in the meat import quota law. The two Commission Reports (U.S.I.T.C. Publication 834 of September 1977 and U.S.I.T.C. Publication 842 of November 1977, are relevant to the subject of this hearing, and we commend them to the attention of the Committee.

Since the Commission issued its reports prices for lean beef, far from merely holding firm, have sharply escalated. Comparing prices quoted for December 1, 1977 and February 13, 1978, domestic boneless beef rose from 74¢ per pound to 90¢. Imported boneless beef rose from 68¢ to 89¢.[2] There are growing indications that lean beef could be in serious short supply perhaps as soon as this summer.

III. PROPOSALS TO AMEND THE MEAT IMPORT QUOTA ACT

Pending proposals to amend the quota law should be viewed against the background briefly sketched above. We submit that the continuing need for regular supplies of imported beef is clearly indicated. Contrary to the common allegation, imported meat is not propelled to this country by foreign interests or "dumped" on the U.S. Market. Rather, it is attracted here when the U.S. market, in competition with markets around the globe, offers a sufficient price to bring it here. However, as the domestic industry well knows, production of beef requires that the decision to produce be made far in advance. If foreign producers are to be able to ship needed quantities of manufacturing beef to supplement insufficient U.S. supplies, particularly in times of shortage which result in accelerated consumer prices, they should be given reasonable assurance that the U.S. market is open and not artificially encumbered by protectionist devices such as the present meat quota law.

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[2] The comparison is drawn between imported 85% chemically lean and domestic 90% lean which are generally considered to be the most comparable products.

We respectfully submit that the only proposed change in the present law which should be entitled to serious consideration is complete repeal and we recommend this to the serious consideration of the Committee. Regretfully, most of the proposals now pending before Congress which would change the meat import quota law, or otherwise change the law with respect to imported meat, would tend to cut down on the quantity which could be imported or otherwise add to the expense or restrictions already restraining free trade in this commodity. Comments upon some of these proposals follow:

a. Proposals which would tie import levels to parity

A number of proposals involve formulae which would decrease quota levels as a function of the amount by which domestic prices fall short of parity. Such proposals are clearly intended to help U.S. producers, and are based upon the idea that U.S. prices are directly and substantially affected by import levels. As the U.S.I.T.C. recently found, imports are not a substantial cause or threat of injury to U.S. producers. It follows that by reducing or eliminating imports no substantial benefit would inure to U.S. producers.

Historically, U.S. prices seldom reach parity in good years or in bad years. We believe that these proposals, as well as others which are designed to help U.S. producers by limiting imports, should be dropped.

b. Proposals which would add new articles to the quota

Some pending proposals would add items such as prepared or preserved beef (Tariff Items 107.40–107.60) to the existing quota. We do not believe these are reasonable because such items are not interchangeable with lean manufacturing meat. Many of these imports, such as canned corned beef, are not even commercially manufactured in the United States.

Adding disparate items to the present quota would reduce allowable quantities of manufacturing beef. In effect, such changes would lower the quota and extend restrictions unnecessarily to new items. If there were a need to subject such items to a quota this should be done only after thorough study of the competitive conditions relating to the specific items in question and establishment of separate additional quotas for same.

c. Quarterly or short-term quota proposals

We do not believe that proposals to divide annual quotas into quarterly or other periodic amounts would serve the purpose of evening the market. Import needs vary constantly depending upon conditions in this country. Further, they are to some extent cyclical even within a single calendar year. Such proposals would simply add to existing restrictions leaving imports even less able to supplement domestic production as needed from time to time.

During years when quota levels are reached the importing industry is faced with serious commercial and legal problems as the allowable maximum is neared. Transforming one quota into four quotas would quadruple these problems and ultimately add to consumer costs. In addition, it should be recalled that the President generally enters into voluntary restraint agreements with supplying countries. Periodic quotas would unnecessarily complicate international negotiations and muddle the duties of the Secretary of Agriculture under the Act.

d. Proposals to restrict imports by port of entry

On the theory that import impact is geographically uneven, some proposals would create quotas for specific ports of entry.

The meat importing industry is national in scope, and most importers serve a large geographical area. Imported meat is by no means confined to the port area. Quite often imported meat is destined to specific customers before the carrying vessel arrives, yet the port of entry has yet to be selected on the basis of considerations such as weather, availability of handling, inspection and storage facilities, and the like.

These proposals would merely add unnecessarily to existing restrictions.

e. "Counter-cyclical" proposals

A pending proposal would seek to adjust the quota in a so-called "counter-cyclical" manner. One example is S. 2942 under which the present quota would be multipled by a fraction obtained by dividing the previous ten years' moving average of per capita commercial cow beef production by the average two year figure based on the previous year and an estimate of the current year.

As we have suggested above, the need for imported beef does not vary merely as a function of U.S. production of the lean beef which imports supplement. The more fed beef we produce, the more lean beef is required. Without sufficient lean beef in any year, excess fatty trimmings would go for non-food uses, lowering the cattleman's overall return. From this point of view there is logic in a law which allows imports to increase as domestic production of all beef increases.

It is noted that the proposal in S. 2492 is keyed to commercial cow production. While this is a principal source of domestic lean beef it is not the only source. Bulls, for example, represent an important source.

The ramifications of using per capita figures are unclear. One result appears to be that if per capita consumption of lean beef were to increase over time (as it has over recent decades): then, to the extent U.S. production keeps pace with that increase, import quotas will be lowered, even though a contrary result would seem desirable. In this connection it is noted that, while the proposal would at time increase and at time decrease quotas in relation to the present system, over the long term it would apparently reduce imports. Thus, using the figures which appear at page S 1208 of the February 6, 1978 Congressional Record, imports from 1965 through 1978 would be reduced by the net amount of over 700 million pounds.

CONCLUSION

The Meat Importer's Council of America, Inc. opposes the amendments discussed above as unnecessary and contrary to the public interest. The same is true for proposed labeling laws or inspection laws which would add to the already unique retrictions on imported beef.

The United States enjoys an overall favorable trade balance with practically every substantial supplying country of imported beef. Further, we export more beef and other cattle products than we import. There are increasing foreign markets for U.S. table beef. Further restrictions upon imports at this time would work to the disadvantage of all concerned.

Senator HANSEN. Our next witness will be Mr. Walter H. Johnson, president of the Montana Stockgrowers Association, accompanied by Mrs. Joyce Robinson, representing the Montana Cattlemen's Association.

If you would both like to come and sit at the table, or whatever you would like to do. Mrs. Robinson, we are very pleased to have you.

STATEMENT OF JOYCE ROBINSON, MONTANA CATTLEMEN'S ASSOCIATION

Ms. ROBINSON. Thank you, Mr. Chairman. It is a delight to be here.

Mr. Chairman, I thank you for this opportunity to be heard. I am Joyce Robinson, a cattlelady, farmer, mother, and grandmother.

Although I belong to 11 major farm and ranch organizations, today I speak with pleasure for the Montana Cattlemen's Association, an independent group of grassroots farmers and ranchers, located in all parts of our beautiful State. This testimony will, in part, support S. 294 by Senator John Melcher, of Montana, cosponsored by Senator Milton Young of North Dakota.

As you know, we in the cattle industry have been and still are suffering from a 4-year depression. Average calf prices in my home county fell, Senator, from 70 cents per pound in 1973 to 27 cents per pound in the fall of 1974.

While there has been a very slow rise to an average of about 40 to 42 cents, we should note that actual cost of production figures are between 70 and 72 cents per pound now, in early 1978.

A 1977 survey of grassroots ranchers clearly indicated that 97 percent are convinced that excessive imports are the greatest cause of this disaster that has eliminated every young, beginning rancher and now threatens those of us older and better-established, but a terrible loss in human values.

Senator, if you have a pail that is filled to the brim with domestic production and you add to it with foreign imports, that pail will overflow. Now, on what do you blame the spillage? On the original domestic content or on what you added to it?

Under the Meat Import Law of 1964, about 7 to 8 percent of domestic production is traceable to imports. However, another 3 or 4 percent of imports coming to our domestic market are uncounted because of exemptions or loopholes in the 1964 law which fail to include in the quota system count processed meat, prepared meats, live cattle.

Senator, let's faec it. We are Americans. We live by American standards, pay American labor and American taxes. We acknowledge that, in the area of agriculture, there are few, if any, products we Americans can produce cheaper than the foreign products which are often heavily subsidized.

As we testified to you today, a group of world leaders, including Americans, are meeting in Geneva for the announced purpose of liberalizing world trade policies. We farmers and ranchers know from past experience that many impending agreements will be made at the expense of American agriculture.

Very recently, and prior to the opening of the Geneva talks, U.S. official trade envoy Alan Wolfe was in Australia conferring with Prime Minister Malcolm Fraser to restrain lower Australian restrictions on imports of American manufactured goods in exchange for better access to the American beef market.

This, Senator, at a time when the American producer is saddled with increased numbers of domestic slaughter cattle being forced by disaster level prices from the national cow herd, disaster-level prices caused, in large part, by excessive imports. The United States of America is now the largest importer of beef in the world. 860,000 metric tons crossed our borders in 1976 compared to Russia, the next largest, with only 200,000 metric tons.

Still, our Government would force more imports upon us, to the destruction of the American cattle industry and the attendant human suffering.

Now I digress to express some personal views. We have heard the importers, Senator, talking about excess fat and how their manufacturing beef imported to us uses that excess fat.

May I suggest to them and to the committee that we export our excess fat to Australia or wherever it is used, and they add it there to their manufacturing beef. It would solve our problem.

May I also say that when new products are placed on our market from foreign sources, as long as there is demand for that foreign product, we Americans will see that the demand is filled ourselves.

May I say also that Japan exports to us steel to the detriment of American industry and labor, electronics, automotives, leather goods, to the detriment of American industry and labor, and yet will not accept one single pound of American beef until every pound of Kobi beef has been consumed.

Who is smarter, who is watching out for their own people: Japan, or this blessed country of ours?

I would also comment that the $2 billion trade-off that we hear so much about, exports equally imports, our exports are almost all in the area of the fifth quarter, hides, skin, offal. We do not export fresh meats in only a minor quantity.

The school lunch program, of course, uses foreign beef. It loses its identity. And, may I say this, that as far as producing—since we have only one lone, determined Senator, I will wait for him.

Senator Hansen. My problem is we have to vote.

Ms. Robinson. I will be very brief.

Senator Hansen. Please go ahead. This probably would be a 15-minute roll call and I will watch until the five bells have rung, and when that happens I will jump up and run and I will be back as quickly as I can.

Ms. Robinson. I want to express my appreciation at this point for your very knowledgeable questions that you have been asking. I personally express my thanks to you, from my ranch to you.

Regarding thin beef, manufacturing beef, if there is a tremendous demand for it, and there appears to be, we Americans will produce that ourselves, Senator. On my own ranch, I can very easily convert that type of operation. I can furnish hamburger for an awful lot of people and would be pleased to do it if I could get a price at or near the cost of production, or parity.

Now for some recommendations. I personally favor the Bellmon bill and feel that it should be looked upon with some favor and thoroughly investigated. It is unique in that it is the first piece of legislation that I have noted that realistically attempts to tie imports to American prices, and I think this is a unique and very significant difference.

Furthermore, it gives protection to both the consumer and producer and should be studied with great care. Now, failing this, I would personally suggest, No. 1, that we investigate the commodities futures market and its effect on the cattle market and is it tied in with exports and imports?

No. 2, I would suggest we investigate the possibility of price fixing and collusion in the distribution of beef, both foreign and domestic.

No. 3, I suggest we close the loopholes in the 1964 Meat Import Act. Senator Melcher's bill, S. 294, would do that in large part and there are several others, including a countercyclical proposal which we endorse.

No. 4, include live cattle under a quota as well as a tariff system.

No. 5, the meat inspection system, both foreign and domestic should be strengthened. Twenty inspectors abroad, Senator, in 1,084 plants, are hardly enough to assure the American consumer a quality product—and, of course, we had the salmonella scare last fall.

No. 6, there should be labeling at the meat counter.

Now, I would suggest this. That during periods of liquidation, imported and manufacturing beef should be kept out absolutely in order to give preference to the domestic cattle industry. I was handed a note, Senator, saying that the packers are making feed cattle fatter to get fat to put into imported beef that they need to place on the market.

In other words, there is a whole spectrum to be investigated and I pray, Senator, that you and your colleagues will give this your most serious consideration; that you will realize the loss in human value as well as economic losses to the industry and to this great Nation.

I thank you very much, Senator.

Senator HANSEN. You are a very persuasive witness, Ms. Robinson. I appreciate your coming here and I know that the entire committee will be keenly interested in your testimony.

I do not have any questions. You eloquently addressed all of my concerns. I find a lot of merit in the proposals you have made.

Ms. ROBINSON. Thank you.

Senator HANSEN. If I may, let me announce that I will run over and vote as quickly as I can get back here, and we will hear the remaining panel of witnesses.

[A brief recess was taken.]

Senator HANSEN. The committee will be in order.

Our next witness will be Mr. Walter H. Johnson, the Montana Stockgrowers Association.

STATEMENT OF WALTER H. JOHNSON, PRESIDENT, MONTANA STOCKHOLDERS ASSOCIATION

Mr. JOHNSON. Mr. Chairman, my name is Walter H. Johnson. I am a rancher residing at Belt, Montana and I am president of the Montana Stockgrowers Association. This association represents over 4,000 cattle producers who have been making a determined struggle these past 4 years against a cost-price squeeze unheard of in recent history.

Now, to top it all off, we are presently enduring one of the worst winters on record.

Last year, I appeared before the International Trade Commission on two occasions attempting to impress upon them the situation in which our industry finds itself. Recently I appeared before Vice President Mondale and Secretary Bergland, relating the situation facing our industry today.

On behalf of our organization, I want to commend this committee for holding this hearing on this important problem. The livestock man, like all others in agriculture today, is beset by many problems and the Government's administration of the import law is one of them. To the extent that your committee can come to grips with this problem, we applaud the effort.

The beef cattle industry is a proud industry—one that has not made it a practice to come to the Federal Treasury with hat-in-hand seeking subsidies or other types of financial support. What we ask for today is simply fair play. While the United States provides the largest market for beef in the world and is probably the largest exporter of beef byproducts, we find that our trading partners are setting embargoes, both artificial and real, against our product to protect their producers. Not only that, but we find foreign suppliers circumventing the Meat Import Quota Act of 1964 by altering the form of the product to avoid the quota.

Back in 1976, we found that boned frozen meat, shipped from countries signatory to the trade agreements called for under the act, was being processed in foreign trade zones of the United States to change its form. Thus, at the time of its entry into the customs territory of the United States it was no longer the type of meat described in the agreement, despite the fact that it had merely been ground, shredded, flaked or chunked, and repackaged in 60-pound bags before being entered.

This meat processing operation permitted greater quantities of fresh, chilled, and frozen beef and veal to enter the United States than was intended by the Meat Import Law. Anticipating that at least 70 million pounds per year at prices as much as one-third less than comparable manufacturing type meat could enter the United States, the U.S. Department of Agriculture proposed a regulation which would prevent such circumvention and were promptly hailed into court with an injunction against such regulation by certain foreign interests.

