PROPOSED AMENDMENTS TO THE MEAT IMPORT QUOTA ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 55

A BILL TO MODIFY THE METHOD OF ESTABLISHING QUOTAS ON THE IMPORTATION OF CERTAIN MEAT, TO INCLUDE WITHIN SUCH QUOTAS CERTAIN MEAT PRODUCTS, AND FOR OTHER PURPOSES

SEPTEMBER 26, 1979

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PROPOSED AMENDMENTS TO THE MEAT IMPORT QUOTA ACT

WEDNESDAY, SEPTEMBER 26, 1979

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met at 2:30 p.m., pursuant to notice, in room 2221, Dirksen Senate Office Building, Hon. Lloyd Bentsen presiding.

Present: Senators Bentsen, Baucus, Dole, and Wallop.

[The press release announcing this hearing and the bill S. 55 follow:]

[Press Release, Sept 12, 1979]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARING ON MEAT IMPORTS

The Honorable Abraham Ribicoff (D., Ct.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced the Subcommittee will hold a hearing on proposed amendments to the Meat Import Quota Act (P.L. 88-482), including those embodied in S. 55 introduced by Senator Lloyd Bentsen (D., Tex.). Senator Bentsen will chair the hearing.

The hearing will begin at 2:30 P.M., Wednesday, September 26, 1979, in Room 2221, Dirksen Senate Office Building.

Request to testify.—Persons desiring to testify during this hearing 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 the close of business on Thursday, September 20, 1979.

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.—The Subcommittee 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 Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Further, all witnesses should exert a maximum effort to coordinate their statements.

Legislative Reorganization Act.—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." In light of this statute, the number of witnesses who desire to appear before the Subcommittee, and the limited time available for the hearing, 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 lettersize paper (not legal size) and at least 100 copies must be delivered to Room 2227 Dirksen Senate Office Building not later than 5:00 P M. on the day before the witness is scheduled to appear

3. Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

4. No more than 5 minutes will be allowed for any oral summary.

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

Written statements.—Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, September 28, 1979.

96TH CONGRESS
1ST SESSION

S. 55

To modify the method of establishing quotas on the importation of certain meat, to include within such quotas certain meat products, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 15, 1979

Mr. BENTSEN (for himself, Mr. LONG, Mr. CHILES, Mr. STENNIS, Mr. ZORINSKY, and Mr. JOHNSTON) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To modify the method of establishing quotas on the importation of certain meat, to include within such quotas certain meat products, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Act of August 22, 1964, 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" (19 U.S.C. 1202 note) is amended to read as follows:

II—E

"SEC. 2. (a) This section may be cited as the 'Meat Import Act of 1979'.

"(b) For purposes of this section—

"(1) The term 'entered' means entered, or withdrawn from warehouse, for consumption in the customs territory of the United States.

"(2) The term 'meat articles' means the articles provided for in the Tariff Schedules of the United States (19 U.S.C. 1202) under—

"(A) item 106.10 (relating to fresh, chilled, or frozen cattle meat),

"(B) item 106.20 (relating to fresh, chilled, or frozen meat of goats and sheep (except lambs)), and

"(C) items 107.55 and 107.60 (relating to prepared and preserved beef and veal (except sausage)) if the articles are prepared, whether fresh, chilled, or frozen, but not otherwise preserved.

"(3) The term 'Secretary' means the Secretary of Agriculture.

"(c) The aggregate quantity of meat articles which may be entered in any calendar year after 1978 may not exceed 1,204,600,000 pounds; except that this aggregate quantity shall be—

"(1) increased or decreased for any calendar year by the same percentage that the estimated average annual domestic commercial production of meat articles in that calendar year and the 2 preceding calendar years increases or decreases in comparison with the average annual domestic commercial production of meat articles during calendar years 1968 through 1977; and

"(2) adjusted further under subsection (d).

For purposes of paragraph (1), the estimated annual domestic commercial production of meat articles for any calendar year does not include the carcass weight of live cattle specified in items 100.40, 100.43, 100.45, 100.53, and 100.55 of such Schedules entered during such year.

"(d) The aggregate quantity referred to in subsection (c), as increased or decreased under paragraph (1) of such subsection, shall be adjusted further for any calendar year after 1978 by multiplying such quantity by a fraction—

"(1) the numerator of which is the average annual per capita production of domestic cow beef during that calendar year (as estimated) and the 4 calendar years preceding such calendar year; and

"(2) the denominator of which is the average annual per capita production of domestic cow beef in that calendar year (as estimated) and the preceding calendar year.

For the purposes of this subsection, the phrase 'domestic cow beef' means that portion of the total domestic cattle slaughter designated by the Secretary as cow slaughter.

"(e) For each calendar year after 1978, the Secretary shall estimate and publish—

"(1) before the first day of such calendar year, the aggregate quantity prescribed for such calendar year under subsection (c) as adjusted under subsection (d); and

"(2) before the first day of each calendar quarter in such calendar year, the aggregate quantity of meat articles which (but for this section) would be entered during such calendar year.

In applying paragraph (2) for the second or any succeeding calendar quarter in any calendar year, actual entries for the preceding calendar quarter or quarters in such calendar year shall be taken into account to the extent data is available.

"(f)(1) If the aggregate quantity estimated before any calendar quarter by the Secretary under subsection (e)(2) is 110 percent or more of the aggregate quantity estimated by him under subsection (e)(1), and if there is no limitation in effect under this section for such calendar year with respect to meat articles, the President is required to limit by proclamation, upon giving thirty days notice by publication in the Federal Register, the total quantity of meat articles which may be entered during such calendar year to the aggregate quantity estimated for such calendar year by the Secretary under subsection (e)(1); except that no limitation imposed under this paragraph for any calendar year may be less than 1,200,000,000 pounds.

"(2) If the aggregate quantity estimated before any calendar quarter by the Secretary under subsection (e)(2) is less than 110 percent of the aggregate quantity estimated by him under subsection (e)(1), and if a limitation is in effect under this section for such calendar year with respect to meat articles, such limitation shall cease to apply as of the first day of such calendar quarter. If any such limitation has been in effect for the third calendar quarter of any calendar year, then it shall continue in effect for the fourth calendar quarter of such year unless the proclamation is suspended or the total quantity is increased pursuant to subsection (g).

"(g) The President may, after providing opportunity for public comment by giving 30 days notice by publication in the Federal Register of his intention to so act, suspend any proclamation made under subsection (f), or increase the total quantity proclaimed under such subsection, if he determines and proclaims that—

"(1) 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 cattle industry;

"(2) the supply of articles of the kind described in subsection (b)(2) will be inadequate to meet domestic demand at reasonable prices; or

"(3) trade agreements entered into after the date of enactment of this Act ensure that the policy set forth in subsections (c) and (d) will be carried out.

Any such suspension shall be for such periods, and any such increase shall be in such amount, as the President determines and proclaims to be necessary to carry out the purposes of this subsection.

"(h) Notwithstanding the previous subsections, the total quantity of meat articles which may be entered into the United States during any calendar year may not be increased by the President if the fraction described in subsection (d) for that calendar year yields a quotient of less than 1.0, unless—

"(1) during a period of national emergency declared under section 201 of the National Emergencies Act of 1976, he determines and proclaims that such action is required by overriding national security interests of the United States, or

"(2) he determines and proclaims that the supply of articles of the kind to which the limitation would otherwise apply will be inadequate, because of a natural disaster, to meet domestic demand at reasonable prices.

Any such suspension shall be for such period, and any such increase shall be in such amount, as the President determines and proclaims to be necessary to carry out the purposes of this subsection. The effective period of any such suspension or increase made pursuant to paragraph (1) may not extend beyond the termination, in accordance with the provisions of section 202 of the National Emergencies Act of 1976, of such period of national emergency, notwithstanding the provisions of section 202(a) of that Act.

"(i) The Secretary shall allocate the total quantity proclaimed under subsection (f)(1), and any increase in such quantity provided for under subsection (g), among supplying countries on the basis of the shares of the United States market for meat articles such countries supplied during a representative period. Notwithstanding the preceding sentence, due account may be given to special factors which have affected or may affect the trade in meat articles. The Secretary shall certify such allocations to the Secretary of the Treasury.

"(j) The Secretary shall issue such regulations as he determines to be necessary to prevent circumvention of the purposes of this section.

"(k) All determinations by the President and the Secretary under this section shall be final.

"SEC. 3. Section 2 shall take effect January 1, 1980.

"SEC. 4. The Secretary of Agriculture shall study the regional economic impact of imports of meat articles and report the results of his study, together with any recommendations (including recommendations for legislation, if any) to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate not later than December 31, 1979.".

Senator BENTSEN. This hearing will come to order.

The Subcommittee on International Trade of the Senate Committee on Finance is meeting today to hear testimony on proposed amendments to the Meat Import Act of 1964. This is not the first set of hearings that I have chaired on this legislation. In fact, I note that almost everyone on the witness list for this year also participated in the Senate hearings last year.

This legislation has come a long way since the hearings last February. At that time, there was great disagreement over the need for and the shape of countercyclical meat import legislation. During the course of passing this legislation twice in the Senate last year, through two sets of House hearings, through two approvals of this legislation by the Senate and one by the House and through a Presidential veto, we have worked, molded, shaped, and hammered into place what I think is an eminently workable piece of legislation that will be good for both the producers and the consumers of this Nation.

Step-by-step the administration and the majority of both Houses of Congress has seen the wisdom of and the need for a countercyclical approach to meat import legislation. When we held these hearings last year, the cattle industry was just coming out of the depths of a shakeout, during which several years of extremely low prices forced many family farmers and ranchers out of business.

This industry depression during the liquidation phase of the cattle cycle was aggravated, not helped, by the procyclical formula in our current meat import law. During this period of high supplies and low prices our current law caused an increase in our imports of beef. This further diminished cattle prices and put more pressure on the cattlemen.

This aggravation of the cattle cycle only makes the lows lower and the highs higher. It bankrupts the young, beginning cattlemen and then, a year or two later, the consumer pays much higher prices for beef. It seems to be agreed by the Congress, the administration and the cattle industry that this countercyclical formula is badly needed to dampen out these swings in the cattle cycle.

Another major issue in this legislation has been the issue of Presidential discretion. This was a major area of disagreement in the last Congress and I believe it was a major factor in the President's decision to veto the bill last year. I sought a workable compromise on this issue in the meat import legislation which I introduced at the start of this Congress.

I am pleased to note that the limited form of Presidential discretion which I first incorporated in S. 55 has been included in the House version of this legislation. I understand that this has been agreed to by the administration and the cattle industry, and so it seems that this hurdle to passage of the bill has at last been overcome.

Enactment of a countercyclical meat import bill is long overdue. I hope that these hearings can help reach a consensus on this issue which will lead to speedy enactment of this much needed legislation.

Do you have a comment, Senator Wallop?

Senator WALLOP. Mr. Chairman, Congress has already recognized the need for amendments to the Meat Import Act of 1964. Last year the Senate and the House of Representatives acted in good faith to pass the Meat Import Act of 1978, designed to benefit both consumers and producers. The countercyclical formula contained in that legislation and the legislation before this subcommittee today must be enacted if the cattle industry is to act boldly and confidently to rebuild the Nation's cattle herd.

I trust that, as the Congress acts once more to give support to the cattle industry, our efforts will not be frustrated by another Presidential veto. Neither the American cattle industry nor the consumers of beef can afford another delay in the adoption of a countercyclical meat import formula.

The root of our present problem lies in a flaw in the Meat Import Act of 1964. The act sets import quotas at approximately 7 percent of domestic production whether domestic supplies are plentiful or scarce. Under the existing formula import quotas are highest when domestic production is high and supplies are already plentiful. Import quotas turn down to their lowest level when domestic production is low and supplies are tighter.

This formula is not only contrary to the laws of supply and demand; it serves to accentuate the inevitable highs and lows of the cattle cycle. The legacy of this formula has been a roller coaster ride of supplies and prices that has taken its toll on both producers and consumers. I have seen depressed prices in one phase of the cattle cycle force many small or younger ranchers out of business while high prices at the other end of the cycle have caused consumers to cut back or find substitutes for high quality American beef.

The countercyclical formula will address this problem by allowing the limitations on imports to vary inversely with U.S. production of beef and veal. Under the proposed change, as U.S. production decreases, import limitations would be liberalized and the opposite process would take place as production increases. The countercyclical adjuster will allow the formula to react more consistently and rapidly to changes in the domestic cattle cycle.

Consumers will benefit from the fact that prices will be stabilized and that smaller fluctuations in the case of the cattle herd will insure adequate supplies. Over the next 10 years consumers would actually receive increased foreign meat imports due to the proposed change.

It is estimated that under the Ways and Means Committee's meat import bill, the new formula will increase imports by 1.2 billion pounds over the existing law. It should be recognized that this increased supply of meat will not only benefit consumers but will also mean increased revenues to foreign beef producers.

Mr. Chairman, I have further remarks. With your permission I will enter them into the record.

[Senator Wallop's further remarks follow:]

Further Remarks by Senator Wallop

The legislation also provides guarantees to our trading partners through a minimum access level of 1.2 billion pounds per year. The 1.2 billion pounds access level provides a reasonable balance between structuring an effective meat import formula and guaranteeing adequate access to foreign producers. Unfortunately, the Administration's request for a higher minimum access level of 1.3 billion pounds ignores the dynamics of the formula and would result in the additional importation of meat during the years when cattlemen are in greatest distress. An unrealistically high floor tends to damage the effectiveness of countercyclical formula. Since the formula will already increase the access for foreign beef into our market by 1.2 billion pounds over the next ter years, we need make no further trade concessions that jeopardize our own industry.

Any legislation dealing with the Meat Import Act of 1964 must address the question of Presidential authority to suspend meat import quotas. Presidential authority to suspend or increase the quota must be limited if we are to prevent the abuses in the authority we have witnessed in the past. The suspension of quotas can have a devastating impact on the industry, not only by affecting producer income but also through the effect such action has on producer expectations. Clearly the President must have some flexibility to deal with emergencies or major market disruptions, but emergency suspension provisions should only be used in unique and exception circumstances, and hopefully with some interest in how they will affect the producers.

The hysteria over meat price increases push consumer groups to call for increases in beef imports to solve our beef supply and price problems. Unfortunately, beef prices are only reflecting the general inflationary trends in our economy and ranchers are picked as the whipping boys in this administration's weak struggle against inflation.

The cattle industry, like all segments of the domestic economy, is trying to respond to the change in operating costs and farm economics brought about by rapidly increasing energy prices. The adoption of the countercyclical formula would lend some stability to the cattle industry at a time when producers are wracked by the combined effects of energy prices and the general inflationary spiral. During the period between 1950 and 1969, the price of energy rose at one third the pace of the general price index. In the last seven years (1972—1979) energy prices have risen three times faster than the general inflation rate. Farm and ranch operations have been dealt a heavy blow by these price increases. A farm with operating costs of $60,000 a year would find that a 1 cent increase in fuel resulted in an increased operating cost of $170 to $220. Over the last six months alone, oil prices have risen by 35 cents a gallon, which translates into energy cost increases of $6,000 to $7,500 for the average farm.

This is an unstable, inflationary period for all segments of the American economy as each industry tries to overcome this new challenge. It is important that we provide some assurance of stability to the cattle industry, particularly in regards to future supply fluctuations, so that the industry can rebuild the national cattle herd with confidence regarding beef import policies. This confidence cannot be maintained, and the industry cannot respond to the inflation and energy challenges unless countercyclical meat import legislation is enacted into law.

Senator BENTSEN. Thank you, Senator Wallop. I have known of your long concern, and I appreciate the help you have given on this legislation.

Senator Dole?

Senator DOLE. Briefly, Mr. Chairman, I have asked that my entire statement, which is not that long, be made a part of the record. I know there are witnesses who have come a long distance to testify, and I thank the chairman for holding these hearings.

I believe, as I have said a number of times, we need to amend the Meat Import Act. Certainly, Senator Bentsen and Senator Wallop have been leaders in seeking revisions in the current law which, by exaggerating the effects of the beef cycle, serves neither cattlemen nor consumers.

I restate the very thing that was said by my colleagues. I would add that I would rather not have loosened discretion granted in last year's bill. I think that the countercyclical formula, by adjusting imports according to our supply availability, removes the rationale for ad hoc tinkering with import levels.

Discretionary lifting of quotas, such as that undertaken in 1978, interferes with the ability of our cattlemen to plan for the needs of the market. Furthermore, though cattlemen lose money from such actions, the consumer may see little or no benefit at the supermarket even in the short term. Over the longer term, actions such as

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President Carter's in 1978 lead the cattlemen to delay necessary adjustments to meet consumer needs.

Nevertheless, I recognize, as do Senator Bentsen and the many cosponsors of our respective bills, that some greater degree of latitude than in last year's bill must be accorded to achieve approval of countercyclical legislation.

My bill expands that discretion probably a little less than some others, but I think we all share the objective of assuring that legislation will permit discretionary quota increases only in true emergency situations. We do not intend, or see any justification for, casual employment of emergency authorities, particularly in a countercyclical law.

In none of the proposals before us or the House can I see justification for raising quotas because foreigners don't like reduced quotas when domestic supplies are rising or because of temporary firming of prices against longer term trends.

Certainly, we must be clear that we do not intend to permit discretionary actions in an ill-advised attempt to prevent the natural recovery of prices to levels necessary to elicit a buildup of cattle herds after long periods of low prices.

Senator BENTSEN. Thank you, Senator Dole.

Senator DOLE. I might say, as an aside, not because the three of us are here, but there was an amendment passed this morning, sponsored by the three Senators present, which repealed the carryover basis. That was passed by a vote of 17 to 0.

I know that is something the cattlemen have been supporting.

[The prepared statement of Senator Dole follows:]

STATEMENT OF SENATOR BOB DOLE

I want to thank you, Mr. Chairman, for holding these hearings. Amendments to the Meat Import Act are very important if we are to assure adequate supplies of meat to the American people at prices which are fair to producers and consumers alike. Senator Bentsen has long been a leader in seeking revisions to the current law, which, by exaggerating the effects of the beef cycle, serves neither cattlemen nor consumers.