We want some assurance that this circumvention process will not occur again and the best means of doing so would be the enactment of S. 294 as introduced by our own Senator, John Melcher, together with the amendments to include cooked, canned and cured meat as well.

The passage of this badly needed piece of legislation would do more to cure our import troubles than anything else on the horizon. Moreover, it would restore the faith of our industry in the Federal Government's ability to administer a law in keeping with its original intent.

We would hope that your committee would give consideration to a countercyclical arrangement whereby imports would be reduced in times of our overproduction and expanded in times of reduced production. This would make the quota formula more responsive to market conditions as well as to the needs of the cattle industry and the general public. Our organization will be glad to work with the National Cattlemens Association and other cattle industry groups to perfect such a formula. This type of adjustment, if established, would provide stability of supplies and prices for both the beef cattle industry and the consuming public.

In conclusion, I will stress that we are only asking for simple equity. This industry has struggled in vain to keep its head above water during the last 4 years. Now it appears that the bottom may have been reached and we may be headed upward once again.

We need the protection these amendments could provide. We are not asking for an appropriation of large sums of money, nor are we asking for production controls. We are willing to take our chances in the free enterprise manner which has made this country the best fed country in the world.

We only ask that our Government spell out rules by which we trade with our neighbors in a way that will not be to our great disadvantage.

Thank you very much.

Senator HANSEN. Thank you very much, Mr. Johnson. I appreciate your excellent statement. Just not too many witnesses back, appearing before the committee was Mr. Rufus Jarman, Jr., counsel for the Meat Importers Council. Among his statements was that he testified to the fact that the importation of lean meat was making it possible to use the fat in the mixture of hamburger was to the advantage and best interests of the cattle producer.

I think I am paraphrasing what he said, but I think that is a very accurate presentation. Do you share his views that the importation of lean beef to mix with the excess fat, which is trimmed and which would have to be sold as a nonfood product otherwise, is in the best interests of the livestock industry?

Mr. JOHNSON. Well, it works very well to their advantage, but the fat that we are mixing with their lean meat is not that expensive. I am not sure what the price of tallow is now, but it is just several cents a pound. So this is all we accomplish when we mix it with their lean meat.

This would be the only advantage that we would have, selling tallow for this cheap price. I am not sure, Senator, what the price of tallow is today, but I know a couple of years ago we were selling it for a couple—there is edible tallow and nonedible tallow.

Senator HANSEN. Now, he further testified that about 40 percent of the meat that was consumed in the United States today was ground meat, and I do not know that he quantified the amount of that 40 percent which was imported, but as a livestock producer representing a great organization from a very important livestock state, would you say that the livestock men in Montana would prefer to have to find some other use for the excess fat that may eventually come from animals that are produced in Montana, feeder animals, and enjoy at the same time a greater demand for the lean canners and cutters that are sold from the state of Montana; or do you think they to be able to mix the fat with imported Australian and New Zealand lean meat is to their advantage?

Mr. JOHNSON. Let me put it this way, I think it has been testified to several times today that we can adjust our production to meet almost any demand. If we did not have this lean beef coming in from Australia, I am sure that we could feed cattle off grass. It would not have this extra fat, and I do not think that we would need all this lean meat.

Senator HANSEN. Do you think that the lean meat that comes in from Australia tends to depress the price that you receive for cows that are taken from your culls from your breeding herd and are not fattened ordinarily, I mean canners and cutters?

Mr. JOHNSON. Oh, absolutely. When you have, I think last year it was 1.238 billion pounds of processed meat, of pure boned and trimmed meat, this takes the place of a lot of cows and I am sure that that depresses the price of cows. If it was not for that, these cows would be higher price and canners would perhaps bid higher on them.

Senator HANSEN. What you are saying is that if you had your druthers, you would rather not have all of that lean meat coming in?

Mr. JOHNSON. Absolutely, that is right.

Senator HANSEN. And you have no doubts at all that you would be better off economically than you are——

Mr. JOHNSON. We computed that the total imported meat—this includes live cattle—and we came up with about the production of about 5 million cows in the United States, and we placed replacing the production of about 5 million cows.

So you could see what this would do if it was all stopped. I am sure nobody even indicates that they want it all stopped. We just want some control over it so we know how much is coming in. We have to have some imported meat, and we realize this.

Senator HANSEN. I have no further questions. Thank you very much for an excellent statement, Mr. Johnson.

Mr. JOHNSON. Thank you.

Senator HANSEN. Our next witness will be Joseph W. Dorn, speaking on behalf of the National Association of American Meat Promoters.

Mr. Dorn, we are pleased to have you here.

STATEMENT OF JOSEPH W. DORN, ESQ., KILPATRICK, CODY, ROGERS, McCLATCHERY & REGENSTEIN, ON BEHALF OF THE NATIONAL ASSOCIATION OF AMERICAN MEAT PROMOTERS

Mr. DORN. Thank you, sir.

Mr. Chairman, I am associated with the Washington office of the law firm of Kilpatrick, Cody, Rogers, McClatchey, and Regenstein. I appreciate this opportunity to appear before the committee on behalf of my client, the National Association of American Meat Promoters and various State-affiliated meat promoter organizations in South Dakota, North Dakota, Montana, and Wyoming.

Senator HANSEN. These organizations that you represent, Mr. Dorn, are they associations of people actually engaged in the production of livestock?

Mr. DORN. Yes, Senator. They mainly represent small family farms and ranches that raise cattle.

Senator HANSEN. I see. Thank you very much.

Please go right ahead in your statement. It will be included in its entirety in the record, if you would like to summarize it, that would be appreciated.

Mr. DORN. I will briefly summarize it and I would also like to add a couple of points to respond to remarks made by Mr. Jarman of the Meat Importers Council and also made by Mr. Bosworth of the State Department.

Senator HANSEN. All right, sir.

Mr. DORN. Mr. Jarman was quick to point out that the International Trade Commission made a negative determination recently in connection with a section 201 case under the Trade Act of 1974. The meat promoters that I represent petitioned for that investigation and were certainly disappointed with the result.

I think it is important for this committee to understand that the reason section 201 of the 1974 Trade Act did not provide relief to cattle ranchers is the very strict legal prerequisite under that act that increased imports be a cause of injury "not less than any other cause." Now, that criterion is very, very difficult to meet in the context of the cattle industry, which as we all know, is much influenced by the downswings and upswings of the cattle cycle.

The International Trade Commission basically found that increases in domestic production were a more important cause of low cattle prices than were increases in imports. In effect, they were just pointing to the cattle cycle, an inherent attribute of the industry, as the scapegoat for the industry's problems.

What I believe this committee understands by now is that the quota system under the 1964 Meat Import Act actually exaggerates and intensifies the inherently cyclical nature of the industry upon which the International Trade Commission made its negative determination. So now we are before the right forum. We are before the forum which can get at the root of the problem, which is amending that Meat Import Act and the procyclical import quota formula.

In considering amendments to the existing legislation there are several facts that should be acknowledged. First, as the International Trade Commission recently determined, cattle raisers have been faced with a depressed condition since about 1974. There is no dispute about that. The importers agree to that. Everyone agrees that the cattle industry is in serious trouble.

A second factor: Since 1965, when the Meat Import Act became effective, imports subject to the quota have more than doubled, from 584 million pounds in 1965 to 1.28 billion pounds in 1976. And in 1978, the import quota trigger level is higher than ever, over 1.3 billion pounds.

Now, let's look at the last few years of what has happened. From 1974 to 1976, we all know that there was an oversupply of beef in this country and that beef prices and cattle prices were at very low levels. But, during these years, imports of beef and veal were allowed to aggravate the oversupply situation by increasing over 260 million pounds.

During those same critical years, 1974 to 1976, imports of cattle increased even more rapidly, from 230 million pounds in 1974 to 540 million pounds in 1976. In just 1 year, from 1975 to 1976, cattle imports increased from about 380,000 head to over 900,000 head. And then in this last year, 1977, cattle imports totalled 1.1 million head.

Now, it is elementary that adding to supply depresses prices, and I wish that this committee could have been present before some of the hearings at the International Trade Commission to hear copious economic testimony on this point.

For example, Dr. Ernest Davis of Texas A. & M. University, reviewed the existing literature on the subject of beef imports. These were published academic studies. They were not done at the request of any of the parties of interest.

Now, the International Trade Commission recognized that the studies referred to by Dr. Davis indicated a significant inverse effect of beef imports on domestic prices, and that should be no surprise; that is just what we should expect.

For example, one study referred to by Dr. Davis indicated that cow prices would have been 26.2 percent higher in 1975 and 30.2 percent higher in 1976 had imports remained at 1964 levels, that is, at levels prior to the enactment of the Meat Quota Act. I believe those were the same figures that Mr. Cunningham referred to earlier.

Dr. Davis also pointed out that, contrary to what Mr. Jarman of the Meat Importers Council stated earlier, the sale of these cows is significant to the cattle industry, especially during the herd reduction phase of the cycle. For example, in 1975, cull cow marketing represented over 28 percent of total slaughter marketing. In 1976, cull cows represented almost 25 percent of total slaughter. So that is a significant portion of the industry.

Another study referred to in the International Trade Commission hearings indicated that, had imports of beef and veal remained at 1964 levels in 1975 and 1976, ranchers would have received additional revenues of $1.6 billion in 1975 and $1.8 billion in 1976.

To put those numbers in perspective, a $1.8 billion loss in 1976 represented over 9 percent of total cash receipts from all cattle marketings. So that is a significant——

Senator HANSEN. Let me interrupt you right there, just to be sure I understand. You are saying that, according to this study, had imports of beef and veal remained at the 1964 level in 1975 and 1976, ranchers would have received additional revenues of $1.6 billion in 1975 and $1.8 billion in 1976.

Mr. DORN. That is correct, and that is because the prices would have been higher, without the depressing impact of imports.

Senator HANSEN. All right.

Mr. DORN. I think another important point to keep in mind is that large portions of the cattle industry in this country are devoted to the production of lean beef. Lean beef is not a byproduct; it is a significant portion of beef production in the country.

For example, in 1975, 48 percent of the commercial cattle slaughter in this country consisted of nonfed steers, heifers, cows, bulls, and stags, which, of course, all goes into the manufacturing beef, or lean beef, segment of the industry.

Senator HANSEN. 48 percent?

Mr. DORN. That is correct.

Senator HANSEN. That hardly seems like a byproduct.

Mr. DORN. No sir. Also, you have to recognize that a sizable portion of fed cattle is also utilized in the manufacturing beef segment of the industry which we know is increasing every year.

Also, following up on something that Mr. Jarman alluded to about there being no industry producing lean beef in this country, there was a great deal of testimony at the International Trade Commission hearings to the effect that many ranches and farms in the southeastern area of the United States are producing grass-fed cattle for slaughter which are directly aimed at the hamburger market. There is no intention of being grain fed.

Now, because of the procyclical quota formula, domestic cattle raisers receive the least protection during the herd reduction phase of the cycle when it is most needed. On the other hand, during the accumulation phase of the cycle when domestic production gets tight and cattle prices get higher, the quota formula theoretically provides an imports decrease, although that is the time when imports are most beneficial to consumers.

In practice, though, even during the herd accumulation phase, the President has merely suspended quotas in times of lower domestic supplies and higher prices. That is what happened in 1972 and 1973.

So, as the quota system now works, during periods of high production and low prices, imports are allowed to increase, adding to the oversupply situation and further depressing cattle prices; but, when domestic production is low and prices are high, the President sets in, suspends the quota, and again, the cattlemen do not benefit.

Again, I would like to emphasize that when we are looking at the cyclical nature of the industry we must understand that imports have their most harmful effect during the herd reduction phase of the cycle. That is the phase of the cycle when we are putting our cull cows on the market, in direct competition with imported beef.

Economists at the International Trade Commission hearings also made the point that the No. 1 problem of the beef industry is price and supply instability. That was how the point was made by Dr. Harris at Texas A. & M. University. That point was concurred in by Dr. Houch of the University of Minnesota, another noted agriculture economist. He has published heavily in this field.

Dr. Houch went on to point out that if we could somehow add stability to the cattle cycle, we could provide an economic climate that would encourage investment in cost-reducing technology, produce a climate that would lead to improvements in productivity, better breeding stock, pasture improvements, better machinery and equipment, and better veterinary programs.

His conclusion is based upon the accepted economic premise that capital expenditures are less likely in industries which are highly unstable and erratic. Accordingly, we could expect capital investment and resulting benefits to the consumer if a measure of stability were added to the cattle industry.

Such added stability would be particularly beneficial to smaller, family owned farms and ranches which are less able to withstand the upswings and downswings of the cattle cycle than larger corporate organizations which have ready access to financial markets.

That is a point, I think, that needs to be emphasized, that many of the smaller farms and ranchers in the country are unable to cope with the downswings of the cattle cycle. The impact of imports can be devastating to these smaller farmers.

Senator HANSEN. That is a very good point.

Mr. DORN. I would also like to touch upon the so-called free trade issue alluded to by the State Department. It was clear from the International Trade Commission hearings that the United States provides its cattlemen with the least import protection of any major meat producing country. That point was highlighted in one of the hearings where Colonel MacArthur, chairman of the Australian Meat Board, testified that no other important consuming country in the world offers the same degree of reliability of access to its beef market as the United States.

Mr. MacArthur acknowledged that Australia, for example, allows no imports of cattle, beef or veal from countries other than New Zealand and Mr. Begg, the vice chairman of the New Zealand Meat Producers Board, testified that New Zealand allows no imports of cattle from countries other than Australia and Canada.

He said that New Zealand does allow imports of beef, but it is subject to a tariff rate of 35 percent.

As you would expect, our balance of trade in cattle and meat of cattle is nothing to be proud of. During the period 1970–76, the United States imported 5.54 times as many live cattle as it exported. During the same years, we did even worse with beef and veal. We imported almost 11 times as much as we exported.

We should also note that our providing the most open market for beef and veal is not necessitated by consumer needs in this country. Our consumers have the largest supply and variety of red meat available per capita of any major country and, as we have also heard today, at much lower prices.

To alleviate the problems that I have referred to, the meat promoters, first of all, endorse the concept of the countercyclical quota formula. After discussion with many agricultural economists and other cattlemen's associations, the meat promoters have decided that per capita domestic cow beef production is the best indicia of the cattle cycle for the purpose of devising a workable countercyclical formula. That is the approach that was basically described by Mr. McDougal of the National Cattlemen's Association.

The meat promoters would also like to extend the quota coverage to beef and veal that is now not subject to quota. I should point out that such imports of cooked, canned, and cured veal almost doubled from 1975 to 1976—that is in 1 year—and there is no reason to believe that importers will not take greater advantage of this loophole in the quota system in future years. It is something which we need to address now.

We also favor extending the quota coverage to live cattle. This can be done by setting up a separate quota system applicable to live cattle. You would not have to bring the live cattle in on the same basis as beef and veal; it could be a separate formula, to recognize the separate industry and the nature of the article.

The meat promoters would also like to see the enforcement of the quota system strengthened, first by reducing the trigger level from 110 to 105 percent of the quota level and second by prohibiting the President from suspending quotas absent a determination that cattle raisers are operating at a reasonable level of profitability. That is, the President would be required to look to the needs of the cattlemen first in deciding whether imports should be allowed to come in in excess of quotas.

Again, I thank you for this opportunity to appear on behalf of the meat promoters. The meat promoters are extremely grateful to their Senators from South Dakota, Senator McGovern and Senator Abourezk, and their staffs for all the time, expertise and encouragement they have provided in facing the issues that I have discussed today.

The meat promoters commend to this committee the written statement and draft of legislation entered into the record by Senator McGovern. Mr. McGovern's draft of legislation reflects the position of the meat promoters and some of the suggestions that are set forth in more detail in my written statement.

I encourage the committee and its staff to give careful attention to Senator McGovern's proposals and to the amending legislation which

I understand that Senators McGovern and Abourezk will soon introduce.

Thank you very much.

Senator HANSEN. Thank you very much for your statement, Mr. Dorn. We appreciate having you.

Mr. DORN. Thank you, sir.

[The prepared statement of Mr. Dorn follows:]

STATEMENT OF JOE DORN ON BEHALF OF THE NATIONAL ASSOCIATION OF AMERICAN MEAT PROMOTERS

I. INTRODUCTION

Mr. Chairman, my name is Joe Dorn. I am associated with the law firm of Kilpatrick, Cody, Rogers, McClatchey & Regenstein, 2033 K Street, N.W., Washington, D.C. I greatly appreciate this opportunity to appear before this committee on behalf of my client, the National Association of American Meat Promoters.

In the Spring of 1974, the Meat Promoters of South Dakota established their organization to represent family farmers and ranchers who raise cattle. During the following year, affiliated state organizations—the Meat Promoters of North Dakota, Montana, and Wyoming—were formed. The National Association of American Meat Promoters, headquartered in Bison, South Dakota, was established soon thereafter to coordinate the activities of these state organizations.

It is the position of the Meat Promoters that the Meat Import Act of 1964 has not provided domestic cattle raisers adequate protection from increasing imports of beef, veal, and cattle, which have significantly depressed domestic cattle prices and compounded the recent economic distress of the industry. Since 1965, when the Meat Import Act became effective, imports of fresh, chilled, and frozen beef, although subject to the Act, have more than doubled. In addition, the Act has provided no quota protection from (1) imports of cooked, canned, and cured beef and (2) imports of cattle.

A major flaw in the Meat Import Act is its pro-cyclical quota formula, which exacerbates the cattle cycle and intensifies supply and price instability in the cattle sector. For example, while everyone agrees that since 1974 over-supplies of beef and depressed cattle prices have caused cattle raisers severe economic distress, the quota formula has allowed imports to increase to record levels. Objective academic studies indicate that had imports not been allowed to double between 1964 and 1976, cattle raisers would have received about $1.8 billion more for their cattle in 1976, a loss of revenue representing over 9 percent of total receipts for cattle and calves for that year.

In March of 1977, the Meat Promoters filed a petition with the U.S. International Trade Commission seeking import relief under Section 201 of the Trade Act of 1974. In response to that petition, the Commission conducted an investigation to determine whether live cattle and certain meat products of cattle fit for human consumption were being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing articles like or directly competitive with the imported article. As you all know, the Commission reached a negative determination.

While considering amendments to the Meat Import Act, it is important for this Committee to realize that the reason Section 201 of the Trade Act of 1974 provided no relief to cattle raisers is the legal prerequisite of that Act that increased imports be a cause of injury "not less than any other cause." That criterion is virtually impossible to meet in the cattle industry, because the economic health of the industry is greatly affected by the cattle cycle. The U.S. International Trade Commission, in finding increased domestic production to be a more important cause of low cattle prices than increased imports, merely used the cattle cycle as a scapegoat for the cattlemen's economic woes since 1974.

What this Committee should understand, however, is that the quota system under the Meat Import Act of 1964 exacerbates the inherently cyclical nature of the industry upon which the Commission based its negative determination. Common sense and fairness dictate that the quota formula should be revised so as to mollify the detrimental impact of the cattle cycle. This can be accomplished by the incorporation of a counter-cyclical quota formula, which will be discussed hereinafter. In addition to the Meat Promoters, numerous other cattle organizations favor such a revision of the quota system, including the National Cattleman's Association, the Concerned Cattlemen of North Dakota, the National Farmer's Organization, and the Farmer's Union.

At the request of Congress, the U.S. International Trade Commission also conducted a simultaneous investigation under Section 332 of the Tariff Act of 1930 to study the conditions of competition in U.S. markets between domestic and foreign live cattle and meat of cattle fit for human consumption. Many of the findings of the Commission in connection with its Section 332 investigation support the need for amendments to existing law.

II. THE NEED FOR LEGISLATION TO AMEND THE IMPORT ACT

A. Cattle Raisers Have Suffered Economic Distress Since 1974

In 1976 about 1.8 million farms and ranches reported sales of cattle and calves. Thousands of small or medium size farms and ranches in the Southern, Central, and Western States account for the bulk of the annual calf crop.[1]

The U.S. International Trade Commission recently concluded that "cattle raisers have been facing distressed conditions since about 1974."[2] Cattle prices received by farmers in 1976 were almost 40 percent below the prices received in 1973.[3] As cattle prices declined sharply, other prices continued to rise. "As a result, farmers' receipts for cattle have not kept pace with the costs of operating farms or ranches."[4] Prices today are still well below those of 1973.[5]

Because of tremendous price declines, the inventory value of cattle and calves on U.S. farms and ranches declined 38 percent during 1974 and 1975. On January 1, 1974, there were almost 128 million head of cattle, having a total farm value of 37.5 billion dollars; on January 1, 1976, there were approximately the same number of cattle, but with a farm value of only 23.3 billion dollars.[6]

Even the importers agree that domestic cattlemen are in serious trouble. As Mr. Lundquist, attorney for the Meat Importers Council, Inc., stated before the U.S. International Trade Commission at the last hearing in the Section 332 investigation: "We do concede the severe distress in the industry, at least from what I can see, the cow-calf operator and, indeed, the rancher generally."[7]

There is ample support, therefore, for the Commission's conclusion that "many cattle farmers may be losing money on their cattle operations at this time" and that "recently established operations, faced with high cash costs, may be forced out of business rather quickly."[8] Scores of witnesses—including ranchers, farmers, dairymen, feedlot operators, bankers, farm equipment dealers, and agricultural economists—testified in Commission hearings that ranches and farms are failing, debt is increasing at an alarming rate, and workers are being laid off as farmers are forced to rely more and more upon their own family labor to keep their operations viable.

B. Increasing Imports Of Beef, Veal, And Cattle Are Depressing The Prices Of Domestic Beef, Veal, And Cattle

Approximately 80 to 90 percent of the beef and veal imported into the United States is subject to the Meat Import Act of 1964. Since 1965, however, when the Meat Import Act became effective, imports subject to the quota have more than doubled, from 584 million pounds in 1965 to 1.28 billion pounds in 1976, an increase of 120 percent.[9] For 1978, the import quota trigger level is higher than ever—over 1.3 billion pounds.[10]

From 1974 to 1976, when cattle prices were low and beef supplies were high in this country, imports of beef and veal were allowed to aggravate the oversupply situation by increasing 261 million pounds.[11] During those same critical

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[1] U.S. International Trade Commission Report to the President on Investigation No. TA-201-25 under Section 201 of the Trade Act of 1974 (September 1977), p. A-21. Hereinafter, this report will be referred to as the "Section 201 Report."

[2] Section 201 Report, p. 7.

[3] Section 201 Report, p. A-3.

[4] Section 201 Report, p. A-4.

[5] *Livestock and Meat Situation* (February 1978), pp. 12-13.

[6] Section 201 Report, Table 6.

[7] USITC Transcript, Washington, D.C., September 22, 1977, p. 689.

[8] Section 201 Report, p. A-60.

[9] Section 201 Report, p. A-17, Table 13.

[10] *Livestock and Meat Situation* (February 1978), p. 17.

[11] Section 201 Report, p. A-17, Table 13.

years, 1974-1976, imports of cattle increased even more rapidly than imports of meat of cattle, from 233 million pounds in 1974 to 539 million pounds in 1976. In just one year, from 1975 to 1976, cattle imports increased from 383,000 head to 973,000 head.[12] And in 1977, cattle imports totalled 1,133,000 head.[13]

In 1976, cattle imports from Mexico amounted to over 500,000 head, more than half of which entered during the last two months of the year. Cattle imports from Canada totalled more than 400,000 head in 1976, compared with 185,000 head in 1975. According to the USDA, herd culling in Canada during the last two years stimulated its live cattle exports to the U.S. It is estimated that in 1976 over 50 percent of the cattle imported from Canada were slaughter cows,[14] sold in direct competition with the high U.S. cow slaughter of that year.

It is elementary that increasing imports adversely affect domestic prices by increasing supply. At a Commission hearing in Fort Worth Texas on June 28, 1977, Dr. Ernest E. Davis, a Livestock Marketing Economist at Texas A&M University, presented the estimated impact of increased imports based upon four published studies by agricultural economists. As stated in the Commission's Section 332 Report, "all these studies indicate a significant inverse effect of beef imports on domestic cattle prices." [15] For example, one study indicates that cow prices would have been 26.2 percent higher in 1975 and 30.2 percent higher in 1976 had imports remained at 1964 levels. Dr. Davis testified that "these are significant figures when one compares this to the losses sustained by cattlemen during this period." He further noted that income derived from the sale of such cows is significant, especially during the herd liquidation phase of the cattle cycle. For example, cull cow marketings represented 28.2 percent of total slaughter marketings in 1975 and 24.4 percent in 1976.[16]

Another study indicates that had imports of beef and veal remained at 1964 levels in 1975 and 1976, ranchers would have received additional revenues of $1.6 billion in 1975 and $1.8 billion in 1976.[17] Such a $1.8 billion loss represents 9.3 percent of the total cash receipts of $19.4 billion from total cattle marketings in 1976.[18] These losses occurred at the very time when our cattlemen were least able to bear them, that is, during the herd reduction phase of the cattle cycle. Based on these studies, Dr. Davis concluded that imports are a substantial cause of the economic injury being suffered by the cattle industry.[19]

Copious evidence was also presented to the Commission regarding the detrimental effect of live cattle imports upon the cattle-raising sector. Such live cattle imports have their greatest price depressing impact along the Mexican and Canadian borders, where they are sold at auction alongside U.S. cattle. For example, slaughter cows imported from Canada in 1975 and 1976 went to market in a relatively concentrated area in the Northern Plains States in direct competition with cull cows from farms and ranches in that area.[20]

In short, increased imports adversely affect domestic cattlemen by adding to supply and depressing U.S. cattle prices. The most direct adverse impact is upon prices received for cows, bulls, stags, and non-fed steers and heifers, which produce the manufacturing grade beef comparable to the imported boneless beef used to make hamburgers, sausages, frankfurters, and other processed beef products. In assessing the impact of imports upon the domestic cattle industry, it is important to note that in 1975 only 52 percent of total commercial cattle slaughter consisted of grain fed cattle; the remainder consisted of non-fed steers and heifers (17 percent), cows (28 percent), and bulls and stags (3 percent).[21] Moreover, a sizeable proportion of fed cattle is utilized in the manufacturing beef segment of the industry.

C. The Incorporation Of A Counter-cyclical Quota Formula Into The Meat Import Act of 1964 Would Add Stability To Supplies And Prices of Beef And Veal, Benefiting Both Cattlemen and Consumers

The formula for computing meat import quotas under the Meat Import Act of 1964 provides for increased or decreased quota levels in direct proportion to

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[12] Section 201 Report, p. A–27.
[13] *Livestock and Meat Situation* (February 1978) p. 9.
[14] Section 201 Report, pp. A–26–27.
[15] U.S. International Trade Commission Report on Investigation No. 332–85 under Section 332 of the Tariff Act of 1930 (November 1977). Hereinafter, this report will be referred to as the "Section 332 Report."
[16] USITC Transcript, Fort Worth, Texas, June 28, 1977, pp. 626–627.
[17] Section 332 Report, p. D–6.
[18] *Meat Facts*, 1977 edition.
[19] USITC Transcript, Fort Worth, Texas, June 28, 1977, p. 633.
[20] USITC Transcript, Washington, D.C., September 20, 1977, p. 363.
[21] Section 201 Report, Table 15, p. A–49.

the increase or decrease in domestic commercial production of beef, veal, mutton, and goat meat. Consequently, import quotas increase in periods of high domestic supplies (and low prices) and decrease in periods of low domestic supplies (and high prices). The quota formula, therefore has a destabilizing influence on the supplies and prices of beef and veal because it intensifies the intrinsic cycle of cattle production.

The cattle cycle is divided into two phases: herd accumulation and herd reduction. During the herd accumulation phase, cattle slaughter rates decline as producers seek to increase their calf producing capacity in response to higher cattle prices. Conversely, during the herd reduction phase, rates of cattle slaughter increase as producers seek to reduce their calf producing capacity in response to lower cattle prices. The cattle cycle reflects changes in both the quantity of slaughter and the type of slaughter. In 1973, during the herd accumulation phase of the most recent cycle (when prices were high), cow slaughter accounted for only 18 percent of total commercial cattle slaughter and non-fed steers and heifers accounted for only 3 percent of total commercial cattle slaughter. Subsequently, in 1975, during the herd reduction phase of the cycle (when prices were low), cow slaughter increased to 28 percent of total slaughter and non-fed steer and heifer slaughter increased to 17 percent of total slaughter. During the herd accumulation phase in 1973, non-fed steers and heifers and cows, bulls, and stags represented only 23 percent of total slaughter, but during the herd reduction phase in 1975, non-fed steers and heifers and cows, bulls and stags represented 48 percent of total slaughter.[22]

It is apparent, then, that during times of herd reduction there are larger supplies of domestic non-fed beef relative to fed beef and during times of herd accumulation there are smaller supplies of non-fed relative to fed beef. The present quota formula, however, exacerbates the cyclical supply pattern by allowing more imports of non-fed boneless beef during the reduction phase and less imports during the accumulation phase. The destabilizing influence of such a quota formula is readily apparent. When domestic supplies of non-fed beef are low (and prices are high), imports are theoretically reduced, but when domestic supplies of non-fed beef are high (and prices are low) imports are allowed to increase. For example, from 1974 to 1976, when cattle prices were depressed and the industry was liquidating its herds, meat subject to quota was allowed to increase by over 200 million pounds.[23] The quota levels were even higher in 1977 and 1978.

Because of the pro-cyclical quota formula, domestic cattle raisers receive the least import protection during the herd reduction phase when they most need it. Conversely, during the herd accumulation phase, when domestic supplies are low and cattle prices are high, the quota formula theoretically provides that imports decrease, although that is when imports most benefit consumers. In practice, the President has merely suspended quotas during times of low domestic supplies and high prices. For example, in 1972 and 1973, when domestic supplies were relatively low and prices relatively high, the President suspended quotas and encouraged the importation of beef to reduce retail beef prices. Thus, as the current quota system works, during periods of high production and low prices imports are allowed to increase, adding to the over-supply situation and further depressing cattle prices. But when domestic production is low and prices are high, the President suspends the quota, and again the cattlemen do not benefit from the quota system.