We in Congress tried last year to get sensible revisions of the meat import law. Unfortunately, the President vetoed that bill. Our understanding was that the President accepted the logic and merits of a countercyclical formula for meat imports, but objected to other features of that bill. Several of us in both the Senate and House have introduced bills this year which largely emulate last year's effort, but give the President a bit more discretion to raise or suspend quotas.

Frankly, I would rather not have loosened discretion granted in last year's bill. I think that the countercyclical formula, by adjusting imports according to our supply availability, removes the rationale for ad hoc tinkering with import levels. Discretionary lifting of quotas, such as that undertaken in 1978, interferes with the ability of our cattlemen to plan for the needs of the market. Furthermore, though cattlemen lose money from such actions, the consumer may see little or no benefit at the supermarket even in the short term. Over the longer term, actions such as President Carter's in 1978 lead the cattlemen to delay necessary adjustments to meet consumer needs.

Nevertheless, I recognize, as do Senator Bentsen and the many cosponsors of our respective bills, that some greater degree of latitude than in last year's bill must be accorded to achieve approval of countercyclical legislation. My bill expands that discretion probably a little less than some others, but I think we all share the objective of assuring that legislation will permit discretionary quota increases only in the true emergency situations. We do not intend, or see any justification for, casual employment of emergency authorities, particularly in a countercyclical law. In none of the proposals before us or the House can I see justification for raising quotas because foreigners don't like reduced quotas when domestic supplies are rising or because of temporary firming of prices against longer term trends. Certainly we must be clear that we do not intend to permit discretionary actions in an ill-advised attempt to prevent the natural recovery of prices to levels necessary to elicit a build-up of cattle herds after long periods of low prices

I welcome our many distinguished witnesses to this hearing, and I again thank the Chairman for holding this hearing and for his personal efforts to achieve a sound meat import law.

Senator BENTSEN. Our first witness this afternoon will be Mr. Howard Hjort, Director of Economics, Policy Analysis and Budget for the Department of Agriculture. We are pleased to have you here. If you will proceed.

STATEMENT OF HOWARD W. HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. HJORT. Thank you, Mr. Chairman. I have along with me today representatives from the Department of State, and the Office of the Special Trade Representative, to help us respond to any of your questions.

With your permission, Mr. Chairman, I would appreciate having the statement that has been prepared inserted for the record and then I could be quite brief in summarization.

Senator BENTSEN. That will be fine. Without objection, it will be taken in its entirety in the record.

Mr. HJORT. Thank you, Mr. Chairman.

As you know, the administration does support the countercyclical concept. Last year, the Congress passed a measure amending the Meat Import Act of 1964. The President vetoed that measure. In doing so, the President stated two concerns with the bill that had been placed before him: One, it would have severely restricted Presidential authority to increase meat imports, and it would have placed a floor—or minimum access level—for meat imports of 1.2 billion pounds, which the President believed would have been too low.

This year, there has been considerable discussion, testimony and debate on the meat import issue, especially in the House. A measure has been reported out by the Ways and Means Committee that is acceptable to the administration in all respects, except that it would maintain a floor on meat imports of 1.2 billion pounds, instead of the 1.3 billion that the administration favored.

After that measure was reported out of the House Ways and Means Committee, the President, in the spirit of compromise, agreed to accept the measure if it would establish the floor for meat imports entering the United States at 1.25 billion pounds.

This is an essential element in the administration's position, and it would be futile to seek any further compromises from the President on the minimum quantity to be imported.

If the members of this committee and the Senate would pass a measure identical to that reported out by the House Ways and Means Committee, with the exception that the minimum import level is placed at 1.25 billion pounds, it will have the administration's full support.

The terms and conditions of your bill, Mr. Chairman, S. 55, are similar to those in H.R. 2727. It would take relatively simple amendments to make that measure fully acceptable to the administration. One would be to strike the 1.2 billion pounds and insert 1.25 billion.

There are two other changes that already appear in H.R. 2727. One provides the authority for the President to suspend quotas if there would be a disease or major national market disruption; and, second, to provide authority so that we could recalculate the countercyclical quotient that is in your bill, based upon information during the first two quarters of a calendar year.

As I say, both of these changes have been made in the measure that has come out of the House Ways and Means Committee, and with them, plus the 1.25 billion pound floor S. 55 would be fully acceptable.

Finally, the issues concerning meat imports have been extensively debated during this and the previous session. We believe that about all that needs to be said has already been said on this issue. We encourage you to pass S. 55, amended as we have indicated, so that this matter no longer need be something that takes the valuable time of the Congress.

Thank you, Mr. Chairman. We will try to respond to any questions that you and the other members may have.

Mr. BENTSEN. Thank you very much, Mr. Hjort.

Considering the controversy we did have, and the arguments and the debate, we have come a long way. I know that during the negotiations on GATT in Geneva while I was there I was making my views known as forcibly as I could. You have some awareness of that.

I was told then that I had developed a little name recognition in Australia, but they would suggest I not try to run for public office in Australia.

From what I understand from you now, the administration would support S. 55 if the floor were raised to 1.25 billion pounds, and the modest changes made in the language for the President's discretionary authority, and that those modifications have now been made in the House bill, is that correct?

Mr. HJORT. That is correct. Those changes with respect to the discretionary authority of the President have been made in the measure that has been reported out of the House Ways and Means Committee.

The only amendment that measure needs at the present time is to have the minimum access level raised to 1.25 billion pounds.

Senator BENTSEN. Thank you.

Senator Wallop?

Senator WALLOP. Thank you very much.

I observe for the record, it is interesting when you get to one segment of the economy, the administration favors indexing but is resistant to those proposals when it comes to individuals. I refer to Mr. Hjort's suggestion that the President have the authority to adjust the quotas and the index after the first two quarters of any given year. I am not sure that that is productive, but I don't think it is worth resisting that strongly.

Senator BENTSEN. Senator Dole?

Senator DOLE. I wondered, Mr. Hjort, if on page 3, the last part of the first paragraph on that page, you state:

> One cannot rule out unforeseen circumstances which might not qualify as national emergencies or natural disasters, but which nevertheless could reduce the availability of beef or other meats. In such situations, the President would have no

authority to provide relief. We request, therefore, that this "escape clause" be broadened to include disease or major national market disruption.

I guess what I am curious about is "major national market disruption."

Could you clarify for me that phrase?

Mr. HJORT. This mainly arises out of the fact that none of us can foresee the future with any degree of great perception. If we could see some major devastation, drought or, as I indicated here, a disease or some such thing that would lead to a major national market disruption, an event one would not anticipate to happen in the normal course, this authority would be applied. It refers basically to a disaster of some sort.

Senator DOLE. Not increased prices.

Mr. HJORT. No, sir. We think the basic formula in the proposed measure would take care of those circumstances.

Senator DOLE. That definition, I think, is probably necessary to give that authority, because, as you indicate, there could be a disaster; but I want to make certain it was limited to that, not maybe some other interpretation that some future official might put on it.

Mr. HJORT. This is in the context of circumstances that we could not foresee.

An example of the kind of situation that could develop is take from another situation which you will recall a few years back. There was a blight problem with corn; it developed suddenly; if there should be such an event such as that which would affect the cattle industry, there may be in those circumstances, the need for further authority with respect to import relief.

Senator DOLE. Thank you.

Senator BENTSEN. Thank you very much for your testimony.

Senator DOLE. That is a new experience, Mr. Hjort. I have never been present when you supported something.

Mr. HJORT. I was going to say, it is a new experience for me to be able to get away from the committee so soon. Thank you.

[The prepared statement of Mr. Hjort follows:]

STATEMENT OF HOWARD W. HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to offer the views of the Administration on various proposed amendments to the 1964 Meat Import Act.

The state of the American cattle industry has undergone a fundamental change since new meat import legislation was proposed last year. As you know, 1978 was the fourth consecutive year of U.S. cattle herd liquidation. Cattle and calf slaughter exceeded the calf crop in 1976 for the first time since 1947, and this same phenomenon occurred again in 1977 and 1978. The U.S. cattle population dropped from a record 132 million head in 1975 to 110.9 million head at the beginning of 1979.

Today's higher cattle prices, which are the result of this reduced beef cattle supply, are also a signal to producers to start herd rebuilding. Producers are now taking steps to rebuild their herds. The slaughter of cows through August 1979 was down about 34 percent from a year earlier. Calf slaughter is 35 percent below 1979 levels. The number of heifers on feed for slaughter on July 1 was 14 percent lower than in 1978. Although this year's calf crop will be slightly smaller than the 1978 crop, the calf crop will exceed the sharply lower 1979 cattle and calf slaughter. On the basis of information such as this, we have good reason to believe that the herd rebuilding process is underway. Currently, we expect the January 1980 cattle inventory above.

The rebuilding process in necessarily fairly lengthy. From the time a cattleman decides to increase the size of his breeding herd by retaining a heifer from his calf crop, it can be more than 40 months before this calf can be raised to maturity, produce offspring and that offspring be grown to a mature slaughter weight. If the offspring is retained to further increase the herd, it could be about 5½ years from the time the first calf is retained to increase herd size until the third generation offspring reaches slaughter weight.

During this time, domestic production of beef is necessarily reduced. The decline in production resulting from a diminished herd size is compounded by retention of heifers for rebuilding the herd. In addition, 1979 grazing conditions on September 1 were the best since 1961, further delaying feeder cattle marketing and perhaps encouraging ever greater heifer retention for herd rebuilding. We presently expect that domestic beef production will be down substantially in 1979, perhaps by around 12-13 percent. The decline in lean beef production will be particularly severe as the result of a sharp drop in slaughter of grass fed steers and heifers. So, during the next few years as the herd is rebuilt, slaughter will be low and beef production—particularly lean beef—will be less available.

It is in this phase of the cattle cycle, when beef production is relatively low and lean beef production is particularly low, the need for supplemental supplies of lean imported beef is greatest. Ironically, it is at this same time that the quota for meat imports, calculated according to the 1964 Meat Import Act, declines to lower levels—frequently compelling Presidents to intervene by suspending the quota in order to augment lean beef supplies. Conversely, during the years of herd liquidation, when record numbers of domestic cattle were going to slaughter and cattle prices were depressed, the formula in the 1964 Act raised the quota to higher levels.

In view of this anomaly, the Administration supports a countercyclical formula, such as that contained in S. 55, which would adjust the quota for meat imports in a manner counter to the domestic cattle cycle. Such a formula would adjust imports to be more complementary to domestic production, and also reduce the need for Presidential intervention. However, the Administration's support for enactment of this formula is conditioned on fulfillment of two conditions: (1) A modification of the circumstances under which the President could suspend quotas, and (2) the amended law must provide a floor, or minimum access level, of at least 1.25 billion pounds.

S. 55 uses the countercyclical adjuster to define the President's authority to suspend quotas. The adjuster, which is a five-year moving average divided by a two-year moving average of per capita cow beef production, produces a quotient which is somewhat greater or less than 1.0. A quotient of less than 1.0 indicates that cow slaughter is increasing and that the cattle cycle may be moving into a liquidation phase. When this happens, S. 55 would remove the President's authority to suspend the quota, except in the event of a national emergency or natural disaster.

Using this approach, the President would have been able to suspend the quota, subject to the criteria in the current law, in all years over the 1969-78 period except 1974, 1975, 1976 and 1977, the years of the most recent herd liquidation.

A potential problem with this approach is that it places great importance on USDA estimates of cow beef production. For several years, USDA has estimated cow beef production as part of its estimates of total beef production required by the current law, but records of these estimates have not been retained to permit an analysis of their accuracy. However, in order to affect a change of +0.01 in ratio, it is necessary to change the estimates of cow beef production in the 5-2 adjuster by about 3 percent. It would appear, then, that a relatively large error would be required to make a significant change in the ratio. The years in which the greatest error is likely are those years the beef cattle cycle turns. To alleviate this difficulty, we recommend that a revised calculation of the per capita cow beef supply ratio be permitted at mid-year on the basis of actual data for the first two quarters of the calendar year.

S. 55 allows the President to suspend quotas in the event of national emergency or natural disaster in those years in which the formula would not otherwise empower the President to do so. One cannot rule out unforeseen circumstances which might not qualify as national emergencies or natural disasters, but which nevertheless could reduce the availability of beef or other meats. In such situations, the President would have no authority to provide relief. We request, therefore, that this "escape clause" be broadened to include disease or major national market disruption.

The second provision of meat import legislation which we regard as essential—and on which Administration support for meat import legislation is conditioned—is a minimum access level of 1.25 billion pounds. This "floor" represents a compromise on the Administration's part from our past support for a 1.3-billion-pound minimum. We are willing to make this compromise in interest of the enactment of countercyclical meat import legislation. This minimum access level is important because of the possibly difficult adjustment process required of countries which supply meat to the U.S. Further, any lower level could result in retaliation against our exports by those countries.

Throughout the Tokyo Round of the Multilateral Trade Negotiations, the United States accorded the highest priority to obtaining less restricted trade in red meats, especially high-quality grain-fed beef which we produce more efficiently than any other country. The U.S. has the potential to become the largest exporter of beef and livestock products as world trade in beef is liberalized. It is, therefore, more than a little inconsistent to take actions which will be perceived by our trading partners as further reducing their access to the U.S. market when we have succeeded in opening new markets for U.S. beef with signficant future growth potential. Therefore, the Administration feels that equity for our suppliers requires a minimum access level of no less than 1.25 billion pounds.

Based on USDA projections, beef imports allowable under the proposed countercyclical formula would not be likely to drop below 1.25 billion pounds until at least 1986, with allowable imports never getting as low as 1.2 billion pounds.

Since the introduction of S. 55, there have been some changes in the U.S. tariff schedule nomenclature as a result of the Trade Agreements Act of 1979. We will be glad to assist the subcommittee staff in substituting the new numbers to assure that the same import coverage is obtained.

With regard to issues raised by some of the other bills referred to this Committee, we would like to comment and explain why such provisions would be unacceptable.

S. 441, S. 371 and S. 32 use the ratio of two price indices to determine when the President would be able to suspend the meat import quota. This index ratio is obtained by dividing the USDA Farm Price of Cattle Index for each calendar quarter by the Bureau of Labor Statistics Beef and Veal Price Index for the same quarter. In S. 441, if the resulting ratio averages 1.10 or higher, then the President has authority to suspend the quota and increase meat imports for two consecutive calendar quarters.

Under S. 371 and S. 32, if the resulting ratio averages 1.10 or higher during two consecutive quarters, then the President has authority to suspend the quota and increase meat imports for the remainder of the calendar year by up to 10 percent. If the index ratio averages 0.90 or less for two consecutive quarters, then the President may decrease meat imports by 10 percent.

Under this formula, the President would have been able to suspend the meat import quota in the second half of 1972 and in 1973; and in 1974 under S. 371, and S. 32 over the period 1967 to 1978. In contrast, over the same period under the present law, the President was able to increase meat imports in the second half of 1970, in all of 1971, 1972, 1973 and 1974, and in the second half of 1978.

A major potential problem with the approach proposed by these bills is that it anticipates that the relationship which has applied in the past between price trends for live cattle and for retail meat will also apply in the future. It is useful to remember that for at least part of the period in which the price index ratio averaged over 1.10 there were price controls on meat at the retail level. If, in the future, retail prices were to respond more quickly to changes in live cattle prices, it is possible that the President would never have authority to suspend quotas, even in the face of a rapid and protracted rise in meat prices.

S. 81 would go beyond the additional items included under the quota by the other bills to extend the quota to canned corned beef, pickled beef and veal, and beef and other sausages in airtight containers, tariff items 107.20, 107.25, 107.40, 107.45 and 107.52. These products are not now covered by the law, and we believe there is no justification for including them in the law now. These items have averaged only 103 million pounds a year since 1969 and represent 7.4 percent of our total beef imports for that period.

Moreover, in each year more than 85 percent of these imports have been cooked beef, primarily canned corned beef which is not produced in the United States. Production of these items in the United States is either extremely limited or nonexistent, so that imposition of restrictions on importation of these items could cause our supply to be insufficient. Therefore, we would oppose extension of the quota to these items.

The requirement of S. 81 that no more than 54 percent of the total volume of imports can enter the U.S. in any six months could have a disruptive effect on the market. It ignores production patterns which, because of weather and other factors, cannot be forced into neat six-month periods. It ignores the seasonability of demand in the United States where the demand, and hence the price, of beef tends to be higher in the summer. In our view, the result of this proposal would be to place an unnecessary restriction on the normal operation of supply and demand factors on which marketing should be based.

In conclusion, Mr. Chairman, the Administration continues to be willing to support the countercyclical formula provided in S. 55 with the modifications pertaining to Presidential discretion to suspend quotas and a minimum market access of 1.25 billion pounds.

Thank you.

Senator BENTSEN. Our next panel will consist of Mr. Sam Washburn, chairman of the Foreign Trade Committee, National Cattlemen's Association; Mr. J. Richard Pringle, president, Kansas Livestock Association; and a long-time friend of mine from the distinguished Texas family, pioneer family, that has been prominent in the cattle industry for a long time, Mr. John Armstrong, president of the Texas & Southwestern Cattle Raisers Association.

Which of you gentlemen would like to lead off. Mr. Washburn?

STATEMENT OF A PANEL CONSISTING OF SAM WASHBURN, CHAIRMAN, FOREIGN TRADE COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION; JOHN ARMSTRONG, PRESIDENT, TEXAS & SOUTHWESTERN CATTLE RAISERS ASSOCIATION; AND J. RICHARD PRINGLE, PRESIDENT, KANSAS LIVESTOCK ASSOCIATION

Mr. WASHBURN. My name is Sam Washburn. I am a full-time cattle producer from Fowler, Ind. I am here as chairman of the Foreign Trade Committee for the National Cattlemen's Association.

We have submitted a full statement, of which you have a copy, and we would like it entered in the record.