In assessing the destabilizing impact of the existing quota system upon domestic supplies and prices of non-fed beef, it is significant to remember that imports have their greatest adverse impact upon domestic cattlemen during the herd reduction phase of the cattle cycle. For, when domestic supplies are high, and relatively more cows and non-fed steers and heifers are being slaughtered, any additional supplies of imported non-fed beef have a disproportionate impact upon price. This point was made by Dr. Davis at the Fort Worth, Texas hearing:

"When we price [according to] economic law we price at marginal product brought to market, that is, the last quantity of that product brought to market. When you have a period of exaggerated supplies, you get into the proportion of the demand curve which simply means for that quantity to clear the market,

[22] Section 20, Table 16, p. A-49.
[23] Section 201 Report, Table 3, p. A-17.

the price must drop proportionately more than to have cleared that quantity before that." [24]

Thus, the competitive effect of imports is heightened in an environment of market over-supply.[25]

According to Dr. Donald E. Farris, a professor of Agricultural Economics at Texas A&M University, "the number one problem of the beef industry is price and supply instability." [26] He notes that the "failure of boneless beef imports to decline when our own markets are depressed is the main problem that needs attention. . . ." [27] For, when the domestic market is depressed as in recent years, and U.S. non-fed slaughter accounts for nearly 50 percent of total beef slaughter as in 1975, an increase in imported beef shows that the international market is not responsive to the domestic market condition.[28] Accordingly, Dr. Farris recommends an import policy directed toward protecting consumers from unusually high prices and producers from unusually low prices. To accomplish this result, he suggests that the existing quota system be changed to incorporate an automatic counter-cyclical policy tied to domestic market conditions.[29]

Dr. James P. Houck, a professor of Agricultural Economics at the University of Minnesota, testified before the U.S. International Trade Commission on September 20, 1977. He stated that a counter-cyclical quota mechanism would enhance the stability of the industry, benefiting both cattle raisers and the consuming public. Such added stability in the cattle sector would provide an economic climate to encourage investment in cost-reducing technology, improvements in productivity, better breeding stock, pasture improvements, better machinery and equipment, and better veterinary programs. His opinion is based on the accepted economic premise that capital expenditures are less likely in industries which are highly unstable and erratic. Accordingly, capital investment would be expected to increase in the domestic cattle industry given more stable supplies and prices. Dr. Houck also testified that such added stability would be particularly beneficial to smaller, family-owned farms and ranches, which are less able to withstand the upswings and downswings of the cattle cycle than larger corporate operations with ready access to financial markets.[30]

III. RECOMMENDATIONS FOR LEGISLATION

A. Incorporate A Counter-cyclical Quota Formula

The quota formula of the Meat Import Act of 1964 should be amended to restrict imports more severely during the herd reduction phase of the cattle cycle (when cattle prices are low) and less severely during the herd accumulation phase of the cattle cycle (when prices are high). That is, the quota level should be set in inverse relationship to domestic production in order to stabilize beef supplies and prices.

After a great deal of discussion with representatives of various cattlemen's associations and with agricultural economists, the Meat Promoters have concluded that per capita domestic cow beef production is the best indicia of the cattle cycle for the purpose of devising a workable counter-cyclical formula. This approach was initially proposed by representatives of the National Cattlemen's Association. Under their proposal, the adjusted base quota as currently determined under the Meat Import Act of 1964 would be further adjusted to reflect the change in per capita domestic cow beef production. This would be accomplished by multiplying the adjusted base quota by the fraction having as its numerator the ten year moving average of per capita commercial cow beef production and as its denominator the average of the estimated per capita commercial cow beef production for the quota year under consideration and the actual per capita commercial cow beef production for the year previous. A ten year moving average is used because that is the approximate length of the cattle cycle.

Under the proposed formula, if per capita cow beef production for the current and previous year is greater than the ten year average (reflecting a herd reduction phase of the cycle), then the import quota would be adjusted down-

[24] USITC Transcript, June 28, 1977, p. 633.
[25] Section 201 Report, p. A-83.
[26] Prepared statement of Dr. Farris, "Statement on the Beef Business and U.S. Beef Imports," p. 12, Fort Worth, Texas, June 28, 1977.
[27] *Id.*, p. 14.
[28] *Id.*, p. 18.
[29] *Id.*, p. 22-23.
[30] USITC Transcript, Washington, D.C., September 20, 1977, pp. 227-228.

ward. Conversely, if per capita cow beef production is less than normal (reflecting the herd accumulation phase of the cycle), import quotas would be adjusted upward. The result would be to increase imports when domestic cow beef supplies are less than normal and to decrease imports when domestic supplies are greater than normal. Such a formula should enhance stability in the supplies and prices of beef, benefiting both cattlemen and consumers.

B. Extend the Quota Coverage to Cooked, Canned, and Cured Beef and Veal Products

The quota should be extended to cover all beef and veal products, including cooked, canned, and cured. All of this non-quota beef is as directly competitive with U.S. beef and veal and is as highly injurious to domestic cattle raisers as the meat presently subject to quota. Such beef and veal not subject to quota almost doubled from 1975 to 1976, from 123 million pounds in 1975 to 219 million pounds in 1976. There is no reason to believe that importers will not take greater advantage of this loophole in the quota system in future years.

C. Extend the Quota Coverage To Live Cattle

The quota should also be extended to cover imports of cattle. It is unfair to subject our ranchers in the border states to wildly fluctuating levels of cattle imports, such as the three-fold increase (head of cattle) between 1975 and 1977.

D. Apply the Quotas to Articles Transshipped Through Foreign Trade Zones Into the United States

The Meat Promoters further recommend that the Meat Import Act be amended specifically to cover meats transshipped through foreign trade zones such as Mayaguez, Puerto Rico. Although this problem has been dealt with administratively in the negotiation of bilateral restraint agreements, legislation is needed to ensure that the quota will never again be circumvented in this manner. Even the Meat Importers Council has stated that it does not object in any way to subjecting meats imported through foreign trade zones to quota restrictions by way of legislation.[31]

E. Reduce the Trigger Level From 110 Percent to 105 Percent of the Adjusted Quota Level

Enforcement of the quota should be strengthened by reducing the trigger level from 110 to 105 percent of the quota level. Imports subject to the Act exceeded the adjusted quota in every year between 1969 and 1976 and even exceeded the trigger level in 1970, 1972, 1973, 1975, and 1976.[32] The U.S. International Trade Commission noted that in the full 12 years that the Meat Import Act has been in effect, meat imports have exceeded the adjusted base quota nine times and the trigger level five times. By reducing the trigger level from 110 to 105 percent, we would be better able to limit imports to the adjusted base quota levels.

F. Limit Presidential Authority To Suspend Quotas.

Enforcement of the quota should also be strengthened by prohibiting the President from suspending quotas absent a determination that domestic cattle raisers are operating at a reasonable level of profitability. The Commission's Section 201 Report notes that in five of the six years when the President has proclaimed the required adjusted base quotas (1970-1974), he simultaneously suspended the quotas in view of "overriding economic interests." In the sixth year (1976), he increased the quota level, again in view of "overriding economic interests," to a level equal to the trigger level. By requiring the President to consider the level of profitability in the cattle raising sector, cattlemen would be assured that quotas would not be suspended absent a focused consideration of their economic situation. In any event, if the proposed countercyclical quota formula were adopted, there would be less pressure upon the President to suspend quotas, because quotas would automatically increase in times of low domestic supplies and high prices.

IV. CONCLUSION

Again, I thank you for this opportunity to appear on behalf of the National Association of American Meat Promoters. The Meat Promoters are extremely

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[31] Testimony of Mr. O'Reilly, Chairman of the Meat Importers Council, USITC Transcript, Washington, D.C., p. 557.
[32] Section 201 Report, Table 3, p. A-17.

grateful for all of the time, expertise, and encouragement they have received from Senator McGovern, Senator Abourezk, and their staffs, in attempting to find solutions to the problems faced by cattlemen as a result of increasing imports. The Meat Promoters commend to the committee the written statement and draft of legislation entered into the record by Senator McGovern, which reflect the position of the Meat Promoters and the suggestions that I have made today. I encourage the Committee and its staff to give careful attention to Senator McGovern's tentative draft and to the amending legislation which I understand Senators McGovern and Abourezk are soon to introduce.

Senator HANSEN. Our final witness is Mr. David J. Steinberg. I understand that Mr. Steinberg, who represents the U.S. Council for an Open World Economy, was unable to be here, but his statement will be introduced into the record and become a part of it in his absence.

[The prepared statement of Mr. Steinberg follows:]

TESTIMONY OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

Congress and the Administration should be developing a coherent, constructive livestock policy that addresses the real problems and needs of the nation's livestock industry and avoids quota restraints on imports of meat unless such controls are temporarily indispensable as emergency components of a coherent adjustment strategy. The policy's progress, cost and contribution to the national interest should be openly, systematically and periodically reassessed.

This course is more deserving of governmental attention and ingenuity than efforts (as in bills now before Congress) to perfect the meat import controls authorized by the meat import quota act of 1964, or impose other impediments on meat imports. Such direct attention to the real problems and needs of the vital cattle industry would be in the best interests of the industry, consumers and the nation at large. It would also set a desirable example for other countries whose answer to domestic livestock problems has too often been restriction of meat imports. The trading world needs a much more sophisticated approach to the problems of weak industries. The United States has a major export and overall economic stake in such long-overdue reform.

Barriers against imported meats (these products are mostly complementary not competitive ingredients for hamburgers, hot dogs and luncheon meats) are not only detrimental to consumers, especially low-income consumers who can least afford such trade restrictions. They also constitute barriers to the search for policies that can cope incisively and decisively with the basic problems of the domestic cattle industry. This results because simplistic recourse to import controls, attacking the presumed symptoms of a domestic industry's problem, tends to divert attention from the more prudent, constructive course of determining the nature and solution of the industry's real difficulty.

Whatever the industry in trouble, it is high time we and other trading nations stopped making imports a scapegoat for domestic economic ills and found real solutions to the real problems of ailing industries in a rapidly changing world economy. Import quotas and other trade controls have become a too convenient nostrum which too many industries too often find appealing for treating ailments for which imports are not responsible. America is capable of better. The American people deserve better. The national interest demands better.

Senator HANSEN. Are there any further witnesses to be heard before the hearings are adjourned?

[No response.]

Senator HANSEN. If not, the Chair thanks all of you for your presence and your testimony here today. The hearing is adjourned.

[Thereupon, at 3:35 p.m., the hearings in the above-entitled matter were adjourned.]

[By direction of the chairman the following communications were made a part of the record:]

STATEMENT OF SENATOR GEORGE MCGOVERN

Mr. Chairman, I appreciate the opportunity to submit testimony this morning to the Senate Finance Committee on a topic in which I have had a substantial interest over a long period of time. As one of the original authors of the Meat Import Act of 1964, I am one of the first to recognize that though it fulfilled a badly needed function at that time and for a period of time acted effectively in the interests of American meat producers, like any other permanent piece of legislation, it must be constantly reviewed and revised to cope with changing times.

Times and circumstances have changed. American beef producers have been in disastrous circumstances for over three years on the low end of a traditional beef cycle. Many have gone bankrupt or have changed to other types of agricultural operations. Though cattle prices have improved in the last two weeks, both cattle producers and cattle feeders have a long way to go and billions of dollars of losses to recoup before they see the red ink disappear from their accountants' records.

As a matter of history, let me briefly mention that during 1977 the International Trade Commission conducted an extensive investigation into some of the questions before the Committee today. My testimony was submitted before that body in Rapid City, South Dakota, on June 14, 1977, and again on September 20, 1977, here in Washington. The report of the International Trade Commission fell substantially short of the expectations of its petitioners and for that reason it is my judgment that the initiative has thus shifed to the Congress to enact legislation that will be meaningful to our own producers while still not turning our backs on the nation's international trade commitments.

Let me say, Mr. Chairman, that I do not view the present problems of ranchers and feeders purely in terms of the effectiveness of the 1964 act. It is my judgment that there are several areas where we can be helpful and still not protectionist in our attitudes. With these thoughts in mind I have prepared draft legislation with my junior colleague from South Dakota, Senator James Abourezk, which we plan to introduce shortly. In essence, it addresses itself to what I feel to be the major problems of meat producers as well as the import question. Senator Abourezk and I have cited our bill as the Beef Act of 1978. Its stated purpose is "to provide for improved controls over the labeling and inspection of meat and meat food products, and to enhance stability in the supply and price of meat and meat food products."

From a legislative standpoint, the bill is drawn so that it may be jointly referred to the Committee on Agriculture, Nutrition and Forestry and the Committee on Finance.

Let me in brief language outline the objectives of the bill which jurisdictionally relate to the Agriculture Committee as well as those which are properly before this Committee:

The early sections of the bill relate to amendment of the Federal Meat Inspection Act with respect to labeling of meat imports to adequately inform consumers of the origin of the product.

Later sections refer to tests and inspection of imported meat products both in the country of origin and in this country, tests and inspection to include internal organs of the animals to insure that tolerances do not exceed levels authorized in this country by law or regulation. On this question, the Secretary is authorized to assess fees to cover these costs.

It includes in the quota prepared or preserved beef and veal commonly known as tinned and cooked meat that is not now included and provides a level of imports in this area.

It includes in the aggregate quantity of articles specific under import quotas live cattle which are coming into this country in increasing numbers and provides levels.

It provides a countercyclical quota formula to include the totality of meat and meat product importations starting with a base period and calculated thereafter by the Secretary.

It reduces the tolerances provided in the 1964 act under voluntary restraint agreements from 110% of the quota to 105% of the formula.

Let me emphasize that because of the complexity of the legislation it is at this moment necessarily in draft form. It will be ready for introduction as soon as economic advisors certify to us the numbers involved as well as the methodology of some of the procedures. I attach it to this statement as a working document and hope that it will be treated as such.

The official formula for computing meat import quotas under the Meat Import Act of 1964 provides for increased or decreased quotas in direct relation to increases or decreases in domestic commercial production of beef, veal, mutton, and goat meat. The effect of this formula is that import quotas increase in periods of high domestic supplies and decrease in periods of low domestic supplies.

Unfortunately, however, it is when domestic supplies are high that cattle prices are lowest and that cattlemen consequently need import protection the most. For example, during the period 1974 to date, domestic slaughter of cattle has been high and cattle prices have been depressed. Much of this increased slaughter has been of nonfed cattle, which compete most directly with the imported beef. But because the quota level increases as domestic production increases, imports have been allowed to accelerate since 1974, further depressing domestic cattle prices. In fact, imports of beef and veal have increased from approximately 1.2 billion pounds in 1974 to 1.5 billion pounds in 1976.

Conversely, when domestic supplies are low and cattle prices are high, the quota formula theoretically provides that imports decrease. In practice, however, the system has not worked that way. For example, in 1972 and 1973, when domestic supplies were relatively low and prices relatively high, the President suspended quotas and encouraged the importation of beef to reduce retail beef prices. In short, as the current quota system works, during periods of high production and low prices (such as that experienced during the recent herd reduction phase of the cattle cycle) imports are allowed to increase, adding to the oversupply situation and further depressing cattle prices. But when domestic production is low and prices are high, the President suspends the quotas and again the cattlemen do not benefit.

To remedy the existing flaw in the act, I propose that the quota be revised to incorporate a countercyclical mechanism. That is, the import quota levels should vary inversely either with domestic production or with nonfed domestic production. I believe there is much merit in the recommendation of some, such as Senator Bartlett, Representative Nolan, and the National Association of American Meat Promoters, that the quota system should restrict imports more severely when the domestic slaughter of nonfed cattle relative to fed cattle is high (such as in the current herd reduction phase) and restrict imports less severely when domestic slaughter of nonfed cattle relative to fed cattle is low (that is, during the herd accumulation phase of the cattle cycle when prices are typically high). The rationale for such a quota formula is that the number of fed cattle slaughtered in relation to the number of nonfed cattle slaughtered is an excellent barometer of the health of our cattle industry. Whenever there is an oversupply of cattle and prices are dropping, fewer cattle are held in feedlots and more grassfed cattle, cull cows and cull bulls are sent to slaughter. When prices finally improve, there is a shift back toward fed cattle slaughter. Not only does this relationship of fed versus nonfed slaughter reflect the health of the industry, it provides a logical basis for controlling the flow of imported beef, which competes more directly with nonfed cattle than with fed cattle. According to the suggested formula, imports would be restricted more severely when U.S. supplies of nonfed relative to fed beef are high and less severely when U.S. supplies of nonfed relative to fed beef are low. This formula would tend to stabilize supplies and consequently prices of nonfed beef.

The benefits of such a countercyclical formula would accrue to both cattlemen and consumers. The intrinsic boom and bust generated by the cattle cycle would be lessened by such a formula. The suggested system would generate more stable revenues for producers and more stable prices for consumers. In fact, contrary to what some cattlemen have speculated, I believe a revision of the existing quota system along these lines could be supported by consumer groups as well as cattlemen.

In addition to changing the existing quota formula, further revisions are needed in the Meat Import Act of 1964. First, the quota restrictions should be extended to all beef and veal products, including cooked, canned, and cured beef and veal. Second, quota restrictions should be established with respect to live cattle, imports of which have doubled during the last two years. Third, the quota restrictions should apply to meats trans-shipped through "foreign trade zones" such as Mayaquez, Puerto Rico. Fourth, the "trigger level" at which the President may invoke the quota should be reduced from 110% to 105% of the quota level. Finally, the sole authority for negotiating as well as enforcing bilateral restraint agreements should be assigned to the Secretary of Agriculture, who will be more likely to represent the interests of domestic cattlemen than either the Special Trade Representative or the Secretary of State.

IN THE SENATE OF THE UNITED STATES

A BILL

To provide for improved controls over the labeling and inspection of meat and meat food products; and to enhance stability in the supply and price of meat and meat food products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as "The Beef Act of 1978."

SEC. 2. Section 20(a) of the Federal Meat Inspection Act (21 U.S.C. 620(a)) is amended by inserting "(1)" after "(a)", and by adding at the end thereof the following:

"(2) The Secretary shall, with respect to any carcass, part of a carcass, meat or meat food product of a cow, sheep, swine, goat, horse, mule, or other equine which is capable of use as human food and which is imported into the United States, require by regulation or otherwise that any such article, or any product made in whole or in part from any such article if capable for use as human food, or that the package or container of such article or product, be labeled or otherwise marked in such manner as the Secretary determines practicable to inform the retail consumer of such article or product at the time of purchase that such article or product was imported, in whole or in part, as the case may be, into the United States.

"(3) No carcasses, parts of carcasses, meat or meat products of cattle, sheep, swine, goats, horses, mules, or other equines which are capable of use as human food shall be imported into the United States unless—

"(A) tests have been conducted on the carcasses, parts of carcasses, and meat and meat food products, including internal organs, of the animals from which such articles came, to determine whether such articles (i) contain any substance, as defined in paragraph (5), and (ii) contain a level of any such substance in excess of the maximum level permitted by law or regulation;

"(B) such tests have been conducted, in the country from which such articles are being imported, by persons who have been initially certified (and subsequently recertified) in the same or similar manner and under the same criteria as persons who are initially certified (and subsequently recertified) by the Department of Agriculture to conduct such tests on articles of animals produced in the United States; and

"(C) the appropriate government official of the country from which any such article is being imported has certified to the Secretary that such article is being imported has certified to the Secretary that such article has been tested in accordance with regulations issued by the Secretary and that such article does not contain any substance as defined in paragraph (5) or contain a level of any such substance in excess of the maximum level referred to in paragraph (5), as appropriate.

"(4) In order to verify the accuracy of testing required for substances, as defined in paragraph (5), the Secretary shall conduct a program under which inspectors of the Department of Agriculture take, from time to time, samples of carcasses, parts of carcasses, and meat and meat food products of animals referred to in paragraph (5) which are intended for export to the United States, including the internal organs of the animals from which such carcasses and meat and meat food products came, and send such samples to the United States for appropriate testing.

"(5) As used in paragraphs (3) and (4) of this subsection, the term 'substance' means any chemical matter for which the Department of Agriculture conducts tests on carcasses, parts of carcasses and meat and meat food products, including the internal organs, of cattle, sheep, swine, goats, horses, mules, or other equines which are capable of use as human food, for the purpose of determining whether residues of such chemical matter are present in such articles or to determine whether the residues of such chemical matter present in such articles exceed levels authorized by law or regulation.

"(6)(A) The Secretary shall prescribe such assessments and fees on imported meat and meat food products as he determines necessary to cover the costs of inspections, certifications, testing, and labeling (or other marking) required under this section.

"(B) In establishing the level or rate of assessments and fees to be imposed under this title, the Secretary shall take into consideration the volume of imports, the value thereof, and such other factors as he deems appropriate in order to achieve a fair and equitable allocation of such assessments and fees among importers.

"(C) The Secretary shall have authority to suspend or revoke the privilege of any importer of meat or meat food products to import such products into the United States if such importer fails to pay the assessments or fees which he is required to pay under this paragraph."

SEC. 3. Subsection (a) of section 2 of the Act entitled "An Act to provide for the free importation of certain wild animals; and to provide for the imposition of quotas on certain meat and meat products" (78 Stat. 594; 19 U.S.C. 1202), hereinafter referred to as the "Quota Act," is amended to read as follows:

"Sec. 2.(a)(1) It is the policy of the Congress, except as provided in paragraph (2), that—

"(A) The aggregate quantity of the articles specified in items 106.10 (relating to fresh, chilled, or frozen cattle meat) and 106.20 (relating to fresh, chilled, or frozen meat of goats and sheep) (except lambs) of the Tariff Schedules of the United States which may be imported into the United States in any calendar year beginning after December 31, 1978, shall not exceed 652,860,000 pounds;

"(B) The aggregate quantity of the articles specified in items 106.80, 106.85, 107.20, 107.2520, 107.40, 107.45, 107.48, 107.50, 107.52, 107.55, 107.60, 107.70, 107.7540 and 107. 7560 (relating to prepared or preserved beef and veal) of the Tariff Schedules of the United States which may be imported into the United States in any calendar year beginning after December 31, 1978, shall not exceed 80,000,000 pounds;

"(C) The aggregate quantity of the articles specified in items 100.40, 100.43, 100.45, 100.50, 100.53, and 100.55 (relating to live cattle) of the Tariff Schedules of the United States which may be imported into the United States in any calendar year beginning after December 31, 1978, shall not exceed 400,000 head or 200,000,000 pounds.

"(2) An "aggregate quantity," as stated in subparagraphs (A), (B) and (C) of paragraph (1), shall be—

"(A) increased or decreased for any calendar year by the same percentage that estimated average annual domestic commercial production of the articles described in subparagraph (A) of paragraph (1) in that calendar year and the two preceding calendar years increases or decreases in comparison with the average annual domestic commercial production of those articles during the years 1959-1963, inclusive, and

"(B) further increased or decreased by multiplying the 'adjusted base quota,' resulting from the adjustment in subparagraph (A) of this paragraph, by the fraction having as its numerator the ten-year moving average of per capita commercial cow beef production and as its denominator the average of the estimated per capita commercial cow-beef production for the quota year under consideration and the actual per capita commercial cow beef production for the previous year.

"(3) Notwithstanding any other provision of law, the limitations imposed by this section shall apply with respect to articles imported into the United States, whether or not such articles are shipped directly into the United States or transshipped through foreign trade zones into the United States."

SEC. 4. Subsection (b) of the Quota Act is amended to read as follows:

"(b) The Secretary of Agriculture, for each calendar year after 1978, shall estimate and publish—

(1) before the beginning of such calendar year, the aggregate quantities prescribed for such calendar year by subsection (a), and

(2) before the first day of each calendar quarter in such calendar year, the aggregate quantities of the articles described in subsection (a)(1)(A), (B), and (C), which (but for this section) would be imported in such calendar year.

In applying paragraph (2) for the second or any succeeding calendar quarter in any calendar year, actual imports for the preceding calendar quarter or quarters in such calendar year shall be taken into account to the extent data is available."

SEC. 5. Subsection(c) of the Quota Act is amended by striking out "110" each place it appears and inserting in lieu thereof "105."

SEC. 6. Subsection (d) of the Quota Act is amended by inserting "domestic cattle raisers are operating at a reasonable level of profitability, and that" after "if he determines and proclaims that."

SEC. 7. Notwithstanding any other provisions contained herein, the President may prohibit or curtail the importation of any of the articles defined in paragraph (a)(1) of Section 2 if he determines and proclaims that such action is required by overriding economic or national security interests of the United States, giving special weight to the importance to the Nation of the economic well-being of the domestic livestock industry.

STATEMENT OF SENATOR PAUL HATFIELD OF MONTANA

Mr. Chairman, I appreciate this opportunity to submit testimony to the Senate Finance Committee regarding meat imports—a subject of high importance in my home State of Montana.

American agriculture is experiencing serious financial difficulties. In Washington during the past several weeks, members of the American Agricultural Movement and representatives of other farm organizations have effectively delivered this message to the Congress.

In Montana, agriculture accounts for more than 40 percent of the State's primary industry. The cattle business is responsible for 40 percent of the total cash receipts for agricultural products. In our State last year, we raised approximately 2½ million cows and calves, but this total represents a decline of 25 per cent from the 3.4 million head of cattle in Montana in 1974. Depressed conditions in the cattle market have persisted, while the costs of production have continued to increase. Transportation costs, particularly in an isolated State like Montana, have risen. Property taxes have been increased and other costs, including expenditures for feed during a long hard winter, have just about driven ranchers off the land.

A recent Cost of Production Study conducted by Montana State University indicates that a rancher beginning in the cattle business needs at least $60 per hundred weight just to cover production costs. Based on 400 pound calves, total costs are $240 per head. On December 15 of last year, however, prices were only $40 per hundred weight, which adds up to a loss of $80 for every calf Montana ranchers send to market.

In Montana, we have a saying which we use to describe a predicament. When a person is in a difficult situation with no apparent method of extrication, he is said to be between a "rock and a hard place." This is exactly the situation which is "crushing" ranchers in Montana and other parts of the country.

The Senate must carefully consider and take action to alleviate the problems of the beef industry. The cattlemen are not asking for financial assistance, subsidies, cash payments or other programs requiring the expenditure of funds from the national treasury. They are asking instead for protection from unfair foreign competition through control of the large quantities of red meat imported into this country outside of the law. The industry is asking that additional restrictions be placed on low quality foreign meat products and live cattle that enter this country, in many cases, through gaping loopholes in the present quota law.

The amount of red meat imported into this country is a major cause of the preposterously low prices ranchers receive for their cattle. The Montana State University study indicated that there is a price impact of $8.00 per hundred weight on cattlemen resulting from the 600 million pounds of meat imported into the country. I believe it is essential to make substantive modification in the import quota system to protect American cattlemen from foreign meat which is not subject to the Meat Import Quota Act.

Quotas on imported meat are set at above 7 percent of the total domestic production. Restrictions are not "triggered," however, until imports exceed the quota by 10 per cent. There is no logical reason to maintain this 10 per cent trigger allowance, which functions only as a disadvantage to domestic producers. In fact, the quota itself should be reduced.

Many types of imports, including processed, preserved, cooked and canned meat, are not subject to the quota. The law should be modified to assure that all impored beef and mutton are charged against the quota.

The United States imports approximately 1.1 million head of live cattle per year. These cattle are also not counted against the import quota. These cattle are slaughtered in the United States and added to the total domestic production, which in effect allows more meat to enter the country under the 7 per cent quota. The importation of live cattle imposes a particular hardship on the border State like Montana. Foreign cattle compete with Montana livestock in the auction markets, resulting in lower prices for American producers. I recommend restrictions on the amount of live cattle that can be imported into this country. I also support an inverse quota system for meat imports, based on production levels in accordance with the formula proposed by the American Cattlemen's Association. Under this type of system, the quota would decrease during periods when domestic production was above the 10 year average. Inversely, when domestic production fell below the average level, the quota percentage would be raised, allowing a higher level of imports. These revisions in the law would stabilize the cattle market and prevent the radical price variations consumers have experienced at the meat counter in the past several years.

These measures, placing all meat under the quota system, eliminating the 10 per cent trigger allowance, restricting the import of live cattle, and establishing an inverse quota, are essential to protect American stockmen by creating a more favorable and stable market for their products. I understand the hesitancy of some Members of Congress, particularly those from industrial states, to support policies that they might think could increase the cost to their constituents of checking out of the supermarket. The price the rancher receives for his cattle, however, is only a small portion of the retail cost of meat.

The problem for cattlemen is critical and if they are not fairly protected from imported meat, many will be driven out of the business, production will decline and the final consequence will be shortages and increases in the price consumers pay for meat.

GERALDENE, MONT., *December 14, 1977.*

Hon. RUSSELL LONG,
Chairman, Finance Committee,
Russell Office Bldg.,
Washington, D.C.

DEAR SENATOR LONG: We would like this letter to go on record as being in support of Senator John Melchers bill H.R. 5264 regarding the tightening of beef import quotas.

We must protect our American producers even more in this time of depressed prices. Through the passing of this bill, we feel it would be one step toward the protection of our most viable renewable resource and international trade factor—American agriculture.

Most kind regards,

Mr. and Mrs. CHARLES TONNE.

IMPACT OF BEEF IMPORTS

(By Dr. Ernest E. Davis, Livestock Marketing Economist, Texas Agricultural Extension Service, Texas A & M University)

Cattlemen of this nation have maintained a market structure more closely representing a perfectly competitive model as exists in the United States today. As defined by economic theory, a pure or perfectly competative industry, such as the cattle industry, offers its product at prices equal to the average cost of production and results in the greatest economic efficiency. Unfortunately, the catle industry, for the most part, markets its product at prices below average cost of production. A cattleman can only hope to cover production cost four or five years out of the ten to twelve years of a cattle cycle. The logical question is how do cattlemen stay in business? If it were not for land appreciation, mineral resources, and supplemental nonagricultural jobs, many cattlemen could not have stayed in business.