Senator BENTSEN. Without objection, it will be done.

Mr. WASHBURN. I would like to outline our summary, which will be very brief, for emphasis and direction:

The National Cattlemen's Association supports the amendment to the meat import law, which provides for countercyclical formulation for determining imports. This amendment includes all forms of fresh, chilled, or frozen meat; instructs the Secretary of Agriculture to undertake a study to determine the regional economic impact of imports. It also requires the President to determine certain findings before imports can be increased, decreased, or suspended.

I would like to refer a little more specifically to what those findings must be.

S. 55 allows the President to increase imports above the level specified in the formula when the countercyclical adjustor goes above one. This would theoretically be during the time of reduced cow slaughter and the herd buildup phase of the cycle.

It also requires the President to give a 30-day notice by publication in the Federal Register of his intention to act. It also allows the President to increase imports in the event of a natural disaster or national emergency.

In addition to these provisions, H.R. 2727 has two other opportunities for the President to increase or decrease imports: The first is in the event of a major national market disruption; the other is on the basis of actual data for the first two quarters of the calendar year, a revised calculation of the fraction of the countercyclical adjustor yields a quotient of 1 or more.

Obviously, these provisions in S. 55 and H.R. 2727 are less restrictive than what was in H.R. 11545 which the President vetoed; however, the NCA does feel they are more restrictive than what is in the current meat import law. These provisions do require more accountability on the part of the President before imports can be increased above the formula level.

NCA believes the rationale for the meat import law in itself incorporates the principle of guaranteed market access and freely trading world market prices.

A more stable import situation adds to the stability of domestic prices for both producers and consumers. It keeps the United States from becoming a dumping ground for beef surpluses which may develop around the world.

S. 55 introduced by Senator Bentsen is very similar to H.R. 2727 which is awaiting action by the House of Representatives. Both bills are similar to H.R. 11545 which was passed by Congress in the last session and vetoed by the President.

S. 55 meets the objections of the President in his veto message on H.R. 11545.

The NCA supports and urges the passage of S. 55.

Thank you, Mr. Chairman.

STATEMENT OF J. RICHARD PRINGLE

Mr. PRINGLE. Mr. Chairman, my name is J. Richard Pringle, president of the Kansas Livestock Association. I am a cow-calf feeder-producer from the Flint Hills area of Kansas.

The Kansas Livestock Association endorses the concept of a countercyclical meat import bill.

Speaking for 7,000 Kansas Livestock Association members, I emphasize to the committee that we would prefer the strictest possible limitation on executive authority, and we urge you to give your earliest approval to a countercyclical meat import bill that contains such a provision.

Frankly, the Kansas cattlemen that I represent would have preferred the stronger language which is contained in Senator Dole's meat import bill, S. 441. However, recognizing the political realities, we can accept the executive authority contained in S. 55 and H.R. 2727.

We also encourage the committee to draft report language which will plainly indicate that the discretion which is left to the President by virtue of the verbal formulas is not to be used lightly or for political expediency.

If the United States had open access to foreign markets, possibly meat import laws would be unnecessary. However, the term, "free market" to some simply means allowing other countries to dump what they don't want or don't need on U.S. markets.

As long as we are restricted in our access to foreign markets, we make no apology for asking that meat import laws regulate the flow of imported meat into our country.

Frankly, we would be happy to see other countries provide the same guaranteed access to their markets that the U.S. provides with its liberal import quotas.

Senator BENTSEN. Mr. Armstrong?

STATEMENT OF JOHN ARMSTRONG

Mr. ARMSTRONG. Mr. Chairman, my name is John Armstrong. I am president of the Texas & Southwestern Cattle Raisers Association. I would like to thank the chairman for his kind remarks and express my appreciation for the opportunity to appear before you.

The Texas & Southwestern Cattle Raisers Association, a cow/calf producer organization with 14,000 members, supports the provisions of Senate bill S. 55 which would strengthen the 1964 Meat Import Act.

This legislation allows for a countercyclical import quota under which imports would increase when domestic beef output has declined and decrease when U.S. production becomes excessive.

This legislation also defines more precisely the circumstances under which the President may increase meat imports beyond quota levels.

The provisions of this bill are anti-inflationary, as it has a stabilizing effect on cattle prices. The bill encourages cattlemen to rebuild their herds, as it allows for some of the highs and lows to be removed from our cattle cycles.

Last year the administration pocket-vetoed similar legislation. This was done over the objections of cattlemen throughout this Nation. That action adversely affected the confidence of cattlemen and delayed the building up in breeding herds which is necessary for increased beef supplies.

Historically, the United States has imported more beef by far than any other nation. In fact, our imports account for 30 percent of all beef involved in world trade. Under our import law, we continue to provide beef-exporting nations about 7.5 percent share of our market year after year.

We in the United States export only two-tenths of 1 percent of our beef production. It is obvious to us that beef trade is not a two-way street, especially with Japan and the European Economic Community.

It is obvious to Texas cattlemen that beef-exporting nations use us as a dumping ground for their periodic surpluses. This legislation would take a lot of politics out of this world trade issue.

We are already dependent on other countries for our oil supply. The last thing that we want and need is for this country to become dependent on foreign beef and meat supplies as well. Failure to enact this legislation into law eventually could contribute to that kind of a result.

These amendments, in our opinion, are fair and allow stability for our producers. We applaud the concept of this legislation and support its passage.

Senator BENTSEN. Thank you.

Mr. Hjort said in his testimony that it was inconsistent for us to try to expand our sale of beef overseas through MTN, and at the same time to deny access in this country.

Now, do you think S. 55 represents a restriction on foreign access, and how does that compare to the foreign treatment of our beef exports?

Mr. WASHBURN. If I may make comments to that, S. 55, what it represents is guaranteed access to the U.S. market; it adds stability and ability to plan by American producers as well as importers, to look down the road and see figures and projections that they can depend on, as well as we can depend on to provide access into this market both for U.S. production, U.S. producers and the foreign production that is moving here.

It is quite the contrary from being restrictive, because over the projection of this coming cycle it is more lenient than we have had in the past, and the American market has the greatest access to its trading partners for beef of any market in the world.

Senator BENTSEN. You want to include, as I understand it, fresh, and you want to include chilled and frozen beef and veal. Is that different from the present law?

Mr. PRINGLE. Yes, sir; it is. Some of those, like the iced meat, can come in outside the law at the present time, and we would like those included in that tonnage that is coming into the United States.

Senator BENTSEN. How do you think the countercyclical formula—this is one of the arguments I got into in Geneva and I want to hear you answer—how is this going to affect Australia and countries like New Zealand? Aren't they on the same cycle we are?

Mr. ARMSTRONG. I will respond by saying I don't think they are. I don't think they have had a real cyclical pattern. Their pattern is a drought pattern and they have good years and declines in the drought years.

Senator BENTSEN. That is as unpredictable as our droughts?

Mr. ARMSTRONG. Yes, sir, and since Australia exports at 60 percent of its production, it is incumbent on them to arrange their marketing and to think about their marketing in terms of doing everything they can to become countercyclical, because it would be in their best interest to do so.

Senator BENTSEN. We shouldn't have to adjust our cycles to theirs when we are importing a lot of their beef. It seems to me it makes more sense that they make economic adjustments of their own on their cycles and their planning.

Mr. WASHBURN. May I make an additional comment to that?

It appears that the U.S. producers, U.S. Government, is making quite a concession to foreign producers and their imports here by the 1.25 billion floor. This provides access in a countercyclical way, but it cuts off the bottom; so we think American producers are going further than just a simple compromise by going along with the 1.25 floor.

Senator BENTSEN. I know when you talk about our getting such a great access to the Japanese market, how they opened up to us, when I start trying to equate that—I think it was 16,000 tons, something like that—I finally put it down to each Japanese and it worked out just about like they had one hamburger patty per Japanese. I didn't think that was a major breakthrough.

When we look at the restrictions of other countries, they are much more restrictive than we are.

Senator Wallop?

Senator WALLOP. Mr. Chairman, I agree with you about our access and so-called breakthroughs. I found it hard, too.

Mr. Washburn, you talked about this being a level of guaranteed access to our markets and I agree with you that is what it is.

Doesn't it concern you at all this guaranteed access is as high as suggested under Mr. Hjort's testimony, the 1.25 billion pounds in a period where there appears to be declining consumption, domestic consumption?

Mr. WASHBURN. The declining domestic consumption is tied to production. We eat it all, so when we see the function of supply, it concerns us that there is a floor in there at all, because to let a countercyclical formula operate properly it must be countercyclical on both the high and the low sides.

This is not the case, but we understand the realities of life and some things must be compromised to, and this is one we are willing to go along with to get the dependability of a bill that we see, S. 55, as being favorable to cattlemen to provide stability and planning potential to our business.

Senator WALLOP. Do you have any feeling as to live cattle imports?

Mr. PRINGLE. Not at the present time. I think those numbers will vary some, but not to the degree it is going to hurt the producers in the United States, mainly from Mexico, and I think they are probably going to be reduced.

Senator WALLOP. I am thinking less in terms of Mexico. I know a good many Montana and North Dakota cattle producers thought there was a pretty substantial evasion of the quotas by Canadian cattle coming in, especially during the last year.

Mr. WASHBURN. We are concerned about the movement of live cattle from Canada and Mexico. We don't see in this legislation how live cattle could be incorporated effectively in any formula.

In discussions with Canadian producers, they have a countercyclical bill in the mill which will tend to provide stability for them.

Senator BAUCUS. I want to follow up on Mr. Wallop's points.

True, we in Montana are very concerned about live cattle coming across the border. I understand you have a difficult time putting it into this bill, but how do you think we should handle live cattle? Do you have any thoughts on that?

Mr. ARMSTRONG. I think the supplies of cattle we get from Canada are not a very large percentage of the total production in the United States, and they are our neighbors, and if there is any free trade with a country——

Mr. BAUCUS. They may not be large on an aggregate basis, but they have a significant effect on border States.

[The prepared statement of Senator Baucus follows:]

STATEMENT BY SENATOR MAX BAUCUS

This afternoon we are considering legislation of utmost importance to both the Nation's cattle producers and also to consumers.

The Meat Import Act of 1964 simply does not provide adequate protection for the Nation's cattle producers. Presently, imports disrupt the domestic livestock industry, contributing to cycles of extremely low prices that bankrupt ranchers and high prices that enrage consumers.

This hearing is particularly timely since the House Ways and Means Committee has reported H.R. 2727. I would hope that both Houses can act quickly on meat import legislation to provide more long-term stability for the domestic cattle industry and consumers.

Meat Import Act of 1979

I have joined Senator Bentsen in introducing S. 55, I believe S. 55 constructively amends the Meat Import Act; and I strongly suppo. this legislation. This bill would establish a counter-cyclical import formula, restrict the president's authority to suspend quotas, and extend quotas to cover certain processed meats.

Adopting such a formula is a common sense approach to dealing with meat imports.

The counter-cyclical formula is important to both producers and consumers. Incredibly, under present law, imports increase during periods of herd liquidation when domestic supplies are excessive.

At these times, when we need imported meat least, imports drive cattle prices far below ranchers' costs of production.

During the rebuilding phase of the cattle cycle, present law restricts imports. Usually when domestic supplies are short there is intense political pressure on the administration to suspend quotas. Thus, producers receive little protection from imports.

The counter-cyclical formula will reverse this process so that imports increase when domestic supplies are short and decrease during periods of abundant domestic supplies and low prices.

The counter-cyclical formula should stabilize cattle markets to the benefit of both producers and consumers.

In my view, the most important provision of S. 55 is that it gets the President out of the cattle business.

In the 14 years that the Meat Import Act has been in effect, the President has suspended or increased quota levels six times.

These Presidential suspensions seriously disrupted the domestic cattle industry without providing price relief for consumers.

In June of 1977, the president increased meat imports by 200 million pounds, as a result, domestic prices quickly plunged 20 percent.

However, there was no corresponding drop in consumer prices. In fact, consumer prices increased 2½ percent during June.

With a counter-cyclical formula in effect, there is no need for Presidential authority to suspend quotas.

Other needed legislation

In addition to the provisions of S. 55, other legislation to control meat imports is needed. First, the loophole in present law that allows certain canned, cooked and processed meat to enter the country irrespective of import quotas should be eliminated.

Second, the flow of live cattle from Canada and Mexico should be controlled. Large numbers of live cattle that sporadically enter the United States severely disrupt local markets. Some means must be devised to prevent these price-depressing disruptions that adversely affect ranchers in the border States.

In addition, our system of inspecting and labeling imported meat needs to be improved. I have introduced S. 1038 to require imported meat to meet the same inspection and labeling standards as domestic products and to be labeled as imported. This legislation is important to provide equitable treatment for domestic producers and to protect consumers from potentially unsafe foreign food products.

I look forward to hearing from our witnesses today. Your comments will help us develop legislation that is in the best long-term interest of livestock producers and consumers.

Mr. WASHBURN. It is a concern to the National Cattlemen's Association on what should be done, because at times in the cycle recently there was a number of northern-fed cattle moved from Canada primarily into Montana, along the northern border States; but at other times in the cycle there are substantial numbers of fat cattle moving through Michigan and into Port Huron to be slaughtered, which is also a real concern to Canadian feeders and producers. So I guess the problem we have is to get a handle in an equitable way between the two countries on how to do this.

There is not that definite a pattern to work out any kind of cooperative exchange. Because of that, there has not been any suggestion.

Mr. ARMSTRONG. I would like to make another comment, that I think that trade has to be a two-way street for both sides to end up over a period of time being happy about the relationship, and I think our trade relations with Canada and the cattle business is a two-way street.

Our trade as a nation with Japan is certainly not a two-way street. I heard the comparison made about Japanese compacts can be sold or bought on the streets of Tokyo for the same price you buy it in the United States, but the same size compact costs twice as much in Tokyo if it is U.S. made. I think we have a similar situation there.

There are two areas or markets in the world that have the buying power and the standard of living to be able to pay us a price that would attract our beef. That is the European Economic Community and Japan; and in both instances we have a one-way street on the trade with those countries.

Senator DOLE. I think the President's decision to allow imports—I forget the date, but I was in New York City that day, and I didn't see too many cattlemen there that day—maybe there are a lot of consumers concerned about beef prices, so we have that consumer view, and that view is, of course, to give any President the wide discretion.

I think we can understand that to some extent, because consumers are looking for the lowest possible prices; but, on the other side, maybe—I don't know who can give me the cattlemen's perspective on why it is necessary to take the other view as far as limiting discretion and what effect that has on decisions you make and the amount of meat you are going to be able to provide for consumers.

I think it is fair to say there is a consumer interest, but I also believe that there is a response to that consumer interest that ought to be in the record.

Mr. PRINGLE. I think this is a point that has been brought out through our testimony, that the reason we want to know where we are, and not have certain periods of the year that we are going to have 200 million pounds thrown under our market when we don't expect it, and that feeder projects his year like anybody else or any industry would, buying the feeder steer plus the inputs of his grain and so forth, allowing for some profit at the end; and something comes along that throws that out of balance. It throws the whole system out; consequently, that is the reason we need this type of bill. We need it to where something can't be thrown in the machinery to throw it out of balance.

Senator DOLE. But we hope this law would provide steady, adequate supply to the consumer; the prices would not be jumping up and down as in the past.

Mr. PRINGLE. We feel it would take the peaks and valleys out of the market.

Mr. WASHBURN. May I comment? I do remember, Senator, what the date was, and it was June 8 last year, when the 200 million pounds of beef were allowed to come in, or announced it would be allowed to come into our market. The 200 million pounds of beef do not sound like that much, roughly not quite a pound per capita, but the free market system does work in the cattle business, and the free market system supply and demand are in a fragile balance, and when something comes as a total surprise to the market can make it do funny things, and the funny thing that happened was the live cattle market dropped $17 per 100 in the next 3 weeks; it was the first time in some 4 or 5 years that the cattle out of our lots were in the black. We were not looking for a runaway market, but we for once were able to cover our costs; and so when we see the inability to plan because of political manipulation of a free market system, it is alarming to our members who are losing tremendous sums of money and maybe even their farm in that situation.

So what we look to is some stability added by everyone knowing what the ground rules are ahead of time, and there won't be any manipulation of those rules in the middle of the game.

We feel that this is a commonsense approach. As we have excess production, there will be less imports, and when we are somewhat short in production there will be more imports. It is a very commonsense approach and we think it is just in the best interest of the cattle industry and the consumers.

Senator DOLE. I think that is a point you both made. There certainly is consumer interest, and I think the cattlemen are willing to compete with other alternatives, whether fish or fowl or whatever, but it is not fair to ask the cattlemen to compete—I don't say in a political or partisan sense because it happens in every administration—when the ground rules are not known. I think fair ground rules would be very helpful to the consumer.

I would also ask to be made a part of the record at this point what I consider to be an excellent story in the Wall Street Journal. It illustrates some of the peaks and valleys that the cattlemen go through and have gone through for the past several years. I am not certain Mr. Pringle wants to state how much he lost at one time; maybe he would. I am not sure how many consumers read the Wall Street Journal, but the cattle industry has not been a very profitable business in the State of Kansas in the past few years, and, hopefully, the meat import law revisions at least would be able to offer some stability and supply that would benefit everyone.

I know you want to comment on that article. I would like it made a part of the record. It indicates there are hard times in the cattle business.

[The information follows:]

ON THE HOOF—CATTLEMEN REBUILDING HERDS, BUT BEEF PRICES WON'T PLUMMET SOON

THE PROCESS TAKES RANCHERS LIKE DICK PRINGLE YEARS; BREEDING PIGS IS QUICKER

The Pork and Chicken Peril

(By Steve Weiner, Staff Reporter of the Wall Street Journal)

YATES CENTER, KANS.—"Promote beef—run over a chicken," says the sign on J. Richard Pringle's office door.

A third-generation rancher, Mr. Pringle makes beef. Every spring his herd of cows gives birth to a new batch of calves on the plains near this southeast Kansas town. The calves are the hamburgers, steaks and roasts of the future.