As would be expected under such an economic environment, U.S. beef prices respond to market forces quickly and are highly influenced by current supplies of beef and veal, per capita disposal income, and supplies of other meat and poultry products. Imports of beef, of course, add to the total supply of our domestic beef, consequently lowering the price of cattle to our producers. Unfortunately, since world beef supplies fluctuate similarly to our domestic supplies, peaks in beef available for importation have often coincided with peaks in domestic supplies of beef.

Since the U.S. cattle industry is composed of nearly 2 million cattle producers, each is such a small part of the total that no individual rancher or group of ranchers' actions can have much influence on the market. Acting as individuals a ranch will expand in reaction to profits. Total cattle numbers increase, supply exceeds demand and cattle prices plummet. Consequently, ranchers will be forced to reduce their herds or go completely out of business. Since production plans are made 2½ to three years in advance of the product coming to market, once the price falls to signal over-supply there are still two to three years of over supply and low prices yet to come.

If we are to have a healthy cattle industry in this country, we must aid the cattlemen somewhat by regulating supplies during periods of over production. This would also provide more consistant supplies of beef with less price fluctuation to consumers. At least in the shorter run we probably do not have a more effective alternative than regulating beef imports inversely with our cattle cycle.

The U.S. has been the largest market for frozen boneless beef since 1960. If it were not for the quota enacted in 1964, it is likely that even greater quantities would have been imported in 1975 and 1976 when U.S. cattle prices were at depression levels. It is important to note that the European Common Market, traditionally the largest beef importing area of the world, had an embargo on beef imports during 1975. Japan did also and Russia imported only modest amounts in 1975 and 1976. Therefore, the U.S. was the only available market for much of the world's surplus beef and the result was tragic losses for beef producers in this country.

Imported frozen boneless beef competes directly with cull cows from beef and dairy herds and with increasingly larger portions of the lean meat from choice and good grade carcasses that is being used for ground beef. Imported beef also competes indirectly with the U.S. fed beef by increasing the total supply of beef. When ground beef is in heavy supply, the market begins to substitute ground beef for the more expensive cuts and stocks of the higher quality beef begin to build up and the price falls.

There have been several studies by agricultural economists published in reputed journals, defended as Master's and Ph.D. dissertations, and reviewed by peers for approval as Experiment Station bulletins, that have shown a significant adverse affect of beef imports on domestic cattle prices. Table 1 lists four such studies that were independently completed at Texas A & M University, Australian National University and Iowa State University cooperating, Washington State University and the University of Wyoming.

The coefficients in Table 1 show the direction and amount of price change in dollars per hundredweight given a 200 million pound increase in beef imports. It estimates the impact on cull cows, feeder calves, choice slaughter steers, and a general classification including all cattle. Note that these studies indicate a relatively large impact of beef imports on cull cow prices. Remember, during times of large domestic beef production, i.e., during herd liquidation periods caused by low prices, cull cow marketings make up sizeable proportions of total slaughter cattle marketings (28.2% in 1975 and 24.4% in 1976 as shown in Table 2). Ranchers depend on these sales of cull cows for sizeable proportions of their income.

The price of beef as any other commodity sold on a free market is influenced by the last unit of the commodity placed on the market. When marketings are unusually large, an extra unit becomes very critical, as in beef when large quantities place consumer demand at the inelastic portion of the demand schedule. This means for an additional unit to clear the market the price must fall proportionately more than was necessary for the previous unit of beef to clear the market. Consequently, in times of depressed prices when a rancher is struggling to pay out-of-pocket or variable costs of production, every dollar received is vital. Any additional beef supplies could be the final straw for some cattle producers, especially for the small low income farm families.

TABLE 1.—ESTIMATED EFFECTS OF INCREASED BEEF IMPORTS ON CATTLE PRICES

[In dollars per hundredweight]

Cattle classification	Study: Farris and Graeber [1]	Rausser and Freebairn [2]	Folwell and Shapouri [2]	Ehrich and Usman [2]
All cattle			−1.41	
Cull cows	−1.91	−1.09		−1.08
Slaughter steers	−.24	−.60		
Feeder calves		−1.16		

[1] Estimated at 1 lb per capita (202 million lb) increase in beef imports.
[2] Estimated at 200 million lbs increase in beef imports.

TABLE 2. CATTLE PLACEMENTS ON FEED, SLAUGHTER CATTLE MARKETINGS, AND ESTIMATED TOTAL LIVE WEIGHT, 1975–1976

Cattle classification	1975	1976
Cattle on feed placements—23 States (1,000 head)	24,691	25,499
Liveweight estimate of feeder cattle placements (million pounds) [1]	14,074	14,448
Commercial cattle slaughter (1,000 head)	40,911	42,654
Liveweight estimate of commercial cattle slaughter (million pounds) [2]	40,747	43,464
Fed steers and heifers (1,000 head)	21,210	25,040
Liveweight estimate of fed steers (million pounds) [3]	15,589	17,526
Cows (1,000 head)	11,557	10,619
Liveweight of cows (million pounds) [4]	10,979	10,088

[1] Estimated from proportion of steers and heifers on feed 1975 (70 percent steers) and 1976 (66 percent steers) using average weights of 600 and 500 lb for steers and heifers, respectively.
[2] Estimated using average liveweight of commercial slaughter cattle for 1975 (996 lb) and 1976 (1,019 lb) as reported in USDA "Livestock Slaughter."
[3] Estimated using proportions as in footnote 1 and 1,050 lb average weight for steers.
[4] Estimated using average liveweight of cull cows at 950 lb/head.

Sources: USDA "Cattle on Feed," USDA "Livestock and Meat Situation," and USDA "Livestock Slaughter."

Table 3 lists the actual average prices received during 1975 and 1976 for utility cows, choice slaughter steers, and choice feeders and what the prices might have been had imports been at 1964 levels when the Meat Import Law PL88-482 was passed (1,197 million pounds). Notice in the Graeber-Farris model, cow prices would have been 26.2% higher in 1975 and 30.2% in 1976 had imports been at the 1964 rates. These are significant figures when one compares this to the losses sustained by cattlemen during this period.

Table 4 estimates the additional total revenue that would have been received by stricken ranchers had the beef imports been reduced to 1964 levels. The Freebairn and Rausser model published in the *American Journal of Agricultural Economics* estimates revenues lost to the larger import rates relative to the 1964 rates to total $1.1 billion in 1975 and $1.5 billion in 1976. Most critical to cow-calf operators is the estimated income lost from lower prices of cows and feeder calves. The Washington State model of Folwell and Shapouri estimates even larger unrealized revenues from all classes of beef cattle ($1.6 billion and $1.8 billion for the respective years of 1975 and 1976).

Statistical analysis is unable to separate out the effects of imports on beef price with absolute precision because there are generally several factors influencing price simultaneously. Therefore, different statistical models will provide different estimates and these estimates will change depending on the time period and model used. In all the studies reported herein the price effect of imports was high for U.S. utility grade cows because the product had essentially the same end use. Estimates of these models relate to the effects of imports on beef price at the average level of imports during the time period of the data. Therefore, when domestic production of beef is at an all time high as in 1976, imports are also at recorded levels, and quantities marketed are at the inelastic portion of the demand function one must conclude that the estimates of the statistical models are conservative. Consequently, the impact is greater as you move further from the mean and extend beyond the range of the data. The larger coefficients may provide closer estimates of the real effects.

TABLE 3.—LIVE PRICES FOR COWS, FED STEERS, AND FEEDERS AND ESTIMATED PRICES USING 1964 BEEF IMPORT LEVELS, 1975–76

[In dollars per hundred weight]

Classification	Actual prices		Graeber and Farris		Freebairn and Rausser		Ehrich and Usman	
	1975	1976	1975	1976	1975	1976	1975	1976
Utility cows	21.09	25.51	26.62	32.95	24.28	29.72	24.25	29.68
Choice slaughter steer	44.61	39.11	45.31	40.07	46.37	41.54		
Choice feeders	33.91	39.40			37.30	44.09		

Source: USDA "Livestock and Meat Situation."

TABLE 4.—ESTIMATED TOTAL RECEIPT IMPACT FROM BEEF IMPORTS GIVEN 1964 IMPORT LEVELS, 1975–76 [1]

[In millions of dollars]

Classification	Graeber and Farris		Freebairn and Rausser		Folwell and Shapouri		Ehrich and Usman	
	1975	1976	1975	1976	1975	1976	1975	1976
Utility cows	607.1	770.7	350.2	444.9			346.9	440.8
Choice slaughter steers	109.1	168.2	274.4	425.9				
Choice feeders			477.1	677.6				
All slaughter cattle					1,647.2	1,792.6		

[1] Estimated using price difference (dollars per hundredweight) from table 3 multiplied by liveweight production estimates from table 2.

As stated by Dr. Donald E. Farris in a paper prepared for the Record of Public Hearings: "The United States has attempted to maintain low trade restrictions on meat imports for a variety of reasons. A reason often given by federal officials is that we want to encourage other countries to reduce restriction on U.S. agricultural imports into their countries, and in general, encourage freer trade throughout the world. There is little evidence that this has been effective since most countries establish import restrictions in response to pressure from domestic interest groups. Another reason offered is that it provides some insurance against exceptionally high retail prices of meat. From the standpoint of the entire economy these are laudable objectives, but from the standpoint of the domestic meat producers this helps to create a heavy domestic supply situation that has generally resulted in low rates of profit compared to other agricultural enterprises and other industries in the American economy (Farris and Mallett). Furthermore, it appears that imports have not contributed to domestic price stability, but there is some evidence that suggests that they have added to instability. Imports generally have been high when supplies were abundant and prices were low in the U.S."

In summary, during times most critical to U.S. cattlemen, i.e., liquidation periods accompanied by large supplies to beef and low prices, substantial beef imports have continued to enter the country and further depress prices. The current U.S. Meat Import Law allows an escalation of meat imports in line with domestic production. This means, more imports at times when less is critically essential to U.S. cattlemen.

APPENDIX TABLE.—QUARTERLY BEEF AND VEAL IMPORTS AND QUARTERLY DOMESTIC BEEF PRODUCTION 1975-76

[In million of pounds]

Year and quarter	Beef and veal imports	U.S. beef production
1975:		
I	482	5,842
II	380	5,593
III	492	5,942
IV	428	6,296
Year total	1,782	23,673
1976:		
I	492	6,492
II	559	6,145
III	535	6,618
IV	419	6,412
Year total	2,005	25,667

Source: USDA Livestock and Meat Situation.

Costs and Returns for Cow-Calf Producers in Texas

(By C. Richard Shumway, Associate Professor and Kenneth W. Stokes, Research Assistant, Department of Agricultural Economics, Texas A. & M. University)

It is common knowledge that the cow-calf producer has been suffering from low prices relative to production costs for a number of years. The current situation has been documented in the cost and return budgets for cow-calf operations developed by the Area Farm Management Economists with the Texas Agricultural Extension Service.

Using both published and unpublished research in combination with their own observations, the area farm management economists have developed budgets for cow-calf operations which reflect that beef calves are produced in all parts of Texas, ranging from the humid areas of East Texas to the semi-arid areas of West Texas. In East Texas the budgets are based on the cow-calf operation being a supplementary enterprise of 20 to 50 cows to farming operations, utilizing woodlands, idle cropland, and cropland which has been converted into improved pastures. In the western portion of the state the budgets reflect herds of 200-600 cows being grazed primarily on native range pasture, improved in some cases by seeding and brush clearing. Within each area, it is recognized that a wide range of ownership patterns, resource situations and management systems do exist.

TABLE 1.—ESTIMATED COSTS AND RETURNS OF COW-CALF PRODUCTION, PER COW BASIS, FOUR AREAS OF TEXAS, 1976-77

Location	Northeast Texas	South Texas	High plains I	Rolling plains II
Production Levels:				
Cow number	30	192	512	302
Percent calf crop	86	76	86	86
Cow replacement rate	14	15	12	12
Cow death loss	2	3	1	1
Land area (acres)	60	960	7,680	5,440
Gross returns	[1] $190.12	$120.24	$151.01	$158.58
Expenses:				
Hay and pasture improvements	$99.64	$25.25	$36.00	$27.52
Supplements	4.50	4.50	16.20	9.30
Labor	25.72	24.38	22.57	20.95
Interest	30.45	29.66	38.84	35.29
Machinery	15.63	20.71	10.35	8.77
Other [2]	65.06	25 92	29.62	26.62
Subtotal [3]	241.00	130.42	153.58	128.45
Returns to land	−50.88	−10.18	−2.57	30.13
Estimated land rent	15.00	62.50	60.00	45.00
Net returns	−65.88	....	−62.57	−14.87

[1] Includes some hay sales.
[2] Incudes depreciation, veterinary medicine and miscellaneous expenses.
[3] Assumes 1976-77 prices for all expense items.

Table 1 summarizes budgets for four of the major cow-calf areas to reflect major cost items as they vary across production systems. Feed cost is a mixture of purchased feeds, supplemental forage costs, protein supplements, and pasture improvement costs. Across the state, forage quality drop considerably during the winter months requiring that cattle can be provided protein supplements and/or hay in order to maintain body weight. Feeding of hay varies with stocking rate and pasture condition going into the winter months. During extended dry periods, hay may have to be fed from early fall into late spring. When long feeding periods are required, the cost of production can increase dramatically. Some budgets include range improvement as a feed cost.

Labor requirements per cow show only alight variation across the state and by herd size. The highest labor requirement occurs during the winter feeding months and at calving time.

Interest in operating capital, equipment and livestock investments is a major cost item. Livestock producers must invest considerable amounts in their breeding herds either in the form of purchased herds or through slow genetic improvement over time. Investment in the breeding herd constitutes the major portion of this item.

Each of the four budgets estimates a return to land this year which is insufficient to meet normal rental charges. Three even provide a negative return to land. Thus, using standard farm management budgeting techniques, the total estimated cost of cow-calf operations exceeds expected returns. This situation prevails across nearly all of the 2 area estimates.

HISTORICAL EVIDENCE

Before considering the implications of these low returns, we will examine changes in production costs and returns over time.

Feeder calf prices have varied substantially over the past two decades (see Figure 1). An upward trend is apparent in the San Antonio Market prices over time with the peak occurring in 1973. When deflated by the index of prices paid for factors of production, little trend is apparent. The peak still occurred in 1973, but the lowest price was in 1975.

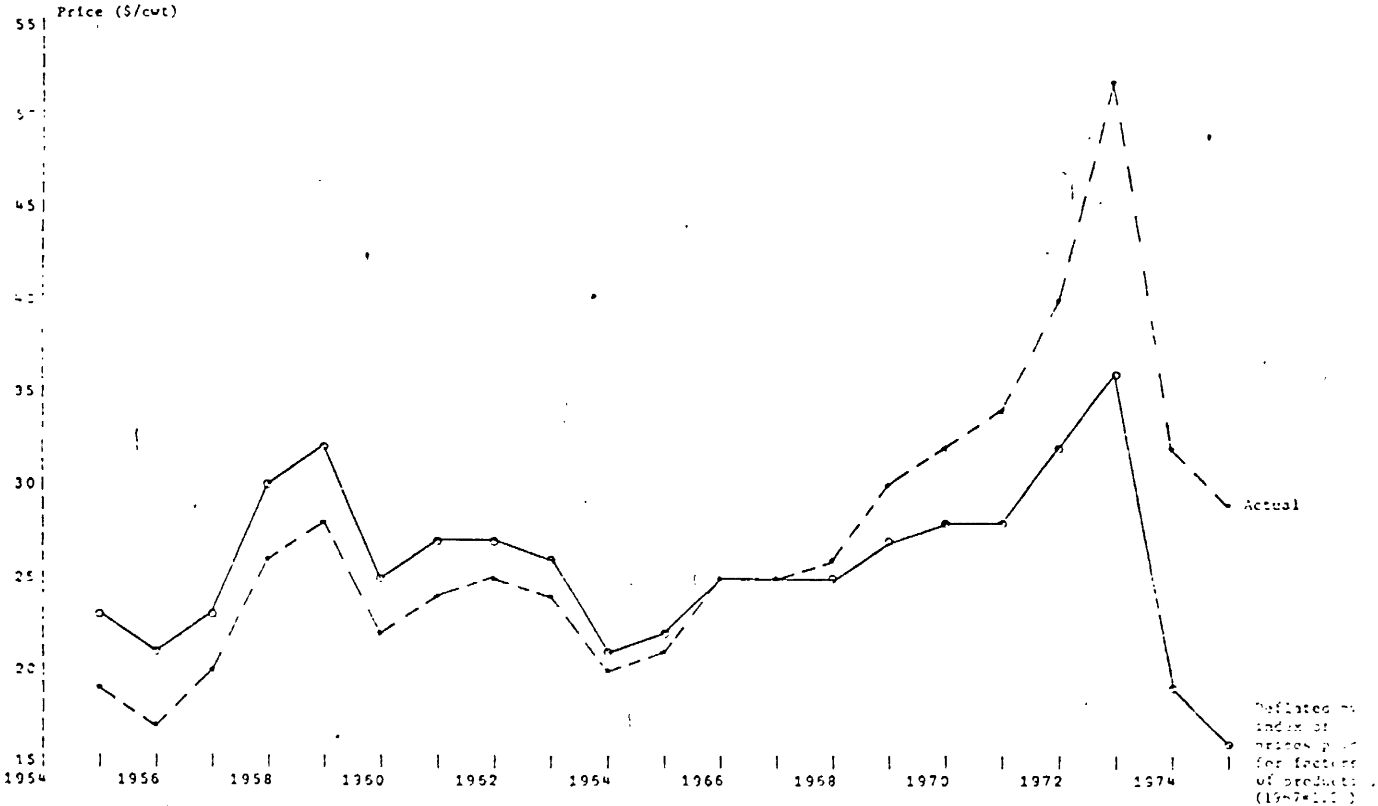

Figure I. Annual Prices, 500-700 Pound Steers, San Antonio Market

A 1956 study of Southwestern cattle ranches conducted by New Mexico State University (Gray, p. 68–69) included the Trans-Pecos area of Texas and reported negative returns in 9 out of the 15 years between 1940 and 1954. Positive returns occurred only in 1941, 1942, and 1948–1951. Studies conducted in Mississippi (Tramel and Parvin) and Montana (Gray and Baker) for a comparable time period resulted in similar conclusions. In the mid-sixties, Texas A & M researchers examined the economic and operational characteristics of several ranching areas in Texas. These studies found that when inputs were priced at current levels the ranchers in the sample had low estimated returns on investment. For example, in 1967 the most profitable Rio Grande and Trans-Pecos ranchers had a 3.8 percent rate of return on investment while least profitable ranchers averaged only 0.3 percent (Boykin, et al., p. 20). Estimates covering the period 1960 to 1975 (adapted from Farris and Mallett, 1972) indicate that cow-calf producers earned positive returns in only four years, 1971 to 1974.

Time series data from the USDA's "Farm Costs and Returns" bulletin indicates that southwestern cattle ranches have one of the lowest return on investment rates (1.8 to 3.0 %) of all agricultural enterprises. Further, returns to farming in general were substantially below the average for the rest of the U.S. economy from the mid 1950's through 1960's (Farris and Mallett, undated).

Yet in the face of considerable price uncertainty and apparently low rates of return, Texas cow numbers have increased 89 percent over the last 35 years (Texas Department of Agriculture). We can explain short-term continuation of production from our estimated budgets since variable costs can still be recovered in most cases. The current liquidation of cow herds is most likely being carried out by marginal producers who are facing returns less than variable cost and producers looking for higher returns to their capital, labor and management. In the eastern part of the state variable costs and crop alternatives appear to be sufficiently great to induce efficient producers to substantially reduce cow herds because of short-term losses. Most areas will continue to produce during short periods of low prices and high costs.

But why have they expanded at all with such low long-term returns? Possibly partial explanations include tax incentives and real estate appreciation. Ordinary income losses offset by capital gain income of equal magnitude result in a positive after-tax income. Losses in the cow-calf industry have been offset by large capital gain income largely due to appreciation in real estate values. (Tax laws governing depreciation and investment credit on purchased stock inputs are also important.) Schmedemann estimates that agricultural land prices, in Texas have risen at an average rate of more than 10 percent during the decade, 1966-1975. This amounts to a current estimated land appreciation per cow ranging from $80 to $362 for our four Extension Service areas. Consequently, land appreciation may offset the previously estimated negative returns and provide an estimated profit of $14 to $348 per cow in the four areas (most of which would be taxed as capital gains income). However, the landowner who owned no cows would have done better in this year of very low calf prices.

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NATIONAL FARMERS ORGANIZATION,
Corning, Iowa, March 1, 1978.

MR. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Russell Office Bldg.,
Washington, D.C.

DEAR MR. CHAIRMAN: First let me compliment you, Senators Bentsen, Melcher and others who have arranged the hearing to review the Meat Import Quota Act of 1964. We appreciate the interest of your Committee in both the provisions and the administration of the beef import restrictions that should provide more safeguards for our producers against incoming cheap beef from other countries. As I am sure you are aware, there have been mounting demands for substantial amendments of that Act in recent years.

The current demonstrations of unrest on the part of farmers and ranchers throughout this country have highlighted a growing conviction among our own people that the leadership of this government is more intently involved in the foreign relations field and the welfare of large international trading corporations than is the case for our own producers. An early action in your Committee to move a bill will certainly be well received by the real producer organizations and their members.

There is little to gain by repetition of numbers and contentions that have already been brought to your attention. It is sufficient to emphasize that in spite of some modest price improvement in recent months, cattle prices are only 66% of parity. The 1964 Act must be tightened up to protect our own cattle industry.

Our position can be summarized in this manner. We support:

(1) Inclusion of all beef imports under the quota limitation. This would add processed, cooked and canned products to the fresh, chilled and frozen categories that are now covered.

(2) The elimination of the 10% trigger allowance that now serves to reduce the effectiveness of the quota limitation.

(3) Changing the application of the control to a "counter cyclical" approach so that the limitation will be reduced when production of our own market beef is high and our prices are declining, with provision for increased imports only when our prices are above parity.

(4) A practical limitation on the imports of live cattle to conform with the pattern established in the three-year period, 1974–1976.

A responsible course of action in your Committee will provide encouragement for the Senate to move quickly.

Thank you for this opportunity to express our views. It will be appreciated if this may be made a part of the record.

Sincerely,

CHARLES L. FRAZIER
Director, Washington Staff.

AMERICAN FROZEN FOOD INSTITUTE,
McLean, Va., March 16, 1978.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The Senate Finance Committee has recently held hearings regarding proposed amendments to the Meat Import Quota Act. There are several proposals to impose additional limitations on the importation of meat into the United States. The American Frozen Food Institute, which is the national trade association representing packers and processors of frozen foods, including frozen meat products, strongly opposes such additional limitations.

The preparation of popular frozen meat products, such as pot pies and frozen dinners, is dependent upon the availability of lean, grass fed meat. The meat which is imported into this country is particularly suitable for processing needs, and not at all suitable for retail sale for consumption after home preparation. The U.S. meat industry produces insufficient amounts of this processing and manufacturing quality meat and, therefore, it would work a hardship on both consumers and frozen food processors if imports were further limited.

The American Frozen Food Institute supports the position stated by the Meat Importers Council of America, Inc. in your recent hearings. We and our members hope that you will find their views persuasive.

We appreciate your consideration of our views.

Sincerely,

THOMAS B. HOUSE,
President.

STATEMENT OF THE NATIONAL FOOD PROCESSORS ASSOCIATION

This statement is submitted on behalf of the National Food Processors Association (formerly the National Canners Association) and its approximately 650 members. Members of the National Food Processors Association pack about 90 percent of the canned fruits, vegetables, meats, fish and specialties produced in this country and engage in a wide range of activities in the (processing and) distribution of the nation's food supply. A number of these products contain varying quantities of meat and meat products, and a significant but undetermined proportion of that meat is imported. The association and its membership who pack products containing meat thus have a substantial interest in this legislation.

There are approximately 82 canning firms that use meat, imported and domestic, as a raw material in manufacturing a wide range of commercially sterilized, shelf stable products. These end products are covered in SIC 2013, Sausages and other Prepared Meat Products; and SIC 2032, Canned Specialties. Some examples of the canned products are strained and junior baby foods, soups, chili, beef stew, luncheon meats, and a variety of ethnic foods, as well as many other products.

In 1961, per capita consumption of all canned meats (excluding soups) was reported at 11.5 pounds—7.2 percent of per capita consumption of all red meats of 160.5 pounds. During the decade 1961–1971, the per capita consumption of canned meats trended upward at an annual rate of about 2.5 percent per year—about the same rate as the increase in total per capita consumption of meats. The per capita consumption of canned meats was a record 14.5 pounds in 1971, or 7.6 percent of total per capita consumption of meat. Since 1971, per capita consumption of canned meats has declined. In 1976, the most recent year for which data are available, per capita consumption of canned meat was 13.1 pounds or 6.7 percent of total per capita meat consumption of 194.7 pounds.

The role of canned meats in the diet of the consuming public is understandable in view of the convenience of the product. First, canned meats are characterized by a high degree of convenience. Being shelf stable, they can be kept at ready in the kitchen and on short notice, an appetizing nutritious meal can be prepared. This tends to be one of the great uses of the heat sterilized meat products. In this use, as a convenience food, the commercially sterilized product does not compete with the fresh "U.S. Choice" and better cuts of beef that is the hallmark of our great cow-calf and cattle feeding industries.

Because preparation time is of the essence, if the heat sterilized meat products were not available, other products of similar convenience would be used—but probably not fresh cuts of beef. Fresh meat cuts are inconvenient and unacceptable for this type of meal preparation because of the time required to prepare a snack or a meal from fresh roasts or steaks, plus the fact that these products cannot be kept as readily and easily as the shelf stable commercially sterilized product. If the heat sterilized beef products were not available, the consumer likely would consider a substitute pork or poultry item, or a non-meat convenience item such as a soup and salad, grilled cheese sandwich, canned fish, or frozen waffles.

In some instances, the canned meat product is used to complement other meat items. A welcome meal, when time is not available for something more elaborate, is a "sized" hamburger—a hamburger smothered with a liberal amount of chili and topped with chopped onions. Another popular "quicky" meal is a giant "Coney Island", an open faced hot dog bun with a split frankfurter smothered in chili and topped with chopped onions. These are tasty and can be prepared with a minimum amount of lead time for those occasions when time is a limiting factor on choice of ingredients to meet the dining occasion.

Another important example of convenience in meat preparation is the wide range of strained and chopped baby foods available on the market. No one can honestly or seriously plead that either nutrition or the housewife's life style would be better off if the feeding of babies and the very young had to be accomplished through the use of fresh cuts of meat.

A second general area in which heat sterilized foods utilizing meats perform an important role in meat preparation is for low income groups. Because of the convenient range of package sizes available, and the modest cost per unit, some of the heat sterlized products enable low income groups to incorporate some meat origin foods in their diet that they would not otherwise be able to achieve in the fresh cut market. According to the USDA *Household Food Consumption Survey* for the spring of 1965, the *very low* income households included in the survey were more important users of canned and cooked beef items than all other income levels. Households with net income after taxes of $1,000 or less used .12 pounds of canned or cooked beef per week—almost 2.5 times the .05 pounds per week used on the average by all households included in the survey. Similarly in terms of money spent per week, households with an annual net income of less than $1,000 per year spent an average of 10 cents per week on canned and cooked beef items compared with four cents per week spent by all households included in the survey.

The importance of canned and cooked beef in the diets of the very low income households is even more striking when measured as a percent of total money spent per week for beef. The households of less than $1,000 income spent 7.6 percent of their weekly average allowance for beef, for canned and cooked products. The average household in the survey spent slightly less than one percent of weekly average expenditures on canned and cooked beef. Thus, we see that the very low income groups find products in the heat sterilized product line that enable them to stretch limited food dollars.

In summary, the heat steilized meat products' attraction in the market is derived from their convenience and their relatively low cost source for some animal source nutrition in the diet. Thus, these products are not displacing fresh "U.S. Choice" or better beef cuts in consumption.

Having established the market basis for the products of this industry, let's turn to the needs of the canning industry in terms of raw material availability and cost. The canning industry in general is a low profit margin industry, but at the same time, a capital intensive industry. Consequently, there is always strong economic pressure to achieve volume in order to reduce overhead costs per unit. By the same token, an interruption in flow of materials be it containers, labor or raw product, poses a serious problem of increased total cost per unit.

In this respect, the meat import quota, and particularly changes that have been sought in either the administration of the quota, or in related areas such as labeling requirements, all pose a threat of much higher costs and loss of market for final product.

The canner must have a reliable source of deboned lean beef as well as limited amounts of other meats for processing. The total supply of this product is derived from the culling of domestic beef and dairy herds and from imports. However, the canning industry is only a small part of the total demand for this raw material. He faces competition for raw material supply from other meat processors, (i.e., hamburger, sausage meats and frozen products) and from the Federal Government as well. The Department of Defense and Department of Agriculture are also important buyers of meat. For many uses the government agencies draw upon the same primary source as the domestic canning industry. For example, the Department of Agriculture, in a purchase of ground beef for the School Lunch Program, will be bidding for the meat from cull beef and dairy cows—the same source of domestic beef sought by canners and other processors of manufactured meats.

For the past three years (1975–1977), imports of beef and veal subject to the Meat Import Act have averaged slightly over 1.2 billion pounds and federally inspected cow slaughter has averaged 9.7 million head. As the cattle cycle changes from the liquidation phase that has been going on the past three years to one of rebuilding herds, domestic cow slaughter will be reduced sharply. This will create a serious shortage of the type of beef used for all manufacturing purposes. If quotas are strictly enforced, only a limited amount of processing type beef would be available the last four or five months of the year. If canning plants had to stand idle for lack of raw material, not only would cost of end product rise sharply but significant numbers of cannery workers would be unemployed for periods of time.