In recent years, Mr. Pringle hasn't been making as much beef as he used to. The prices he got for his animals slumped sharply in the mid-1970s, socking him with thousands of dollars of losses and forcing him to sell part of his ranch. Mr. Pringle tried to cut his losses by cutting the size of his herd; the 1978 crop of new calves numbered only 620, down from more than 800 three years earlier.

Thousands of other cattlemen had the same problem, and tried the same solution. The result: The number of cattle in the U.S. dropped from a record 132 million in 1975 to 111 million last January. The plunge put beef production into a tailspin and sent beef prices stampeding upward—to the dismay of consumers and government inflation-watchers alike. Now, however, cattle are on the comeback trail.

But not very fast

Mr. Pringle is rebuilding his herd, and cattlemen throughout the U.S. are beginning to do the same. "We're starting to build up again" says the 47-year-old Mr. Pringle. But he adds, "It isn't happening very fast."

A look at Dick Pringle's ranch shows why beef prices have risen so high so fast, and also shows that the herd-rebuilding under way on the Pringle ranch and elsewhere won't mean lower beef prices next month or even next year. The biology of cattle means that rebuilding a herd takes years, experts note, and they add that the current economics of ranching are likely to prolong the process.

"People just can't go through four of five years of bad losses and then find the money to rebuild their herds quickly," says Tommy Beall, research director with Cattle-Fax, the marketing service of the National Cattlemen's Association. "Some ranchers have left the cattle business entirely, and it will be a long, long time before they get back in. Expansion will come, but not as quickly as we've seen at times in the past."

Cows and sows

The number of cattle in the country rises and falls in a more-or-less regular cycle. The cycle begins when beef supplies are tight and prices are therefore high. Eager to cash in, ranchers like Mr. Pringle add to their breeding herds by keeping young females, or heifers, as mother cows instead of sending them to slaughter. Within a few years beef is plentiful and prices drop. Inevitably, ranchers then sell their breeding stock to reduce their losses, and in a few more years supplies tighten, prices rise and the cycle begins again.

From start to finish, the cattle production cycle takes a decade or more because cattle reproduce and grow relatively slowly. A sow can produce two litters of eight to 10 piglets each year, and they are ready of market within six months. Cows, in contrast, have only one calf each year, and the calf isn't ready for market until it's approaching two years old.

The most recent swing of the cycle has been the sharpest on record. Beef prices have risen more than 15 percent in the last year, and the roots of the increase go back to 1973.

Cattlemen were hit with a slew of unusual troubles back then. The previous year's world-wide crop failure, which reached disastrous proportions in the Soviet Union, sent grain prices soaring. As a result, the price of cattle feed jumped too.

At the same time that feed costs were rising, President Nixon slapped strict price controls on beef as part of his anti-inflation program. Many cattlemen held on to their animals until the controls were lifted, but then the pent-up cattle gushed onto the market and cattlemen found themselves taking losses on each animal they sold. Later, a severe drought hit large areas of the Western U.S., drying up the pastures on which young cattle are weaned.

It all hit ranchers hard, and Mr. Pringle was no exception. His family has raised cattle near Yates Center since 1890, when his grandfather bought land here. Mr. Pringle's 80-year-old father, James, still is active in running the ranch, but it is uncertain whether Mr. Pringle's three children, all in college, will follow in the family business. "I want them to see what else is out there," their father says.

Dick Pringle, a chain-smoking ex-Marine, runs a fairly typical medium-sized ranch, but it is unusual in one respect: Mr. Pringle not only breeds cows to produce calves; he also has a feed lot to fatten cattle for market. Most cattlemen concentrate on either breeding cattle of feeding them, but not both. Mr. Pringle says his unusual combination helped the ranch weather the lean years of the mid-1970s.

Mr. Pringle's string of cattle-breeding losses started in 1974, when it came time to sell the year-old calves born the previous spring. Unfortunately for Mr. Pringle, the price of beef had recently been decontrolled, and cattlemen across the U.S. were eager to sell their animals. With so many sellers, Mr. Pringle's calves brought him only 29 cents a pound—less than half the price of the year before. Mr. Pringle's losses topped $100,000, but he thought the worst was over.

"I looked back and saw how beef consumption has been rising for 20 years; we all were a little gullible and thought it would continue," Mr. Pringle recalls. He assumed cattle prices would start heading up again, even though the Agriculture Department was reporting sharp increases in the number of cattle in the U.S. So Mr. Pringle added to his breeding herd in 1975 and produced 818 calves, more than ever before. But he lost about $115 on each calf and decided it was time to retreat.

Mr. Pringle went through his breeding herd and decided to cull the poorest of the nearly 900 cows. First to go to market were the cows that failed to produce a calf the previous spring, and next were the cows that produced weak or sickly offspring. Mr. Pringle reduced his breeding herd to some 700 cows in 1976 and to 560 in 1977.

The idea, of course, was to cut his continuing losses, but thousands of other cattlemen had the same idea. Their actions sent cattle prices even lower. Every time ranchers sent a breeding cow to slaughter, they added to the glut of beef on the market.

The result was cheaper beef and lots of it. The average American ate a record 96 pounds of beef in 1976—that remains the high—and the price of beef at the supermarket dropped 4 percent during the year. Beef eaters had a heyday, but Mr. Pringle's perspective is somewhat different. "I was just trying to hold on, and looking for brighter days," he says.

The Pringle feed lot helped considerably. The price of Mr. Pringle's calves was falling, but the price of other ranchers' calves dropped, too. So while Mr. Pringle cut back his own breeding, he bought cheap calves from other ranchers, feeding them on his range and in his feed lot. That provided income to offset breeding losses.

Mr. Pringle's equity in his ranch and feed lot also helped him borrow money, and he did just that. Today his debts total $2.4 million, up from about $1.9 million in 1973. Despite his borrowing, Mr. Pringle had to sell 320 acres of his 6,120-acre ranch to get enough cash to keep operating at desired levels.

Today, profits have returned to cattle breeding. The sharp reduction in the number of cattle in the U.S. started pushing beef prices up last year; the trend has generally continued this year, even though prices are down from last spring's high. Mr. Pringle is responding to the lure of profit; his herd produced 620 calves last year, up 15 percent from 1977, and this year he added more mother cows and got 750 calves.

That's an unusually rapid increase, and Mr. Pringle is doing it by taking a shortcut—buying mother cows from other ranchers. Increasing the overall beef supply depends on enough ranchers raising female calves to be mothers.

This is a long process. It takes 18 months before a heifer is old enough to be bred and nine months more before she delivers a calf. The new calf, in turn, isn't ready for market at full weight for a least 18 more months, so the entire herd/rebuilding process takes over 3½ years. The Agriculture Department is forecasting less than a 1 percent increase in the total number of cattle in the U.S. this year. Not until 1982, experts say, will the U.S. cattle herd be as large as in 1975.

For now, Mr. Pringle isn't sure just how much further he will go in expanding his herd. He expects healthy profits this year, he says, but he is worried about rising expenses. "The cows I bought this year cost $825 each, triple the 1975 price," Mr. Pringle says, "and the cost of grain is rising and pushing up the cost of feed."

What's more, he says, he is cautious because his debt load is heavy and some of the debt carries an annual interest rate topping 10 percent. Also, Mr. Pringle fears that consumers will turn to increasingly abundant pork and chicken, thus clamping a lid on beef prices.

"I'll wait till fall before deciding on my next step," he says. "I hope and think we can avoid another big bust like the one we've just come through."

Mr. PRINGLE. Thank you, Senator. I think that was—whether we like it or not—a true picture of what the cattle industry has been in the last 4 years. I hope the rest of the cattlemen find bankers somewhere, like I have. We feel this type of legislation would correct that type of situation that we had to go through, where we had excess numbers that build up and then, of course, this spring we had higher prices.

If we had not had the actions back in June 1978, I don't think we would have had the extreme peaks we had here in 1979, and it would have been to the advantage of both the consumer and the producer that they both would have known where they were in this case.

So I think the point is well taken.

Senator BENTSEN. Thank you very much, gentlemen. That will be very helpful to us.

[The prepared statements of the preceding panel follow:]

STATEMENT OF THE NATIONAL CATTLEMEN'S ASSOCIATION, BY SAM WASHBURN, CHAIRMAN, FOREIGN TRADE COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION, AND JOHN MORSE, JR., VICE CHAIRMAN, FOREIGN TRADE COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION,

The NCA is the national spokesman for all segments of the nation's beef cattle industry—including cattle breeders, producers and feeders. The NCA represents approximately 280,000 professional cattlemen throughout the country. Membership includes individual members as well as 51 affiliated state cattle associations and 15 affiliated national breed organizations.

SUMMARY

1. The National Cattlemen's Association supports amendments to the Meat Import Law which: (a) Provide for a counter cyclical formulation for determining imports; (b) Includes all forms of fresh, chilled or frozen meat; (c) Instructs the Secretary of Agriculture to undertake a study to determine the regional economic impact of imports; and (d) Requires the President to determine certain findings before imports can be increased, decreased or suspended.

2. The NCA believes that the rationale for a Meat Import Law is: (a) It incorporates the principle of guaranteed market access at freely trading world market prices; (b) A more stable import situation adds to the stability of domestic prices for both the producers and consumers; and (c) It keeps the U.S. from becoming a dumping ground for beef surpluses which may develop around the world.

3. S. 55 introduced by Senator Bentsen is very similar to H.R. 2727, which is awaiting action by the House of Representatives. Both bills are similar to H.R. 11545, which was passed by Congress in the last session and vetoed by the President. S. 55 meets the objections of the President in his veto message on H.R. 11545.

4. The NCA supports and urges the passage of S. 55.

My name is Sam Washburn of Fowler, Indiana. I am Chairman of the NCA Foreign Trade Committee. With me today is Mr. John Morse, Jr. of Dillon, Montana, Vice Chairman of the NCA Foreign Trade Committee. Both Mr. Morse and I are actively engaged in the cattle business as producers and feeders.

We appreciate the opportunity to be here today to discuss the subject of meat imports and how they affect our industry and consumers. We do support S. 55 which was introduced by Senator Bentsen.

The bill S. 55 is almost identical to H.R. 2727 which has been approved by the House Ways and Means Committee and is now waiting action from the House of Representatives. The NCA has been working very closely with members of the Ways and Means Committee in support of H.R. 2727.

These bills, S. 55 and H.R. 2727 are very much like H.R. 11545 which was passed in the last session of Congress, later vetoed by President Carter. The difference between what was vetoed and the proposed legislation is in the area of discretionary authority given the President to increase, suspend or decrease quotas established by formula in the Law. We believe the presidential authority provision in S. 55 and H.R. 2727 meet the President's objections to last year's import bill.

One other area of disagreement between the Administration, Congress and the cattle industry has been the guaranteed minimum access level or "floor" for imports under the counter cyclical formula. In the President's veto message of last year he stated that he desired a floor of 1.3 billion pounds. The NCA has voiced its opposition in principle to any floor at all or several occasions. However, we did agree to support a floor of 1.2 billion pounds as was in H.R.11545 of last year and is presently in S. 55 and H.R. 2727.

The House Ways and Means Committee reported H.R. 2727 out with a floor set at 1.2 billion pounds. The Administration continued to express its opposition to a floor of 1.2 billion pounds with the threat of a veto. Since the Ways and Means Committee action, the Administration has offered to support a floor of 1.25 billion pounds. The NCA has agreed to this accomodation.

Mr. Chairman, it was about eighteen months ago that we from the industry came to Congress to seek amendments to the Meat Import Law. We told you then that we thought a counter cyclical Meat Import Bill would be good for both the cattle industry and the consumer, and we still feel that way.

A year ago we were just beginning to see daylight after four years of disastrous losses. Our industry had overproduced, and we were liquidating our cow herds. This liquidation of breeding stock compounded the over-supply problem. We felt that if imports had been reduced during the liquidation phase of the cattle cycle, there might have been more stability in our industry.

A further limit on imports at that time would have kept prices from going so low. This in turn would have kept liquidation from being so great. Our cow herd would not have decreased so much, and the current decrease in beef supplies—and increase in prices—would not have been so pronounced. The added stability would have benefited consumers as well as cattlemen.

The cattle industry sought Meat Import Law provisions that would have reduced imports during the liquidation phase of the cycle. In turn, we were willing to have more imports during the herd rebuilding phase of the cycle, when production was low and prices were rising.

The concept of a counter cyclical formula was accepted by the Congress and the President.

Other provisions in the bill would have closed certain loopholes which are found in the Meat Import Law of 1964.

One area of great concern to us, and obviously to the Administration, was that dealing with the President's authority to increase or suspend quotas. We felt then, and still do, that there must be certain findings or benchmarks before the President could increase or suspend quotas.

The language in the current law which gives the President authority to increase or suspend quotas in our opinion is too vague and too loose. It has kept the issue of Meat Imports in the political arena far too long.

The NCA feels that if a counter cyclical formula is to be useful and beneficial to both the producer and the consumer, it must be allowed to function without interference, except under the most extreme or unusual circumstances.

The proposed counter cyclical formula and the limits on presidential authority also would benefit our trading partners in the long run. As it is now, the entire world goes through the same cattle cycle that we go through. At present, beef production is also decreasing in the exporting nations. Even if the President wanted to increase meat imports at this time, it would not be possible to do so. The extra beef simply is not out there—without having further herd liquidation in those countries.

The U.S. is by far the largest meat importer. If the law were amended as we propose, the exporting nations eventually would adjust to the new situation, and there would be more stability worldwide, not just in the U.S. The exporting nations now object to the changes we propose. That is because they want to keep the U.S. as a sort of dumping ground in times of their surpluses; they want imports to rise in the U.S. when they as well as we are over-producing. However, if they would take a longer term view, they would recognize the value of the counter cyclical formula. The amount of beef we import from those nations would not be reduced, the shipments just would be leveled out more.

The history of presidential action on Meat Imports has not been good in the eyes of the cattle industry.

The President has suspended quotas on six occasions during the past fifteen years, depending on which phase of the cycle we were in at the time, the President was put under extreme political pressure from one group or another to either invoke or suspend quotas.

The politics which enter into the enforcement and management of this Act benefit neither the consumer nor the producer. It would be far better if imports were determined under a known set of rules—based on the supply situation. This kind of predictability also is important to an industry with a long production cycle.

Most recently we remember June, 1978, when the President increased imports by 200 million pounds because of the then rising beef prices. We counseled his top advisors at that time that it would be unwise to increase imports. We pointed out that, at the very time when producers were beginning to see a brighter picture on the horizon, any government attempt to curb prices would send the wrong signals throughout the industry. We said liquidation would continue and, in the long run, prices would go higher because of any such action. This is precisely what happened.

The action last summer by the President helped to bring focus to an important part of the proposed import legislation, the need to take the periodic short term politics out of the import issue.

Last year this Finance Committee and the House Ways and Means Committee worked hard and diligently to formulate a Meat Import Bill which Congress passed. We thought the bill was reasonable and acceptable to the industry and consumers alike.

We knew then that the Administration was critical of the portion which restricted the President's authority. But when no constructive alternatives were offered by them, we had no choice but to seek passage of the bill H.R. 11545.

The House passed H.R. 11545 on a vote of 289 to 66, and the Senate approved it by a voice vote. Regrettably, President Carter did not see fit to sign the bill into law.

We sincerely hope that between S. 55 in the Senate and H.R. 2727 in the House of Representatives new legislation can be passed by the Congress and signed into law by the President.

The NCA believes the President's objections outlined in his veto message of H.R. 11545 have been met.

The remainder of my testimony details the basic merits of a Meat Import Law, and it covers provisions in S. 55.

Because of time limitations here today, I would like to submit the remainder of the text for the record. Mr. Morse and I will be glad to answer any questions you might have.

Since the passage of the Act fourteen years ago, the intent of Congress has been ignored and abused at times by the Executive. There have been obvious and blatant acts of circumvention of Congressional intent and the principles of the Act.

As we view it, there are three basic points in the rationale behind the Act:

First, 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.

Second, a more stable import situation adds to the stability of domestic prices for both producers and consumers.

Third, 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 U.S. Agriculture.

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 percent 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. In view of the embargoes, where else would exporters have gone but to the U.S. market?

You might ask why, from a consumer's standpoint, would it have been so bad to have taken these extra beef supplies. The extra imports above those covered by the Act would have further driven down prices paid to producers in this country. This would have resulted in further liquidation of the cow herd, which would eventually have led to a still smaller basic herd, smaller per capita beef supplies and higher prices than otherwise would be the case.

A claim of our critics is that we need lean imported beef and that is actually complementary to our own domestically produced beef. No so! Actually, domestic supplies of such beef are very large—in fact, burdensomely so during periods of cyclically herd liquidation and large amounts are produced at other times.

It is obvious that, in the cyclical periods of herd liquidation, the U.S. industry produces very large amounts of beef other than grain-fed beef. Non-fed slaughter at such times has reached almost 50 percent of total slaughter.

Even during the times of basic herd build-up, cull cow and other non-fed slaughter, as well as the use of less expertise cuts and trimmings from Choice beef carcasses, provide large amounts of product for use in processing and ground beef.

Furthermore, I must emphasize that, if demand is sufficient, the U.S. industry is capable of producing still larger amounts of low-fat beef for processing use. Even now our industry is beginning to supply short-fed cattle which can provide ground beef for the fast food business as well as steaks and roasts for retail counters or the restaurant trade. About half of the carcass from such animals is processed as ground beef. The remaining portion is used to supply steaks and roasts.

My point is that our industry, given adequate incentive from the market place, is capable of producing any desired type of beef. There is no rule or law which says that every feeder animal must be fed to Choice grade and provide only conventional steaks and roasts.

The notion that imported beef is complementary to our own beef is a shallow one to the U.S. cattle producer. Any time the beef supply is affected, so are the prices. An increase in beef supplies, whether they be imported or domestic, will push prices downward.

Even though we feel we are capable of producing all of the beef necessary to satisfy the American consumer at reasonable prices, the NCA accepts imports to some degree as a fact of life in the nation's over-all trade policy. The NCA recognizes the responsibility the U.S. has to assure supplying nations a dependable degree of access to our markets. The access provided under the current as well as the proposed Law is the most liberal among trading nations in the world. Whereas the current law has contributed somewhat to the predictability of beef supplies—the more we produce, the more we import—it surely hasn't added to the stability of our markets. The current formula is tied directly to domestic production. This accentuates the cyclical supply problem.

Not only is the U.S. the largest beef producing nation, it is also the largest importer of beef in the world. It has not denied major producing and exporting nations continued access to our markets, as have other major importing nations during the 1974-77 period.

Despite excellent bargains on the international market, Japan, Russia and the EC-9 allowed fewer beef imports during 1974-77—in fact, far less than imports in 1973, when international prices were much higher. At the same time, they maintained very high prices within their own markets and thereby held their per capita beef consumption at low levels. Reasons for this were varied, but the net result contributed to the collapse of the international beef market. This depression was then transmitted to practically all of the beef exporting countries and to those importers where markets were not tightly protected.

In the U.S., the Meat Import Act of 1964 provided an upper limit on imports; but we were still by far the largest beef importer. Very little of the record U.S. production could be exported. As a result, U.S. consumers had record beef supplies; and producers had low prices coupled with record high feed costs.

By the very nature of our industry, we need an established equitable set of rules for trade which are truly reciprocal.

The beef cattle industry is different from many other industries affected by imports. For one thing, the biological process that occurs in this industry is a long one. Decisions made today to produce more beef do not yield results for at least another two and one-half to three years. Ours is not an industry that can be quickly turned on and off as the market dictates. We need to know what the trade rules are going to be far in advance. This will aid individual producers in making production decisions.

I would like to now address the specifics in S. 55.

Countercyclical formula

The NCA endorses the formula in S. 55 which further adjusts the current formula for import quotas. This is done through an adjustment factor determined by taking a five-year moving average of per capita supplies of domestic cow beef and dividing by a moving two-year average of domestic cow beef supplies. The moving five years would be the four years just prior to the year under consideration and an estimate for the year in question. The two-year average would include output in the year previous to and an estimate for the year under consideration.

This formula takes cow beef production into consideration for basically two reasons:

(1) First, the rate of domestic cow slaughter is considered to be the best indicator of what stage we are in in the cattle cycle. Cow slaughter declines—as it did in 1978 and will for a time—when producers are in the building phase of the cycle. They are retaining more females for breeding purposes. This will result in a decline in beef production and may mean higher prices. It is also during this period that more imports would be allowed under the proposed formula in S. 55.

Because of the inevitable cyclical nature of our industry, there will be a period when cattle numbers will become excessive again and prices to producers will decline. This will initiate the liquidation phase of the cycle, which will in turn bring about further increases in the supplies of beef, especially cow beef. Under the formula in S. 55, imports will then be reduced. However, our figures show that reduced per capita supplies of imported beef will be offset by the domestic liquidation of our cows. Thus, a counter cyclical formula provides the consumer with a more stable supply of beef—and more stable prices.

(2) Second, U.S. cow beef is very much like the beef which is imported. This makes imported beef most competitive with our cow beef. As mentioned earlier in this statement, imported beef is competitive with all beef, but studies show it to be the most competitive with cow beef.

Guaranteed minimum access

The NCA has never thought it was necessary to have a guaranteed minimum access or a "floor" in the proposed legislation. We oppose this provision in principle. If the counter cyclical formula is to work for the consumer during periods of short supplies and higher prices, it should be allowed to function at the other end of the cycle for the cattle producer. However, taking political realities into account, we did agree to support a floor of 1.2 billion pounds as is in S. 55.

The Administration has been strong in its opposition to a floor of 1.2 billion pounds desiring a higher level of 1.3 billion pounds. Likewise, 1.3 billion pounds is absolutely unacceptable to the NCA.

The Administration's desire of a 1.3 billion pound floor was because of recent agreements made with Australia and other supplying countries.

In recent weeks the Administration has offered to support a floor of 1.25 billion pounds. The NCA has agreed to go along with this provision.

It is our understanding also that the Administration has had discussions with the Australian government officials and that mutual satisfaction has been reached between our two countries.

Presidential authority

S. 55 allows the President to increase imports above the levels specified in the formula when the counter cyclical adjustor goes above one. This would theoretically be during the time of reduced cow slaughter and the herd build-up phase of the cycle.

It also requires the President to give a 30-day notice by publication in the Federal Register of his intention to act. It also allows the President to increase imports in the event of a natural disaster or national emergency.

In addition to these provisions, H.R. 2727 has two other opportunities for the President to increase or decrease imports; the first is in the event of a major national market disruption; the other is on the basis of acutal data for the first two quarters of the calendar year, a revised calculation of the fraction of the counter cyclical adjustor yields a quotient of 1.0 or more.

Obviously, these provisions in S. 55 and H.R. 2727 are less restrictive than what was in H.R. 11545 which the President vetoed. However, the NCA does feel they are more restrictive than what is in the current Meat Import Law. These provisions do require more accountability on the part of the President before imports can be increased above the formula level.

I do believe it would be worthy to note the Ways and Means Committee report language on H.R. 2727 relative to the Presidential Authority where it states:

"The adoption of a countercyclical formula should provide more long-term stability for the domestic cattle industry and consumers, thus reducing the need for Presidential flexibility to suspend the quota and increase imports as in the past. The bill, as amended, modifies the President's authority to suspend or increase the quotas. The bill limits Presidential action of the counter-cyclical portion of the formula as described in the bill results in a quotient of less than 1.0 unless (1) there is a national emergency as described in the National Emergency Act of 1976; (2) there is an inadequate supply at reasonable prices because of a 'natural disaster, disease', or 'major national market disruption'; or (3) based on data for the first two quarters of the calendar year, a revised fraction yields a quotient of 1.0 or more.

"It is the understanding of the committee that the terms 'natural disaster', 'disease', or 'major national market disruption' refer only to significant occurences having a major effect on production, marketing and distribution. The immediate suspension of quotas can have a devastating impact on producer income. Thus, it is the intention of the committee that these emergency suspension provisions should be used with great care, in unique and exceptional circumstances.

"It is the intent of the committee in amending the bill by inserting subsection h(3) of section 1 and providing for a revised calculation of the 5/2-year ratio of cow beef production for the first two quarters of the calendar year, to give the President an opportunity to amend his actions based on the most recent, verified data. This will help assure that his actions are consistent with the actual stage of the cattle cycle and that his actions are totally consistent with the purposes of the Act. Your committee notes that this midyear review provision is not meant to be a one-way street. The mid-year review gives the President the right to consider suspending the quotas if the quotient has risen to above 1.0. But if import restraints have been suspended, and if the midyear review shows that the quotient has fallen from above 1.0 to below, he should consider imposing quotas, if permitted by the quota formula and its trigger. Our trading partners should understand that this provision is designed to operate both ways, and that they may be asked to adjust to the quota level resulting from the midyear review process.

"If the quotient is 1.0 or more, the President may determine that the quota should be suspended or increased. He must give a 30-day notice before acting and must determine that such action is necessary because: (1) 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 cattle industry; (2) The supply of meat articles will be inadequate to meet domestic demand at reasonable prices."

It is the intention of the House Ways and Means Committee that these provisions for suspension are to be used with great care, in unique and exceptional circumstances. The NCA agrees with this thinking and hopes the Senate concurs by endorsing this language.

We do not believe that just because the counter cyclical adjustor exceeds 1.0 that this should automatically allow the quotas to be suspended or increased. The counter cyclical formula should be allowed to function.

The NCA will watch the management and calculation process of the formula very closely.

Inclusion of all forms of beef and veal

The NCA favors the inclusion of all forms of fresh, chilled and frozen beef and veal under the jurisdiction of the law. There have been instances during the past fourteen years when we have seen blatant acts of circumvention of the Meat Import Law. Meat which would normally be subject to the Law was superficially processed and then imported outside the jurisdiction of the Law. This meat then entered the same trade channels as did the unprocessed meat subject to the Law. This practice most recently occurred in U.S. Foreign Trade Zones and U.S. Territories.

In addition, the inclusion of all forms of fresh, chilled or frozen beef and veal under the Law will provide nations supplying the processed beef and veal with guaranteed access to our market.

Study on shipments to single ports of entry

The NCA feels that, in some cases, the cattle industry in a particular area or region can be adversely affected by large amounts of imported beef that may enter particular ports of entry. Areas that come to mind quickly are Florida and Hawaii. We feel that some consideration of this problem and accommodation can and should be made.

Therefore, we support the portion of S. 55 which instructs the Secretary of Agriculture to study the regional economic impact of imports of meat described in the Act.

In summary, if the benefits of a counter cyclical approach to beef and veal imports are to be secured for both the domestic producer and consumer, the approach must be applied at both extremes of the cattle cycle. The changes proposed in S. 55 would limit the President's discretion and place reliance on the counter cyclical nature of the limitation formula to accomplish the objectives of the bill. The NCA feels the President's objections to the vetoed bill in 1978 have been met in S. 55. An automatic counter cyclical policy tied to domestic supplies is needed to keep politics related to the issue to a minimum. NCA supports and encourages passage of S. 55.

Statement of the Texas & Southwestern Cattle Raisers Association

The Texas & Southwestern Cattle Raisers Association, a cow/calf producer organization with 14,000 members, supports provisions of Senate Bill 55, which would strengthen the 1964 Meat Import Act. Our principal reasons for support are:

1. The counter-cyclical formula increases imports when domestic production is down and decreases imports when domestic output is adequate.
2. It will encourage cattlemen to rebuild deplenished herds because it removes some of the highs and lows of the cattle cycle.
3. The bill is anti-inflationary because it tends to stabilize cattle prices.
4. It defines in precise terms Presidential authority for increasing imports beyond existing quota levels.
5 This legislation would eliminate much of the politics involved in international trade negotiations.
6. Passage would keep the United States from becoming dependent on foreign beef at the expense of our domestic producers.

The Texas and Southwestern Cattle Raisers Association, a cow/calf producer organization with 14,000 members, supports the provisions of Senate Bill 55 which would strengthen the 1964 Meat Import Act. This legislation allows for a counter-cyclical import quota under which imports would increase when domestic beef output has declined and decrease when U.S. production becomes excessive. This legislation also defines more precisely the circumstances under which the President may increase meat imports beyond quota levels. The provisions of this bill are anti-inflationary, as it has a stabilizing effect on cattle prices. The bill encourages cattlemen to rebuild their herds, as it allows for some of the highs and lows to be removed from our cattle cycles.

Last year, the Administration pocket-vetoed similar legislation. This was done over the objections of cattlemen throughout this nation. That action adversely affected the confidence of cattlemen and delayed the build-up in breeding herds which is necessary for increased beef supplies.

Historically, the United States has imported more beef by far than any other nation. In fact, our imports account for 30 percent of all beef involved in world trade. Under our import law, we continue to provide beef-exporting nations about a seven and one-half percent share of our market, year after year. We in the United States export only two-tenths of one percent of our beef production. It is obvious to us that beef trade is not a two-way street, especially with Japan and the European economic community. It is obvious to Texas cattlemen that beef-exporting nations use us as a dumping ground for their periodic surpluses. This legislation would take a lot of politics out of this world trade issue.

We are already dependent on other countries for our oil supply. The last thing that we want and need is for this country to become dependent on foreign beef and meat supplies as well. Failure to enact this legislation into law eventually could contribute to that kind of a result.

These amendments, in our opinion, are fair and allow stability for our producers. We applaud the concept of this legislation and support its passage.

STATEMENT OF THE KANSAS LIVESTOCK ASSOCIATION, BY J. RICHARD PRINGLE, PRESIDENT, KANSAS LIVESTOCK ASSOCIATION

Mr. Chairman, members of the committee, my name is J. Richard Pringle and I am President of the Kansas Livestock Association. We are a trade association of approximately 7,000 livestock producers representing all segments of the red meat industry in Kansas. We appreciate the opportunity to appear here today in order to express our views relative to the meat import legislation currently under your consideration.

As many of you are aware, the cattle business has had some fairly significant price fluctuations in the past few years. These big price swings were caused by changes in beef supplies. This "roller-coaster" effect is commonly called the "cattle cycle" and it's the regulating mechanism in our industry. When prices are high, cattlemen retain more females and increase breeding herds to take advantage of higher prices. Eventually production increases to the point that profitability and prices decline. Operating losses soon stimulate increased slaughter and the whole price structure perpetuates itself downward until production is once again more in line with demand. The laws of supply and demand are showcased more vividly in the constantly fluctuating beef market than in nearly any example you can name. Most cattlemen have a deep appreciation of this free market structure of their industry. While we recognize that cattle cycles are both a painful and necessary ingredient of our beef cattle market system, we also continue to strive to lessen the magnitude of their impact.

Therefore, the Kansas Livestock Association endorses the concept of a meat import bill wherein the annual volume of imported meat would be calculated with an inverse relationship to domestic production instead of the direct relationship under current law.

The price of beef is extremely "supply sensitive." In other words, a small change in supply often causes an even larger percentage price fluctuation. Under the current pro-cyclical meat import law, when domestic production is high, and prices low, more imports are allowed to enter the U.S., thus compounding the problem. During periods of low domestic production, less imports are allowed and supplies are further tightened unless the President takes action to suspend quotas and increase imports. Obviously, our industry is strongly opposed to such actions because of its negative and counter production effect on our business. I'll mention more about that later but the point is that the pro-cyclical formula to calculate meat imports serves to magnify the cyclic domestic production swings to the benefit of no one.

Therefore, KLA supports a more logical counter-cyclical formula which would have a stabilizing effect on this whole situation, by lessening the impact of the cattle cycle on producers and, at the same time, benefit consumers with a more constant supply of meat.

I've already mentioned that the livestock industry functions in one of the best remaining examples of a free market to be found in America. We wouldn't have it any other way. We also realize that ideally, the free market would involve free trade throughout the world. Unfortunately, that does not exist. Many, indeed most, foreign countries have protective tariffs and restrictions as they strive to protect and improve their own industries. This fact is readily apparent as KLA and other similar organizations work diligently to increase the export of American red meats and meat by-products to overseas nations. If the U.S. had open access to foreign markets, possibly meat import laws would be unnecessary. However, the term "free market" to some simply means allowing other countries to dump what they don't want or don't need on U.S. markets. As long as we are restricted in our access to foreign markets we make no apology for asking that meat import laws regulate the flow of imported meat into our country. Frankly, we would be happy to see other countries provide the same guaranteed access to their markets that the U.S. provides with its liberal import quotas.

Previously, I mentioned that executive action to increase imports is opposed by our industry. In 1972, 1973 and 1974 the President suspended quotas and allowed unrestricted imports. In 1978 the President increased imports to a level which, in effect, allowed almost unrestricted imports. These actions have a tremendously negative psychological impact upon cattlemen. Market prices are always forced downward subjecting innocent producers to unwarranted and unfair monetary losses at the whim of a political decision. We view any such action by government as direct intervention into our markets and have not hesitated to show our unbridled anger. We support the implementation of a counter-cyclical import formula on the condition that it's tied to strict limitations on the President's authority to suspend or increase meat import quotas. We believe that it should be obvious that the counter-cyclical formula will give automatic flexibility and adjustment to changing meat supplies and that no good reason exists for the Chief Executive to have complete discretion to tamper with the supply of meat products.

S. 55 and HR 2727 contain essentially the same provisions with the exception of the area of Presidential authority.

Speaking for Kansas livestock producers I emphasize to the committee that we would prefer the strictest possible limitation on executive authority and we urge you to give your earliest approval to a counter-cyclical meat import bill that contains such a provision.

Senator BENTSEN. If you want to hear a contrary point of view, I assume it is coming next: Mr. William C. Morrison, executive director, Meat Importers Council of America, Inc.; accompanied by Gunter von Conrad, counsel.

STATEMENT OF WILLIAM C. MORRISON, EXECUTIVE DIRECTOR, MEAT IMPORTERS COUNCIL OF AMERICA, INC., ACCOMPANIED BY GUNTER VON CONRAD, COUNSEL

Mr. MORRISON. Thank you, Mr. Chairman.

My name is William Morrison, and I am the executive director of the Meat Importers Council of America, hereafter called MICA. I am accompanied by Gunter von Conrad, counsel.

As spokesman for the importing industry, MICA wishes to register its opposition to S. 55 and similar bills. Imported beef has never represented a threat to the U.S. industry because it does not compete with, and therefore cannot displace, the high quality fed beef which we produce in this country. Imported beef actually assists U.S. producers by providing a needed supplement to our own insufficient domestic production of lean beef.

In 1977, when the U.S. industry was suffering from the worst phase of the cattle cycle, political pressure started to build for so-called "countercyclical" meat import regulation such as S. 55. The U.S. International Trade Commission, cited in my written testimony, conducted two in-depth studies that year of the relationship between imports and the domestic industry. One of the principle findings was that imports do not constitute a source of injury or threat of injury to the U.S. market.

We would like a full copy of our testimony entered in the record.

Let me turn to provisions of S. 55 and similar bills.

First, I will comment on countercyclical concept, which is the keystone of H.R. 2727 and other bills. It is a neatly disguised mechanism which would not work in the manner alleged by proponents. It is based upon the notion that foreign countries could somehow desynchronize themselves from the U.S. cattle cycle, and the basic economic facts upon which producers in foreign countries make economic decisions, just as producers in the United States do.

If the United States cannot manage its own production to eliminate or minimize cattle cycles, it is thoroughly unreasonable to expect that exporting countries can go even further and schedule their production to accomplish this.

It is appropriate to note that the countercyclical approach embodied in S. 55 is a thoroughly untested and, we believe, a novel one. Even if one assumes the accuracy of the USDA 10-year projections, they highlight another basic fallacy. Supporters say that a countercyclical approach would not represent a restraint on trade but will allow substantially more meat to be imported over the next decade.