Choice slaughter steers are not a viable replacement for the lean, imported, deboned meat for the meat canning industry on both economic and technical grounds. Because of retorting times and temperatures, a low-fat content beef is required for heat sterilized meat products. The cost of a choice carcass plus the additional cost of removing a sufficient proportion of the fat would result in a prohibitive cost for raw material. Moreover, non-fat cattle (yearling feeder steers) normally would have a higher value as feeder cattle than as a source of lean processing beef.

The three-year period, 1975–1977, represented a somewhat unique set of characteristics. The entire beef production, processing and distribution system had been severely upset by price controls and unprecedented feed costs during 1973 and 1974. A cyclical expansion of cattle numbers started in 1967. During the five years, 1967 to 1972, beef cow numbers on farms and ranches increased 4.1 million head or 11.8 percent from 34.7 million head to 38.8 million head. During the next three years (1972–75) beef cow numbers increased 6.7 million head or 17.3 percent to record 45.5 million head.

During the same time that cattle numbers were increasing rapidly, cattle feeding, the source of demand for the product of the beef cow operator, was on the decline. During 1972, 27.4 million head of cattle were placed in commercial feed lots in 23 states. In 1973, 1974 and 1975 placements were 24.5, 22.0 and 24.7 million head respectively. Even though the price of choice slaughter steers and heifer averaged higher in 1973 and 1974 than in 1972, cattle feeding was still a losing proposition due to the high cost of feed.

The decline in cattle feeding during 1973–1975, along with the high price of feed grains, resulted in a sharp drop in the price of feeder cattle, and therefore, in receipts of the beef cow herd operator. The average price for feeder steers shipped from Kansas City dropped from $49.13 per cwt. in 1973 to $33.42 in 1975. The decline in cattle feeding also resulted in an accumulation of yearling and two year old steers and heifers on farms and ranches that ultimately had to move to slaughter as non-fed cattle. As such they could not make "Choice" grade, the primary grade of carcass beef accepted by the fresh beef trade. Consequently, these animals had to sell at a significant discount as slaughter animals. The market for fresh cuts of beef was further impacted by the severe recession during the last half of 1974 and first half of 1975.

The depressed earning situation, coupled with severe drought in some range and pastureland areas, resulted in a sharp liquidation of beef cattle during the three years, 1975–1977. Beef cow numbers were reduced from 45.5 million head January 1, 1975, to 38.7 million head on farms January 1, 1978—a reduction of 15 percent. A liquidation of beef cow herds of this magnitude and intensity is without precedent in the preceding cattle cycles since 1938. Beef cow numbers were reduced 4 percent in four years in the 1938–49 cycle and by 6 percent in three years in the 1949–58 cycle. In the 1958–67 cycle the liquidation phase merely consisted of a leveling off of beef cow numbers for three consecutive years.

Improved general economic conditions (employment and real per capita income) has strengthened the market for fed cattle. The price of choice steers at Omaha increased 19 percent from $40.30 per cwt. in mid-September 1977 to $47.90 in mid-March of this year. This strength in the market for fed cattle, coupled with lower feed grain prices, also brought about a sharp recovery in the market for feeder cattle and calves. The average price for 600–700 pound choice feeder steers at Amarillo, Texas increased from $39.25 to $49.00 and choice 300–400 steer calf price rose from $46.12 to $56.00 during the same period of time.

Water and soil moisture supplies in the drought stricken areas have been replenished by rainfall and snow this past fall and winter. There are indications that beef cattle are now beginning to move back into these areas. Therefore, the economic outlook for the beef cow enterprise for 1978 and beyond is good.

The culmination of all these factors, the magnitude of reductions in beef cow herds; the decline in prices of feed grains; improved moisture conditions in drought areas; and, the price strength for both fed and feeder cattle would at least imply an end to the liquidation of beef cow numbers and perhaps even indicate the start of the next cattle cycle. The end of liquidation of beef cow numbers will result in a substantial reduction in cow slaughter. If herd rebuilding of any significant magnitude occurs during this year or the next year or two, cow slaughter will be reduced even more. Consequently, the domestic supply of the type of beef needed by the meat canning industry will be sharply curtailed for at least the next three or four years. We are likely to become much more dependent on imported sources of processing beef in the future than has been the case in the past.

The National Food Processors Association particularly feels that its meat processing members should not be penalized by restrictive import laws that will have little or no impact on the basic problems of the domestic beef cattle industry. September 17, 1977, the United States International Trade Commission reported to the President that imports subject to investigation No. TA-201-25 were not a substantial cause of serious injury, or the threat thereof, to the domestic industry.

One proposal that has been advanced is to add a counter-cyclical provision to the existing meat import law. This suggestion sounds plausible on the surface; however, the outcome of such a change would depend on the specific formula adopted to achieve the counter-cyclical effect as well as future changes in domestic and foreign beef production, consumers' demand, production of products competitive with meat as well as a number of other factors that affect prices and quantities in the market. Once a proposal becomes law, it becomes an inflexible fixture and not likely to be eliminated even though it may result in undesirable results. It is difficult to vision being able to draft a counter-cyclical formula that would permit the flexibility that the market demands, or that will not tend to dampen or be suppressive in future years. One such proposed formula likely would have significantly reduced meat imports if it had been in effect during the past decade.

In view of the findings of the International Trade Commission; the fact that the conditions of 1975–1977 were unique and not a recurring phenomenon; and that present anti-dumping and investigative procedure are a part of our legal framework, the National Food Processors Association is opposed to adding a counter-cyclical formula to the present Meat Import Law.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, REGARDING PROPOSED AMENDMENTS TO THE MEAT IMPORT QUOTA ACT—(Public Law 88-482)

We appreciate the opportunity to present our views on meat imports.

Farm Bureau recognizes that American agriculture is heavily dependent on export markets and that this interest must be considered in connection with questions of reciprocal access to U.S. markets.

American cattlemen are greatly concerned about international meat trade. This concern is understandable. The United States is the world's largest meat importer. We would like to be a larger exporter of meat. Presently, we sell slightly more than we buy in the international market. Imports of meat and livestock products, including live animals, amounted to $1.8 billion in FY 1977, while exports were almost $2.0 billion. In 1977 the total value of beef product exports—including live animals—was about $1.3 billion in comparison to imports of about $1.1 billion (Table attached).

The United States imports about 5 to 8 percent of our red meat supplies. These imports are chiefly manufacturing grade beef because it is the characteristic product of overseas dairy and grazing operations. Most of the meat imported is fresh, frozen, and chilled beef covered by the Meat Import Act of 1964.

The proportion of red meat in our exports is relatively small. A large part of our exports consists of less desirable products, such as tallow and lard.

Meat production in the United States is very efficient. This is due to the fact that we have all the elements—land, management feedstuffs, research—necessary for a highly productive livestock feeding industry. Because the livestock industry is capable of producing more meat than the United States needs for domestic consumption, we are hopeful that current multilateral efforts to reduce international barriers to trade will be successful. Many of the foreign markets which demand "fed-meat" are limited by highly restrictive trade barriers. These trade barriers tend to become more restrictive when the world meat market is depressed. For example, during the past few years, due partly to the global recession and to a worldwide peaking of the cattle cycle, the European Community and Japan have significantly restricted meat imports. The inconsistencies between U.S. and foreign meat inspection standards that are ostensibly established to protect health and safety but which, in some cases, actually are disguised forms of protection, represent additional barriers to trade. Discussion of these matters is needed on both a bilateral and multilateral basis.

Farm Bureau recognizes that the domestic meat industry as a whole has much to gain from a policy of expanding trade on a mutually advantageous basis. The converse of this is that we have a great deal to lose from restrictive international trade policies. During the past year many other organizations also have given greater recognition to the fact that, if the United States expects to export agricultural products—including meat—it will be necessary to accept some imports. It is essential, however, that the expansion of trade be based on fair and effective competition.

Farm Bureau policies for 1978 on International Trade, Agricultural Exports, Agricultural Imports, Meat Import Act and Trade Negotiations are attached.

Imports of beef into the United States have been limited for several years by so-called voluntary agreements with other countries, except for brief periods when formal quotas have been in effect.

The 1978 total import quota covering fresh, chilled, and frozen beef, veal, mutton, and goat meat was set at 1,183.9 million pounds. Supplying countries have formalized agreements with the United States to keep U.S. imports of meat subject to the Meat Import Law below the 1978 trigger level of 1,302.3 million pounds.

The AFBF Board of Directors took the following actions on meat imports at its meeting of March 5-9 after studying the recommendations of its Beef Cattle Advisory Committee: (This Advisory Committee includes producers from major beef-producing states.)

"We recommend that imports of beef and beef products for 1978 be held at or below the tonnage level that would result if quotas were invoked under the Meat Import Act of 1964. If this cannot be accomplished by negotiating voluntary restraining quotas with exporting nations, AFBF should encourage the use of all available procedures to accomplish this including: A. Countervailing duties (offsetting); B. Antidumping duties; C. Withdrawal of trade concessions to a country imposing unjustifiable, illegal or otherwise unreasonable restrictions on U.S. exports; or D. Triggering of import quotas under the Meat Import Act.

"We recommend that special emphasis be given in support of legislation, in cooperation with other interested organizations, which is now before Congress that would require imported meat to comply with U.S. health standards and that products made from it should be labeled as to country of origin. These labels should be retained throughout the distribution process.

"We recommend that AFBF support the countercyclical method of establishing meat import quotas but that changes that would be required in the Meat Import Act not be initiated until the timing is correct from the standpoint of the cattle cycle and the Washingon climate. We recommend that AFBF work with other interested organizations in the development of this countercyclical method.

"We recommend that if amendments are sought in the Meat Import Act, all imported meat, whether fresh, chilled, frozen, canned, cooked or cured, including live slaughter cattle, irrespective of packaging and processing be included under the act and subject to quotas."

Given the proper climate, prospects for the future expansion of the international meat market are somewhat encouraging.

Observers feel that the liquidation phase of the cattle cycle may have about bottomed out. In fact, cattle prices have strengthened somewhat over the past several weeks. The global economic recovery appears to be gathering some momentum. There are some potential new markets in the nonmarket economy (communist bloc) nations and also in the oil-producing states. Population and per capita incomes are increasing in many of the less developed markets. The multilateral trade negotiations may liberalize existing barriers to meat trade in traditional markets. The U.S. meat industry recently established the U.S. Meat Export Federation, Inc., of which AFBF is a member, to stimulate the cooperative development of foreign markets.

Farm Bureau has been very active in the meat export-import situation and will continue to do its utmost to protect and advance the interests of U.S. farmers and ranchers.

Livestock and Livestock Product Exports and Imports

TABLE I.—EXPORTS OF LIVESTOCK AND PRODUCTS, EXCLUDING DAIRY AND POULTRY PRODUCTS AND FURSKINS FISCAL YEARS 1976 AND 1977

[Dollars in thousands]

	Fiscal year		
	October 1975–September 1976	October 1976–September 1977	Percent change
Live cattle	$94,218	$62,535	
Other live animals	40,743	38,865	
Lard and other rendered pig fat	28,294	43,487	
Inedible tallow	350,288	492,418	
Edible tallow	3,647	4,378	
Other animal fats, oils and greases	23,729	39,628	
Beef and veal, except offals	113,703	113,442	
Pork, except offals	258,663	225,747	
Edible offals, variety meats	134,883	164,718	
Other meat preparations	84,403	104,552	
Cattle hides, whole	404,355	531,221	
Other hides, skins, excluding furskins	52,334	59,131	
Animal hair, except wool and fine hair	690	848	
Sausage casings	23,299	26,370	
Wool, unmanufacturered, including fine hair	24,288	22,590	
Other	34,911	34,705	
Total	1,672,448	[1] 1,964,633	+17.5

[1] Items do not add to total due to rounding.

TABLE II.—IMPORTS OF LIVESTOCK AND PRODUCTS, EXCLUDING DAIRY AND POULTRY PRODUCTS AND FURSKINS FISCAL YEARS 1976 AND 1977

[Dollars in thousands]

	Fiscal year		
	October 1975–September 1976	October 1976–September 1977	Percent change
Live cattle, dutiable	$137,746	$167,196	
Cattle for breeding, duty-free	7,774	6,243	
Horses	51,848	56,326	
Swine	7,588	5,280	
Other live animals	780	1,003	
Calf and kip skins	811	748	
Cattle hides, whole	17,558	16,400	
Goat and kid skins	3,034	3,532	
Sheep and lamb skins	69,614	65,987	
Other hides and skins excluding furskins	7,298	7,026	
Beef and veal:			
Canned	84,455	78,589	
Fresh or frozen	763,044	688,362	
Prepared or preserved	54,781	53,874	
Mutton, goat and lamb	20,952	16,449	
Pork:			
Fresh or frozen	21,855	15,752	
Hams and shoulders, canned, cooked	435,693	389,798	
Other	25,543	22,675	
Other meats incl. edible offals, game	28,909	23,646	
Wool, unmanufactured, except free	61,080	66,221	
Wool, unmanufactured, duty-free	21,772	26,213	
Bones, hoofs and horns	3,238	2,840	
Bristles, crude or prepared	7,868	12,633	
Fats, oils, and greases	5,651	5,001	
Gelatin	28,696	34,182	
Hair, unmanufactured	3,605	5,923	
Ossein	6,974	8,055	
Sausage casings	36,055	41,480	
Other animal products	13,069	13,429	
Total	[1] 1,927,290	[1] 1,834,861	−4.8

[1] Items do not add to total due to rounding.

TABLE III.—ESTIMATED TOTAL CATTLE AND BEEF EXPORTS FISCAL YEARS 1976 AND 1977

[Dollars in thousands]

	Fiscal year		
	October 1975–September 1976	October 1976–September 1977	Percent change
Live cattle	$94,218	$62,535	
Tallow, edible (total beef portion undeterminable)	3,647	4,378	
Tallow, inedible (total beef portion undeterminable)	350,288	492,418	
Beef and veal, except offals	113,703	113,442	
Edible offals (unofficial estimate for beef)	67,442	82,359	
Cattle hides, whole	404,355	531,221	
Total	1,033,653	1,286,353	+24.4

TABLE IV.—ESTIMATED TOTAL, CATTLE AND BEEF IMPORTS, FISCAL 1976 AND 1977

[Dollars in thousands]

	Fiscal year		Percent change
	October 1975–September 1976	October 1976–September 1977	
Live cattle, dutiable	$137,746	$167,196	
Cattle for breeding, duty-free	7,774	6,243	
Beef and veal	902,280	820,825	
Calf and kip skins	811	748	
Cattle hides, whole	17,558	16,400	
Bones, hoofs and horns (total beef portion undeterminable)	3,238	2,840	
Animal fats, oils, and greases (total beef portion undeterminable.	5,651	5,001	
Gelatin	28,696	34,182	
Total	1,103,754	1,053,435	−4.6

Source: Prepared by AFBF from USDA statistics.

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