The fallacy is that in some years the proposal would allow unnecessarily large quantities of meat to be imported, much which will not be available even though it technically might be allowed into the country.

S. 55 and similar proposals would provide for declining imports every year from 1980 through 1987—see my written testimony. During this period the U.S. population will be increasing at the rate of approximately 2 million people per year; thus imports will be constantly reduced when they are likely to be badly needed.

S. 55 provides a minimum annual quantity of imports in the amount of 1.2 billion pounds. The MICA submits that this figure is unreasonably low. If it is required to establish a floor level, the minimum should be at least 1.3 billion pounds in order to protect the interests of consumers and provide a measure of security for foreign producing countries.

The last year was 1974 in which imports dropped below 1.2 billion pounds, and since that time the population has been increasing. USDA predictions indicate that imports will peak during the present cycle in 1980, and again in 1989.

If it be assumed that these peak periods are reflective of demand, then to insure that overseas farmers can respond to these peak demands it is vital that we provide them with reasonable access to this market during periods of less demand. A floor level below 1.3 billion pounds would not accomplish this.

On the subject of Presidential suspension authority, the present quota law reasonably provides that the President may increase or suspend the quota amount if he finds that such action is required by the overriding national interest.

There is no reasonable basis for circumscribing this power. Indeed, restrictions on Presidential suspension authority contained in H.R. 11545 represented one of the principal reasons that the President declined to approve that legislation last year. Under S. 55 no Presidential action would be allowed about 50 percent of the time.

USDA calculations indicate that no Presidential authority would exist during the period 1984 through 1988. It is precisely in this period when the quota amounts will be low and additional imports might be required. Thus, the interrelationship between quota calculation and the Presidential authority provision would work to effectively eliminate all Presidential power.

The bill also provides unnecessarily for advance notice by the President prior to any change in the quota. Importers and domestic producers alike know that speculation as a result of rumored or possible Presidential action in this area is highly disruptive to all relevant markets.

For the reasons set out here, S. 55 and similar bills are not in the national interest and should not be passed. If any action is taken, it should be repeal of the present quota law.

Thank you, Mr. Chairman.

Senator BENTSEN. Mr. Morrison, that is a very interesting statement.

You tell me there was never a threat represented to U.S. industry because it does not compete with, and therefore cannot displace, high quality feed beef which we produce in this country.

You are looking at a fellow born and reared in south Texas who knows something about the ranch country. We have a lot of grass-fed beef and we sell cows and about half of our slaughter is grass fed and it surely does compete with imported beef.

If you are a young rancher and you have that cattle mortgaged, and you talk about grass-fed and the increase in the imports of lean beef, it surely does not compete, I agree, with our T-bone steaks, but it surely does compete with that stuff we are taking off the grass.

I have seen it time and time again. Are you telling me we would not be raising more of it in this country if imports were not available? Do you really believe that?

Mr. VON CONRAD. Mr. Chairman, if I might comment on that question.

About a year ago there was a long series of hearings that the International Trade Commission held in order to look into the question, what is competitive and what might be causing the threat or injury to the domestic industry. During those hearings, which were held all around the country and a good deal of testimony was adduced by the ranchers, and after that testimony the International Trade Commission, which is an arm of the Congress, came to the conclusion that imports do not constitute or bring injury to or constitute a threat to the domestic industry.

I think that although there is grass-fed beef raised in this country, the aim of cattle production in this country looks to the table-grade beef, and that is why we say when we are talking about imported meat, that is supposed to go under the quota, we are really talking about a largely different commodity from that which you see when you drive through Texas and you take a look at the feedlots. This must be borne in mind, and I think we must also bear in mind the level of importation. I don't think at 7 percent the penetration is there to cause the injury.

Senator BENTSEN. I think when you talk about what the Commission did, as I recall it went beyond what you said; it used the term "it would not be a substantial threat" is the term they used. I think even in that they were not prudent enough.

Senator Wallop?

Senator WALLOP. If I could follow up on that, you heard the testimony of Mr. Washburn about the President's decision last year to permit additional imports of beef and a subsequent $17 drop. To anybody who has a few cattle on hand, that is pretty substantial threat.

Do you count those as totally unrelated events?

Mr. VON CONRAD. I would not know, Senator, whether or not they are related. I do take a look at Mr. Washburn's statement—the one that we had in the prepared statement—and we see in the statement—page 3, if I recall correctly—an admission that the problem they had was caused by overproduction; and then he goes on, if you read his statement precisely, he goes on to say, well, if there had not been any imports, it would have been thus, and it would have been so; and all of it, I think, is a conjecture.

But he starts with the overproduction problem and I think therein lies the problem. The bill we are looking at here I don't think does anything a whole lot different from what the current law is doing, and the current law, we would agree, should be repealed.

Senator WALLOP. I would suggest to you that one of the reasons they had overproduction, was because of the other end of the cycle. The plain fact was, there was drastic underproduction, an opportunity for people to make profits in the cattle business; and the beef herd bill was in response to that, and there was no real peeling away for the producer to stop. That is exactly what their bill is designed to do, is to stop the drastic underproduction and the periods of overproduction, or at least collapse those cycles a little, so you don't have it.

You make a statement that history shows a free market is the best mediator of beef imports. I don't think you would get a quarrel from any American cattleman about that, if we had a free market, if we had access to the markets that we seek overseas as well. But I think when you take a look at it, you can't have a domestic free market without limited access for other people. You cannot say that it represents no threat to the American producer, when we are not allowed to compete in other markets of the world.

Do you have any comment on that?

Mr. VON CONRAD. We still are not certain that a mechanism which looks only to this cycle and which tries to remedy this cycle by a further exclusion would work; and I believe it is agreed this would be a further limitation on beef imports.

Senator WALLOP. On the contrary, I think the testimony so far indicated at least for the moment it will result in an increase in excess of a billion pounds over the next 6 years.

Mr. VON CONRAD. If we look over the next 10-year cycle and use the figures that have come out of Agriculture, and if we use the formulas that have been proposed, that are proposed in the current bill, I think you will find that you will have a few years with a little increase, and then you have another 5 years where the denominators are such that the amounts will be decreased.

Senator WALLOP. I suspect that you will find over all it will even out with a slight increase, because I think the consumption in the country slightly increases—the mood and the recession and everything else.

I don't think it is fair for you to suggest there is no threat and this has never represented a threat to folks when you have demonstrable events of last year. A simple Presidential decision, and about a 34-percent drop in the cattle market in the succeeding 7 weeks.

It is very difficult to persuade anybody in the business that there was no threat.

Thank you, Mr. Chairman.

Senator BENTSEN. Thank you.

[The prepared statement of Mr. Morrison follows:]

STATEMENT OF WILLIAM MORRISON, EXECUTIVE DIRECTOR, MEAT IMPORTERS COUNCIL OF AMERICA, INC.

Members of the Sub-Committee on Trade, my name is William Morrison and I am Executive Director of the Meat Importers Council of America, Inc. (hereafter "MICA"). I am accompanied by Rufus E. Jarman, Jr. of Barnes, Richardson & Colburn, counsel.

We estimate that the MICA member firms account for over 85 percent of all imports of fresh frozen beef which would be covered by the subject proposed legislation. As spokesman for the importing industry, MICA wishes to register its opposition to S. 55 and similar bills.

Imported manufacturing grade beef began to be a significant item of U.S. commerce in the late 1950's and early sixties. Its appearance in the U.S. market was a direct reflection of increase in consumer demand for processed meat products such as hamburger, canned and frozen dishes, and the skyrocketing growth of the fast-food restaurant industry. Meat was needed from other countries because the supply in this country was simply not sufficient to meet the demand. While our beef producers have always produced abundant supplies of high quality fed beef for table use in its own right, it is not economical to use such high quality beef in processed or manufactured products. In this country, production of lean beef comparable to imported range fed beef is essentially a by-product of the fed beef and dairy industries. Our producers have never, in recent history, intentionally produced lean beef. It would be a losing proposition for them to do so. This production of lean beef, therefore, is made up almost entirely from slaughter of breeding stock and dairy animals which have already fulfilled their primary purpose.

Imported beef has never represented a threat to the U.S. industry because it does not compete with, and therefore cannot displace, the high quality fed beef which we produce in this country. Imported beef actually assists U.S. producers by providing a needed supplement to our own insufficent domestic production of lean beef, thus making it possible for large quantities of high fat content domestic trimmings to be blended and upgraded into acceptably lean ground beef. Thus, U.S. produced fat, which would otherwise have no use except perhaps production of tallow for soap and candles, commands the high price of ground beef at the supermarket.

Nevertheless, incorrectly perceiving imports as a threat, tremendous pressure was applied by U.S. cattle producers in the early 1960's resulting in the passage of the present meat quota law, Public Law 88-482. This law, one of the most blatant protectionist and trade restricting provisions on the books, stands out in stark contrast to the basic U.S. free trade philosophy which applies to the vast majority of imported articles.

As I shall detail shortly, there have been times when the quota law had little, if any, immediate effect. In other words, in some years the demand in this country has been insufficient to attract enough meat to fill the authorized quota amount. In other years the converse has been the case and the quota law has operated to exclude product for which there was demand thereby, undeniably, driving up consumer prices and fueling inflation. We have no doubt that the quota regime which has existed for the past 15 years has been one important factor which has caused beef to be one of the leading inflationary sore spots in the overall economy.

U.S. cattle producers chronically suffer from a phenomenon with which this Committee is familiar labelled the "cattle cycle" which typically results in a boom or bust market over nine to ten year periods. In 1977, when the U.S. industry was suffering from the worst point of one of these cycles, political pressure started to build for so-called "counter-cyclical" meat import regulation. The basic "counter-cyclical" idea is to make imports inversely proportionate to U.S. production rather than directly proportionate as under the present quota law. During 1977 the U.S. International Trade Commission conducted two in-depth studies of the relationship between imports and the domestic industry, one on petition by cattle producers, under the "escape clause," Section 201 of the Trade Act of 1974 (Investigation No. TA-201-25, USITC Publication 834, September, 1977) and the other, at the request of Congressional personnel under Section 332 of the Tariff Act of 1930 (Investigation

No. 332-85, USITC Publication 842, November, 1977). In these investigations hundreds of witnesses, including many spokesmen for domestic cattle producers appeared. One of the principal findings was that imports do not constitute a source of injury or threat of injury to the U.S. market—not even during the worst periods of the cattle cycle. We commend both of these excellent studies to the consideration of members of the Committee.

When U.S. producers failed to achieve a "counter-cyclical" procedure by virtue of existing remedies, they concentrated their efforts on Congress. The result, H. R. 11545, almost became law in 1978. We believe it is fortunate for the country that H. R. 11545 did not become law. Now, however, in 1979 we are confronted with its direct descendents, S. 55 in the Senate, H. R. 2727 in the House, and similar bills, once again putting forward the ill-conceived "counter-cyclical" notion.

The experience of the last 15 years should be ample demonstration that the only responsible action which could be taken by Congress is repeal of the present quota law, not action to make it more complicated and more restrictive such as that now proposed.

History shows that a free market is the best mediator of beef imports. In 1973, with prices reaching record high levels (and the quota suspended) fresh-frozen meat was attracted to the United States due to scarcities and resultant high prices. In the following year, notwithstanding continued suspension of the quota, demand for meat dropped and prices declined so that U.S. imports, even without any restriction whatsoever, fell to 1.079 billion pounds, well under the quota, had it been in effect. In 1975, when the President reimposed the quota, imports rose to 1.209 billion pounds! Clearly, then history has proved that artificial restrictions on the free flow of meat imports upset the marketplace and, in turn, prejudice the consumer in terms of supply and price.

Hamburger has been a staple product for those on low and stable incomes. With prices currently in the range of $2.00 per pound, how can we seriously consider doing anything to further inhibit the total supply of meat in the United States?

To maintain perspective, it is important to remember that imported beef represents only about 7 percent of total supply. We think it strange that such a small percentage could be blamed for so many problems. This Committee knows well that matters of this sort must be viewed in the overall context of international consumption and supply patterns. Emerging countries are consuming more and more beef and competing with the United States for total world supply. Our traditional supplying countries have done everything possible to maintain delivery schedules of the amounts of meat needed in the United States to supplement domestic supplies. If we now place increased barriers around the United States, we cannot expect our traditional suppliers to view this market as a place of certainty and reliability. Whether one examines this on the national level, or the world trade level, no justification exists for the present quota law, let along a new, different, and more complex procedure.

Now, let me turn more specifically to the provisions of S. 55 and similar bills.

I. *The counter-cyclical formula*

The "counter-cyclical" concept for regulating imports, which is the keystone of S. 55, H. R. 2727, and other bills, for all of its superficial cogency and appealing name, is a neatly disguised import restraint mechanism which would not work in the manner alleged by proponents. It is based largely upon fallacy and the fanciful notion that foreign countries could somehow desynchronize themselves from the U.S. cattle cycle, and the basic economic facts upon which producers in foreign countries make economic decisions, just as producers in the United States do. The proposal fails to recognize that beef exporting countries are largely tied to the economics of the United States beef business, and that foreign producers also contend with cattle cycles which are closely related to U.S. cattle cycles.

Far from simplifying and rationalizing import control levels, the counter-cyclical approach would add yet another variable in determining allowable import amounts. This, in turn, would increase the variability of beef imports themselves thereby working detriment to the stability of the U.S. and foreign markets. The counter-cyclical approach would interpose yet another level of control between imports and a free market which is the best regulator of imports.

The counter-cyclical approach is, in effect, an admission of defeat and helplessness on the part of U.S. producers to properly control their own production. It places the entire burden of creating stability in the U.S. market on exporting countries who share only seven percent of that market. If the United States cannot manage its own production to eliminate or minimize cattle cycles, it is thoroughly unreasonable to expect that exporting countries can go even further, and schedule their production to accomplish this.

It is appropriate to note at this point that the counter-cyclical approach embodied in S. 55 is a thoroughly untested and, we believe, novel one. We know of no precedent for it in U.S. law, or, indeed, anywhere else. In seeking to weigh its likely effects, great relaince has been placed upon elaborate statistical projections prepared by the Department of Agriculture. While we do not doubt that the USDA has utilized the most advanced and accurate methods known, the business of predicting such things as commercial beef production, average carcass weight, federally inspected cow beef production, population, per capita supply, etc. is far from an exact science. Any agricultural economist should confirm that such projections, even for a short period of two to three years, are subject to great variations.

Accordingly, we believe that the Committee should constantly bear in mind that the 10 year projections prepared by USDA in connection with these legislative proposals are by no means necessarily accurate representations of what will, in fact, happen. Even if one assumes the accuracy of these projections, however, they highlight another basic fallacy in the arguments supporting S. 55. Supporters say that a counter-cyclical approach would not represent a restraint on trade, but will allow substantially more meat to be imported over the next decade. The fallacy is that in some years the proposal would allow unreasonably large quantities of meat to be imported; meat which will not be available even though it technically might be allowed into the country. The calculations show, for example, that in 1980, while the current law would allow only 1.18 billion pounds of meat, the counter-cyclical formula would allow 1.69 billion pounds (see Table) but from the information available to MICA members it is extraordinarily unlikely that any quantity approaching the extra point .51 billion pounds which would be allowed by S. 55 in 1980, would actually be imported. Foreign producers will simply not have that much meat which could be shipped here regardless of market considerations. Further, it is unlikely that such quantities could be attracted to this market simply because demand will not be that great in that year. The same types of considerations would probably be valid in 1981/82, and possibly 1983. Accordingly, much of the extra meat that supporters of S. 55 say would be allowed under the bill, would never be imported at all. Conversely, the formula would reduce imports below levels provided in current law in the period 1985-88. If there exists sufficient demand at that time, available meat should be free to come here. In a word, then S. 55 and similar proposals would allow unrealistically large quantities of imports in some years, and could add to existing restrictions in other years.

TABLE OF QUOTA AMOUNTS (FORMULA + 10 PERCENT) UNDER CURRENT LAW AND H.R. 2727, AND 5/2 YEAR RATIO, AVERAGE PER CAPITA SUPPLY

Year	(a) Current law	(b) H.R. 2727	(c) Difference (H.R. 2727 1964 act)	(d) 5/2 year ratio
1980	1,180.71	1,687.43	+506.72	1.28
1981	1,143.11	1,507.44	+364.33	1.18
1982	1,151.81	1,388.78	+236.97	1.08
1983	1,189.23	1,333.40	+144.17	1.01
1984	1,241.04	1,305.67	+64.63	.95
1985	1,296.92	1,290.18	−246.74	.89
1986	1,358.75	1,246.57	−112.18	.82
1987	1,432.87	1,240.45	−192.42	.77
1988	1,473.60	1,439.84	−33.76	.87
1989	1,467.68	1,714.16	+246.48	1.04

Source: Cols. (a), (b) and (c), House Ways and Means Committee Report on H.R. 2727; col (d) March 15, 1979 USDA projection.

Note —Reduced imports in col. (c) generally correspond with negative ratios in col. (d).

S. 55 and similar proposals would provide for declining imports every year from 1980 through 1987 (see Table). During this period the U.S. population will be increasing at the rate of approximately two million people per year. From the perspective of foreign producers, such a situation would be justifiably viewed as an extreme non-tariff barrier directly contrary to the spirit of the trade negotiations recently concluded, and would brand the United States as an increasingly closed, and unreliable, market.

II. *The annual import floor level*

S. 55 provides a minimum annual quantity of imports in the amount of 1.2 billion pounds. MICA submits that this figure is unreasonably low. If it is required to establish a floor level, the minimum should be at least 1.3 billion pounds in order to protect the interests of consumers and provide a measure of security for foreign producing countries.

It is appropriate to note that 1.2 billion pounds has already been enacted by Congress as a minimum access amount in Section 704(b) of the Trade Agreements Act of 1979 (Public Law 96-39, July 26, 1979). Accordingly, it would be meaningless to enact such a provision a second time. As mentioned, however, 1.3 billion pounds is the minimum amount which is in the national interest. It is understood that "M.T.N." negotiations between the United States and Australia envisaged a minimal level of 1.3 billion pounds, and we believe that no lesser amount should be given consideration.

1974 was the last year in which imports dropped below 1.2 billion pounds, and since that time, of course, population has been increasing. USDA predictions indicate that imports will peak during the present cycle in 1980, and again in 1989. If it be assumed that these peak periods are reflective of demand, then to ensure that overseas farmers can respond to these peak demands, it is vital that we provide them with reasonable access to this market during periods of less demand. A floor level below 1.3 billion pounds would not accomplish this.

III. *Presidential suspension authority*

The present quota law reasonably provides that the President may increase or suspend the quota amount if he finds, as a fact, that such action is required by the overriding national interest, after giving special consideration to the well-being of the domestic cattle producing industry, or if other reasonable criteria are met. There is no reasonable basis for circumscribing this power. Indeed, restrictions on Presidential suspension authority contained in H.R. 11545 represented one of the principal reasons that the President declined to approve that legislation.

Under S. 55 and H.R. 2727, the President would retain the same basic authority as he has under the present law, except that approximately 50% of the time, he would not be allowed to use that power. Specifically, whenever a calculated five-year average per capita beef supply divided by an average two-year supply produced a ratio of under 1.0, no presidential action would be allowed (except in unpredictable emergency, and related situations).

As reference to the previous table will show, USDA calculations indicate that such ratio will be less than one during the period 1984 through 1988. As mentioned above, the counter-cyclical approach embodied in S. 55 would allow unrealistically high imports over the next few years. It is precisely in the period 1984-88, when the quota amounts will be low, and additional imports might be required. Thus, the interrelationship between quota calculation, and the five-year/two-year ratio, would work to effectively eliminate all presidential power. The President would have authority at times when it was not needed and no authority at times when it might be needed.

The bill also provides mischievously and unnecessarily for advance notice by the President prior to any change in the quota law. Importers and domestic producers alike know that speculation as a result of rumored or possible presidential action in this area is highly disruptive to all relevent markets. Indeed, the National Cattlemen's Association has publicly spoken out against this 30-day notice requirement. It is easy to foresee that if the President were to give 30-day notice that he was contemplating a change in the quota, the notice would occasion political or lobbying activity by all concerned. The President's decision, which, by rights, should be made purely on economic grounds, would thus be politicized. In the meantime, markets would be distorted as a result of rumor and speculation as to what the President would or would not do. There is no possible logic in this proposal, and the MICA is not aware that anyone, except possibly the drafters of the legislation, supports it.

CONCLUSION

For the reasons set out above, S. 55 and similar bills are not in the national interest, and should not be passed. If any action is taken, it should be repeal of the present quota law.

Thank you.

Senator BENTSEN. Next we have Mr. Wheeler. We are glad to have you.

STATEMENT OF ROY WHEELER, PRESIDENT, INDEPENDENT CATTLEMEN'S ASSOCIATION OF TEXAS

Mr. WHEELER. Thank you. I would like a copy of my testimony to be entered into the record.

Senator BENTSEN. That will be done.

Mr. WHEELER. I appreciate this opportunity to present my statement on behalf of the Independent Cattlemen's Association of Texas.

First, I would like to thank you for your gallant efforts late last year on behalf of this measure. Our Senator from Texas, Senator Bentsen, has worked closely with our association, even back when this issue of a meat import law was unpopular. We believe it was through his untiring efforts and willingness not to give up and say "Wait until next year," that cattlemen were able to read about Senate passage of the Beef Import Act of 1978. For this we extend our deepest gratitude.

However, sometimes success is only short-lived; and, needless to say, we were quite disappointed when that bill was vetoed.

However, we are not an association that gives up easily, but one that continues to look toward the future and prepares to meet new challenges.

Fortunately, Senator Bentsen, you and several of your distinguished colleagues share this view with us. We are pleased to be here again before you to support a new meat import measure, one that I believe will be acceptable to both the Congress and the President.

Mr. Chairman, Congress by its activities last year agreed with us that the Meat Import Act of 1964 has caused serious damage to the livestock industry and consumers of this Nation. The law creates instability in the marketplace, which promotes extended depression periods in the livestock industry.

It also allows an escalation of meat imports in line with domestic production. This means more imports when less is critically essential to American cattlemen. When domestic production is high, the domestic producer will liquidate herds. At this point massive amounts of meat imports are allowed to enter the United States. This causes the liquidation period to be extended and prices dip further than we are experiencing at this time. Actually, cow numbers have dropped to an alarming level and retail prices have moved upward because of the present law.

The 1964 Meat Import Act causes wide fluctuations in beef prices. 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 consumer. This will happen time and time again until the markets of the American livestock producer become more stable, avoiding a boom/bust syndrome.

We feel that this bill will strengthen the confidence of those in the cattle industry. When our markets are one of boom one year and bust the next, no one benefits in the long run. The principal consumer of our products—the American housewife—has witnessed in the last 5 years a wild roller-coaster effect on beef prices.

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We need to stabilize prices more for our own benefit than hers. Unfortunately, our product is not like oil. While the American public can find few substitutes which bring lower prices for energy, it can find substitutes in our industry. We have seen this happen. When beef gets too high, the housewife goes to the substitutes. In turn, when beef gets too low many of us, especially our younger ranchers, go out of business.

Again, we hope and feel this legislation will be a step for a brighter future for both the consumer and the rancher.

This legislation would also close a loophole existing in the present law. The present law does not include processed meat. Under the bill this adjusted base quantity would then be further adjusted by the same countercyclical factor as employed with respect to unprocessed beef.

Added stability in the beef and veal industry should provide an economic climate which encourages investment in cost reducing technology, improvements in productivity, better breeding stock, pasture improvements, better machinery and equipment, and better veterinary programs. Because of increased efficiencies which can be attained by the domestic industry in a more stable price and production environment, improvement in the quality, certainly of supply and price of beef, will benefit the consumer.

While we are certainly appreciative of your efforts on this meat import measure, hopefully, we are working toward getting a labeling bill introduced and passed in the near future, so our consumers can tell, like in most retail products, when they are buying foreign beef.

Mr. Chairman, I would like to make one other point: This bill does not just affect the cattle producers. Our industry helps feed the bankers, feedlot operators, teachers, farmers, politicians, pharmaceutical salesmen, doctors. And I could go on. My point is, historians have reiterated that our great country will continue to rise or fall based on the strength of rural America. Our industry is the principal source of rural America.

The meat import bill of 1979 has the tools to stabilize the economy of the cattle organizations, allow us to rebuild and maintain adequate herds, and continue to keep open our valuable export-import trade balance.

Senator BENTSEN. Mr. Wheeler, you mentioned the boom-and-bust cycle of the cattle industry, the swinging in prices and how volatile they can be. It seems to me though that when the prices go up in the grocery store, and then when it turns the other way, they rarely go down as far or as fast as they do to the cattlemen themselves.

Don't you think this is not just in the best interest of cattlemen, but also of the consumer, to have this countercyclical formula in effect?

Mr. WHEELER. I definitely do, Senator. I think it would benefit the consumer as much as it would the producer.

Senator BENTSEN. Senator Dole?

Senator DOLE. I appreciate the testimony. I have no questions. Thank you.

Senator BENTSEN. Thank you. That was very helpful to us.

STATEMENT OF CHARLES CAREY, PRESIDENT, NATIONAL FOOD PROCESSORS ASSOCIATION, ACCOMPANIED BY DONALD HARRISON, COUNSEL, AND CLAUDE ALEXANDER, STAFF, NFPA

Senator BENTSEN. Our next witness is Mr. Charles Carey, president of the National Food Processors Association.

Mr. Carey?

Mr. CAREY. Thank you, Mr. Chairman. With me is Donald Harrison of Covington & Burling, our counsel; and Claude Alexander of our staff.

We have submitted a written statement. We ask that that be entered in the record, and I will try to summarize the main points I would like to make with regard to S. 55.

It has long been recognized that there is a need for imports of manufacturing grades of beef, lean beef, that is, which is not produced in adequate quantities in the United States and not attractive for U.S. cattlemen to produce, but which is essential for most types of canned foods.

The issue in this proposed legislation, as we see it, is how to assure the supplies that are needed without having an adverse effect on the cattle industry during times of surplus or an adverse effect on consumers and our industry during times of limited supplies.

Canned meats account for about 8 percent of meat consumption in this country and another 2 percent is consumed in canned soups, and for the majority of products—canned products—this meat must be lean and low in fat.

Most of the domestic beef as used for steaks and table cuts is simply not suitable for canning. In short, the imported beef suitable for canning does not generally compete with domestic beef.

Canned foods using this lean meat fall into three broad categories: First, specialty products, such as baby foods. Then there are convenience foods and finally low-cost staples, such as soups, stews, and the like. These canned foods are particularly important to low-income groups, and none of these categories is competitive directly with fresh cuts of beef.

The segment of the canning industry that uses this meat is based on year-round operations, as opposed to many of our canning industry segments which are based on seasonal products. As a year-round operation, it is essential that it have a steady source of supply to balance a steady market need; and the market need is steady. These are staples which do not go up and down; there is very inelastic demand for the product and a record of steady prices in the consumer market.

For these reasons, we have three concerns with S. 55:

First, with regard to the countercyclical formula, we recognize it as a theory that may solve some of the problems of the past, but is untested. NFPA is not opposed to the concept of the formula, though we are concerned that too much reliance not be placed upon it until it has been proven out.

Second, we believe that the provision in S. 55 authorizing the President to modify the operation of the quota in the event of unknown future problems is too restrictive, and is inadequate as it stands.

We welcome the comments of the Department of Agriculture, in the initial statement, on that point.

Third, and perhaps most importantly, the minimum access level of 1.2 billion pounds is below the minimum needs of our industry. Our industry is one that is essential to consumers and one that has probably contributed more to stabilizing food prices than any other segment of the food industry.

Thank you, Mr. Chairman. We appreciate the opportunity to offer these comments.

Senator BENTSEN. Thank you, Mr. Carey.

Senator DOLE. I was going to say with reference to the third point, minimum access, that has been compromised. Does that make any difference?

Mr. CAREY. We would ask for 1.3. Obviously 1.25 is a great deal better for our needs than 1.2. We think 1.25 is still below the current needs of the industry and with a growing population and growing industry it may shortly be significantly too low. We would have preferred and we do ask for 1.3.

Senator DOLE. That relieves one of the objections. I think as I look at the three points—it is not that you oppose the countercyclical formula, you think it is untested and you are uncertain it will work I guess if it doesn't we can change that so your primary objection would be now the restrictions on the President's discretion.

Mr. CAREY. We are looking toward the possibility that situations may develop that have not been anticipated and ask that there be an opportunity to deal with unforseen future problems.

Senator DOLE. That may have been addressed. I asked Mr. Hjort a question with reference to a statement on page 3 of his statement where the President would have the authority to provide relief in case of disease or some major national market disruption. That may not be what you had reference to, but is that recognition what the second of your three objections hopefully is addressed to in some part?

Mr. CAREY. Yes. I wonder if I could ask Mr. Harrison to comment on that language. I think the interpretation of the precise language is important. As you brought out in your questioning earlier it is a matter of concern to us and there is ambiguity at the present time.

Senator DOLE. The thing the cattlemen fear is that discretionary action would be based on price. If it is based on some natural disaster or disease or something that we can't foresee, that is one thing but——

Mr. HARRISON. I would say, Senator, that in S. 55 of course there is the limitation to natural disaster as being one of the two items necessary to permit the exercise of Presidental discretion. Obviously the language in the bills as reported by the House Ways and Means Committee is more generous in that it foresees circumstances other than a natural disaster that would permit the President to increase the beef quotas Mr. Hjort mentioned an example of a situation in which that might be significant; for example, a disease. We cannot be terribly precise on what it is that is unforeseeable that we are concerned with. We emphasize that for the canning industry predictability is a very important part of the operations.

These are year-in, year-out operations that are without substantial seasonal variations, so the industry is concerned that if something unforeseen happens that might disrupt the flow of beef product, there must be some mechanism by which that can be addressed. That is a principal concern the industry has.

Senator BENTSEN. Any further questions?

Senator DOLE. No.

Senator BENTSEN. Thank you very much, gentlemen. We appreciate your testimony.

[The prepared statement of Mr. Carey follows:]

STATEMENT OF CHARLES J. CAREY, PRESIDENT, NATIONAL FOOD PROCESSORS ASSOCIATION

Mr. Chairman, the National Food Processors Association (NFPA), formerly the National Canners Association (NCA), appreciates the opportunity to testify before the Subcommittee on International Trade on this very important matter. Meat imports are essential to the livelihood of many of our members, and we are concerned about the legislative proposals before this subcommittee that would restrict meat imports. Earlier this year representatives of NFPA testified at similar hearings held by the House Subcommittee on Trade.

The National Food Processors Association has approximately 700 members who process over 90 percent of the nation's canned fruit, vegetable, meat, fish and specialty products. As representatives of the canning industry, we deal with seasonal and cyclical products. We face "boom and bust" cycles, both in the supply and the price of our raw materials. We understand the difficulties cattlemen face and we sympathize with their problems.

My testimony initially will explain the importance of canned meat to consumers, particularly to low-income consumers, and the fact that most domestic beef cannot practically be used for the canned products for which imported beef is used. I will then explain NFPA's position on S. 55 and other similar legislative proposals, specifically.

1. First, as to the countercyclical formula, although NFPA does not oppose the formula in principle, we are concerned that the formula is untested and inherently unpredictable.
2. Second, NFPA believes that the provisions in S. 55 authorizing the President to modify operation of the quota are totally inadequate.
3. Finally, NFPA believes that the 1.2 billion pound minimum access floor in the S. 55 is too low to serve as an effective "safety valve" if the new, untested countercyclical formula operates as we fear it might. A floor of 1.3 billion pounds is a minimum acceptable level.

Importance to consumers

Canned meat products constitute a substantial and important portion of the diets of American consumers. During the last 15 years the per capita consumption of canned meats (excluding soups) has accounted for 8.2 percent of total meat consumption, ranging from a low of 7.7 percent to a high of 9.0 percent on a retail weight basis. In 1976, per capita consumption of canned meat was 13.1 pounds, or 7.9 percent of the total 165.8 pounds per capita consumption of meat.

In addition to this, there is the sizable amount of meat that goes into canned soup. For the same year meat in canned soup was over 726 million pounds. Assuming consumption of soup equals production, annual meat consumption per capita in canned soup is about 3.4 pounds. When added to other canned meats, the consumption per capita in 1976 was 10 percent of the total meat in the diet.

The role of canned meats in the diet of the consuming public is understandable in view of the characteristics of the product. First, canned meats are very convenient. Being shelf stable they can be kept in the home and used to prepare an appetizing, nutritious meal on short notice. This tends to be one of the great uses of heat sterilized meat products. As a convenience food, the commercially sterilized product does not compete with the fresh "US Choice" and better cuts of beef that are the hallmark of our great cow-calf and cattle feeding industries.

Heat sterilized foods utilizing meat also perform an important role in the diet of low-income groups. Because of the convenient range of package sizes available, and the modest cost per unit, many heat sterilized products enable low-income groups to incorporate some meat in their diet that they would not otherwise be able to purchase in the fresh cut market.

In summary, the heat sterilized meat products are convenient and a relatively low cost source of important nutrition, particularly for low-income groups. These products do not displace fresh cuts of beef in the market.

Imported meat—Special characteristics

Meat used in canning must have certain characteristics. It must be lean and low-fat. Imported meat has these characteristics. Most domestic beef, as used for steaks and other table cuts, does not and cannot practically be used for canned products.

In short, the imported beef suitable for canning operations does not generally compete with domestic beef. The domestic meat industry has simply not filled the demand for canning beef.

Another key factor regarding meat imports for our industry concerns availability. The canning industry is a capital intensive industry, generally operating at low profit margins. Consequently, an interruption in the flow of materials—be it containers or raw product—can result in substantially increased total cost per unit.

Further restrictive import quotas raise the possibility that the manufacturing beef we need would simply not be available. The result for meat canners could be disastrous. This is especially true for processors of canned stew or soup, who must coordinate the availability of meat with raw carrots, potatoes and other ingredients.

Consequently, we have grave concerns over conditioning the availability of manufacturing meat on a new and untested import formula coupled with a new and untested "safety valve" in the form of a Presidential discretion to modify the quotas only in certain very limited circumstances.

The current legislative proposals

Three major changes in the current system of quotas for imported meat are proposed in S. 55 and similar bills. One of these changes is a new formula for determining the quota for imports, including a so-called "countercyclical" component. The second is a severe curtailment of the President's authority to adjust the import quota to protect the interests of the consuming public. The third is a minimum access floor on beef imports of only 1.2 billion pounds.

Countercyclical formula—Long-term restriction

Mr. Chairman, in our testimony before the House Subcommittee on Trade earlier this year we questioned whether the proposed countercyclical formula would be in the best interests of consumers and those industries, such as ours, that use processing beef. We expressed concern that the proposed "countercyclical" formula might work as a long-term depressant on imports of processing beef, not as a countercyclical mechanism.

The reason for our concern is not disagreement with the theory of a countercyclical formula, but concern with how such a formula will actually work. Our principal concern with this countercyclical formula is its untested and inherently unpredictable impact. These uncertainties stem from several factors.

First, although cattle cycles have averaged nine or ten years over the past fifty years or so, no two cattle cycles are identical in many characteristics that would be important to the operation of the quotas. The timing and rate of increase in cattle numbers, and subsequently in slaughter and beef production, and the timing and magnitude of the liquidation phase have varied widely from cycle to cycle. These uncertainties make it impossible to know precisely how the proposed countercyclical formula will impact the import quotas.

Second, the process is further complicated by the reliance of the proposed import quota system in S. 55 on estimates of additional key variables by the Department of Agriculture. In addition to its need to estimate a year in advance the domestic production of beef, mutton and goat meat, (as under current law) the Department must also estimate the year's (1) carcass weight equivalent of imports of live cattle and (2) domestic production of cow beef. Because of the variability in the cattle cycle and the fact that estimates of live cattle imports depend on economic factors in the exporting country as well as in the U.S., these estimates are obviously subject to broad confidence limits. However, in spite of this, these estimates would become the basis for the quota for the entire next year.

Presidential authority

What I have said above shows how vital it is for the interests of consumers and industries such as ours that depend on imports of lean beef substantially unavailable from domestic sources that the President retain authority to adjust the quotas as necessary. As pointed out earlier, we question whether the proposed quota formula will fulfill our minimum import needs. It is completely untested, and will be based on new and inherently uncertain USDA estimates and variables.

In view of the uncertainty, we believe there must be a "safety valve" mechanism to assure an adequate supply of manufacturing beef.

The authority provided the President in S. 55 is totally inadequate to serve as such an effective "safety valve."

The authority is tied to a 30-day "Federal Register" notice provision which would, as a practical matter, disrupt the grant of needed relief to consumers.

More significantly, the authority is conditioned on the requirement that the fraction described in subsection (d) of S. 55—the countercyclical formula—for the year be more than 1.0, except in very narrowly described circumstances. These conditions provide no reasonable assurance that the President will be able to vary the impact of this new, untested countercyclical formula if the need should arise. As the President said last year in disapproving that legislation:

"[The countercyclical formula] is still an untested mechanical formula which may not respond ideally to all future situations. That is why I find the restrictions on the President's discretion to increase meat imports so objectionable and why my Administration's support for HR 11545 was so clearly conditioned upon removal of those restrictions and on increasing the minimum access level for meat imports to 1.3 billion pounds annually."

As members of the subcommittee may know, HR 2727, the bill reported by the Ways and Means Committee contains a Presidential authority provision that reportedly meets the approval of the Administration. As an association, we prefer the language in the existing law. It has operated successfully for many years. As a minimum protection for the consumer and industry interests however, we urge that the President's authority not be restricted further than it is in HR 2727.

Minimum access floor

S. 55 provides in Section (f)(1) that the minimum import level in any year may not be less than 1.2 billion pounds. NFPA strongly believes that this level is too low and that the level should be at least the 1.3 billion pound level that the President said in his veto message last year he would insist upon. A minimum access level of at least 1.3 billion pounds is necessary to ensure an adequate supply of imported lean beef in the years ahead.

The fact that a 1.2 billion pound floor does not assure an adequate availability of imported meat becomes even more clear when we consider actual import levels. In every year since 1972 but one (1974), we have used more than 1.2 billion pounds of imported meat. In three of those years, we used more than 1.3 billion pounds and apparently we will again this year. A 1.2 billion pound floor is less than the average annual imports from 1968 to 1977 (1,204,600,000 pounds) that is the basic starting figure for the countercyclical formula. In addition, two more tariff items are being placed under quotas, which will further restrict the availability of imported meat.

If imports are restricted below the level of actual demand and consumption, as established in recent years, the result will be a price increase and higher food costs for consumers. We believe the actual import levels justify a floor of 1.3 billion pounds, which is still lower than what was imported in several years.

Thank you for the opportunity to present the views of the National Food Processors Association on this very important matter.

Senator BENTSEN. Our next witness is David Steinberg, president of the U.S. Council for an Open World Economy, Inc.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

Mr. STEINBERG. Thank you, Mr. Chairman and Senator Dole. I am David J. Steinberg, president of the U.S. Council for an Open World Economy. The council is a nonprofit private organization engaged in research and public education on the merits of achieving an open international economic system, and the problems of achieving an open international economic system, in the total public interest.

We speak for no special, commercial interest in this matter, only for what we perceive to be the imperatives of the total national interest.

The name of our organization notwithstanding, Mr. Chairman, we are not absolutely opposed to import restrictions under all circumstances, but we believe that where import restrictions are imposed they ought to be imposed only when found to be essential to a balanced, coherent strategy that addresses the real problems and the real needs of the particular industry.

In this instance, Mr. Chairman, I do not sense that there is or has ever been a coherent balanced livestock policy, a livestock strategy that addresses the real problems and needs of what I know to be a vital American industry.

To the extent that import restrictions are imposed, whether within the framework of a balanced strategy or outside the framework of a balanced strategy, the countercyclical approach which you have proposed is far preferable to the approach we have lived with since the 1964 act and therefore we support the countercyclical approach. We would like to see the quota higher than the minimum of 1.2.

We would like to see suitable Presidential discretion in this matter. We would also like to see something in the legislation that requires an annual assessment, a systematic assessment of the progress of this policy, of the cost of this policy to consumers and to the Nation as a whole, and the extent to which the import control policy enacted by the Congress serves the total national interest.

Then we will know in a systematic way, year in and year out, for as long as these controls are necessary, whether and to what extent and at what cost these policies served the total national interest. These, Mr. Chairman, very briefly are some of the main points made in our statement.

I thank you for your time.

Senator BENTSEN. That is an interesting point and that is a contribution.

Mr. Steinberg, I think that is helpful to us and we are appreciative of your testimony. Thank you for your testimony.

[The prepared statement of Mr. Steinberg follows:]

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY

SUMMARY

The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest. The Council speaks for no interest except what it sees as the total national interest.

The following testimony opposes controls, direct or indirect, on meat imports except if found necessary to the protection of public health or indispensable to coherent adjustment strategies addressing the real problems and needs of the domestic livestock industry. To the extent that quantitative import controls are imposed, they should be countercyclical, allowing imports to rise when domestic production significantly falls, and reducing imports when domestic production rises faster than the market can readily absorb. However, turning import controls up or down to deal with short-term developments in domestic supply and demand is a harmful, unrealistic way to seek adequate supplies of meat and combat inflation.

The United States should be maximizing meat supplies from all sources, not perfecting ways to restrict meat imports. Such controls are a simplistic approach to the problems besetting the nation's vital livestock industry.

Economic factors and policy issues

Quantitative curbs on meat imports are imposed under legislation enacted in 1964. Virtually all these restriction have been established through orderly marketing agreements with meat exporting countries. Imports are allowed to rise only when domestic production rises, and are cut back when domestic falls (the statute establishes trigger points). This cyclical linkage has tended to accentuate the swings in market prices. The counter-cyclical controls currently proposed in Congressional bills are intended to stabilize domestic prices of these meats To the extent that such stabilization would result, the new method of controlling meat imports would appear to be a welcome reform. However, if the proposed formula turns out to restrict imports even more than the current legislation does, this would be most regrettable, greater price stability notwithstanding. It should be noted that the President's current discretion to modify meat import quotas is itself a stabilizing factor, if this discretion is used judiciously and if decisions to allow more imports are accompanied by policy pronouncements designed to avoid destabilizing shocks to U.S. cattle producers and to ensure remedies other than import controls if government help is needed.

Imposing quotas on meat imports by whatever formula, except if essential as a temporary component of a coherent, balanced industry-adjustment strategy, involves distortions harmful to the public interest. It denies U.S processors of meat the flexibility they need to acquire meats from whatever sources at the right time and under the right terms for optimum responsiveness to market needs at reasonable prices. It thus hurts consumers, particularly low-income consumers who can least affort it. It overlooks the realities of production and marketing in the countries that sell us these meats.

The United States is not the only important export market for meat, and in an expanding world economy not the only one meriting the attention of the meat-exporting nations. Nor is meat production for export to the United States an assembly-line operation capable of meeting market demands on short notice. Meat exports to the United States in the amounts required by U.S. processors have to be programmed, taking account of many factors including those not controlled by human decision. U.S. access to imported meats should not be manipulated by regulatory devices akin to hydraulic controls to be turned up or down in accordance with some formula relating imports to supplies from domestic sources.

The need to avoid such controls is made all the more compelling by the fact that over 90 percent of unprocessed meat imports are lean meats (from range-fed cattle) that are largely complementary to, not competitive with, domestically produced meats—the combined products being used for hamburgers, hot dogs and other "manufactured" meats of special importance to lower-income consumers. These imports, together with domestic lean meats from cows and bulls no longer desired for breeding, upgrade the value of fatty trimmings from grain-fed domestic cattle by making these trimmings useful for hamburgers, etc. Whatever competition may at times occur between imported and domestic lean meats does not justify government controls over such imports.

Meat import barriers, those we have had and those proposed, turn out to be barriers to the search for policies that can cope incisively and decisively with the basic problems of the domestic cattle industry. This tends to be the result because simplistic recourse to import controls, attacking presumed symptoms of the domestic industry's problem by curbing foreign supplies, tends to divert attention from the more prudent, constructive course of determining the nature and solution of the industry's real difficulties. Whenever the industry is 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 restrictions have become a too convenient nostrum which to 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.

Need for a coherent livestock policy

If the U.S. livestock industry merits government help, such assistance should be through a coherent, balanced livestock strategy that addresses the real problems and needs of this vital industry. Such a policy should avoid import restraints except where temporarily indispensable as emergency components of a coherent adjustment strategy. Even in that context, a direct subsidy may well be preferable to an indirect subsidy via import controls. The policy's progress, cost and contribution to the public interest should be openly, systematically and periodically reassessed.

This course is more deserving of government attention and ingenuity than efforts to perfect the meat import controls authorized by the 1964 legislation, or to impose disruptive marketing regulations or other unjustifiable impediments on meat imports. Such direct attention to the real problems of the livestock industry would be in the best interests of the industry, consumers and the nation at large. It would set a good example for other countries whose answer to domestic industry problems (including those of livestock production) has too often been restriction of 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.

Mr. STEINBERG. Thank you, Mr. Chairman.

Senator BENTSEN. Ladies and gentlemen, that will end the hearing for today.

Thank you.

[Whereupon, at 4 p.m., the hearing of the subcommittee was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF SENATOR DALE BUMPERS

Mr. Chairman, I want to thank you for the opportunity to speak on behalf of S. 55, the Meat Import Act of 1979, of which I am a co-sponsor.

As the distinguished Chairman is aware, the cattle industry has enjoyed a period of relatively high prices during the last year and a half. Before those price increases began to rise, however, cattlemen struggled through four years of extremely low prices. Many ranchers and cattlemen were forced to liquidate their herds. Severe drought in my state added to this problem.

Cattlemen have historically accepted these wide price fluctuations in the cattle industry as a risk inherent in their business. This swing in prices every 5 to 6 years is commonly called the "cattle cycle" and is the supply and demand mechanism which regulates the industry. When prices for beef are high, cattlemen retain more heifers and cows to increase breeding herds and take advantage of higher prices. Eventually production increases to the point where profitability and prices decline. As profits decline cattlemen increase slaughter and the price structure prepetuates itself downward until production is once again more in line with demand. Current meat import laws serve to compound the burden these wide price swings place on the cattlemen.

The Meat Import Act of 1964, which governs our beef import policies now, has exaggerated the price swings of the cattle cycle and has allowed politics to dictate the import levels in many instances. Under the current law, when domestic production is high, and prices low, more beef imports come into the country, thus compounding the problem for our cattlemen. In times of low U.S. production, less imports of beef are allowed and supplies are further tightened. This is not a logical approach to the importation of foreign beef—it hurts not only the cattle producers but the comsumer as well.

The legislation which I support, S. 55, would allow for a more reasoned approach to meat imports. The Meat Import Act of 1979 calls for a counter-cyclical formula which would increase imports when domestic production is down and decrease imports when domestic output is adequate. The bill would tend to lessen the magnitude of the price swings of the cattle cycle and ensure that consumers have an adequate supply of beef at a more constant price.

The bill also takes much of the politics out of international trade negotiations by limiting the President's power to increase beef imports. In the past political pressure has resulted in the beef quotas being raised or lifted in seven of the last ten years. In June of 1978, the President used this authority to raise beef imports by 200 million pounds just as the cattle industry was coming out of a disastrous period. We have a saying in Arkansas that "the light at the end of the tunnel may be a train coming at you", and the President certainly made truth of that old adage. The negative psychological effect of that slight increase in imports did nothing to lower beef prices to the consumer but dropped live cattle prices by 10–20¢ per pound. This type of situation lowers the cattlemen's trust in our government and slows the herd rebuilding stage, thus keeping beef prices to the consumer extremely high. I've included a copy of the letter which I sent to the President during the crisis in June of 1978.

JUNE 6, 1978.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Several of my colleagues in the Senate have contacted you regarding their opposition to any increase in or suspension of the current meat import quotas. I join them in opposing any change in the import quotas. The cattle business has been hampered by low beef prices and high production costs for the past several years. To increase or suspend the import quotas at this time would deliver a setback to an industry that is just now showing signs of recovery from a prolonged period of financial hardship. I will appreciate your thoughtful consideration of the needs of cattle producers, and urge you to reject any proposal to suspend the current import quotas on beef.

Sincerely,

DALE BUMPERS.

S. 55 is very similar to H.R. 2727 which has been approved by the House Ways and Means Committee and is now waiting action from the House of Representatives. Both of these bills are very much like H.R. 11545 which passed the Congress overwhelmingly last year and was vetoed by President Carter. The legislation we are considering today is somewhat different to last year's bill in that it gives the President more authority to increase, suspend, or decrease quotas, but it is still much more restrictive than current law.

I certainly hope that this committee will act quickly to approve this much needed legislation. The cattlemen of my state and of the nation deserve to have predictable beef import law which will allow them to plan ahead with confidence. I feel that this legislation is necessary if our nation is to continue to enjoy the benefits of a healthy and viable beef industry that will assure a dependable supply of reasonable-priced beef.

STATEMENT BY CONGRESSMAN J. J. PICKLE

Mr. Chairman: I appreciate the opportunity of submitting a statement in support of S. 55, by my colleague and friend, Senator Lloyd Bentsen. S. 55 is similar to HR 1076 which I introduced in the House earlier this year. In the House Ways and Means Committee, we combined the trigger formula of HR 1076 with several good features of Chairman Ullman's bill. The result is HR 2727, a measure which received committee approval.

I am also glad to report that since the committee vote, an agreement has been reached with the White House, made possible by a compromise, changing the import floor in a given year.

Early passage of S. 55 is essential to continue the momentum and to pass a beef import bill. Last year, a measure similar to S. 55 received healthy majorities in the House and Senate, only to be vetoed by the President. This year with some changes, an agreement has been reached with the White House, and we are assured the President will sign a bill.

S. 55 would correct the serious problem of the cattle cycle which now penalizes the American cattle industry by opening the floodgates of imported meat when domestic supplies are most plentiful. The countercyclical approach could bring more stability to domestic and foreign markets, by limiting imports when domestic supplies are plentiful and prompting more imports when domestic supplies are low.

The concept of the bill is good and simple and direct. We must correct the economic uncertainties which have disrupted the cattle industry.

I support S. 55 and the fine-tuning necessary to avoid a conference committee and to speed the implementation of this worthy concept.

STATEMENT OF THE AMERICAN MEAT INSTITUTE AND NATIONAL MEAT CANNERS ASSOCIATION

The American Meat Institute, the national trade association for the meat packing and processing industry, and the National Meat Canners Association appreciate this opportunity to offer comments on S. 55, legislation to establish a countercyclical meat import formula.

We have followed this matter closely and have testified before the House Ways and Means Subcommittee on Trade concerning a similar bill, H.R. 2727. We do not oppose the concept of a countercyclical formula to set meat quotas. However, we have two concerns about enactment of this legislation.

First, we believe the President must continue to have sufficient authority to increase imports above the quota limits in special situations. We are satisfied with the language in the existing law. However, as reported by the House Ways and Means Committee, H.R. 2727 contains revised authority provisions that meet the approval of the Administration. We prefer those provisions to the ones contained in S. 55.

Second, we believe that the minimum import level of 1.2 billion pounds contained in both S. 55 and H.R. 2727 is too low. It should be raised to at least 1.3 billion pounds, the level that President Carter's veto message last year said he would insist upon. We believe a higher floor level is needed to assure that an adequate supply of imported beef will be available in the coming years.

Mr. Chairman, the quantity of processing beef available to our industries has a great impact on the amount to be produced and the price of processed items such as sausages, frozen dinners, stews, chili and other canned meat products. Imported meats go a long way toward helping low and middle income Americans obtain animal protein in an economical form. Accordingly, it is exceedingly important that any final legislation not unfairly reduce foreign meat supplies, thus penalizing those consumers who can least afford it.

We hope the Subcommittee will report legislation with acceptable presidential authority provisions and with an annual import floor of at least 1.3 billion pounds.

NATIONAL RESTAURANT ASSOCIATION,
September 27, 1979.

Hon. ABRAHAM RIBICOFF,
U.S. Senate,
Washington, D.C.

DEAR SENATOR RIBICOFF: The National Restaurant Association remains in opposition to any changes in the Meat Import Act of 1964.

This law has worked effectively to bring in foreign lean beef supplies to supplement inadequate domestic resources. The amount of beef allowed into the United States remains at about seven percent of market share. We believe that this percentage is not burdensome to domestic producers. It provides a release valve from erratic domestic supply/demand situations and provides a downward cost pressure. In addition, for the most part, lean beef brought in from overseas is not competitive with domestic beef, which for the most part, is grain fed, tender table beef.

This supply of lean beef is necessary for the manufacture of hamburgers, hot dogs and sausages. There is not enough domestic supply available. Hamburger sales have been increasing and this raw material is important to the foodservice industry, as well as to lower income groups which use ground beef as a major component of protein in their diets.

The legislation, H.R. 2727 and S. 55, et al. has gone through several versions. We are aware of the controversy over the floor in the countercyclical formula and support the 1.3 billion pound level, if there is to be a countercyclical formula and it contains a floor. However, this floor would become a lesser and lesser share of total U.S. consumption in the future and we suggest that it could affect availability of lean beef, could place increased cost pressures on domestic supplies and could exacerbate the domestic cow cycle. If the floor is maintained, then a formula should be added to adjust it upward as total U.S. consumption increases (the countercyclical formula itself would remain, but it would not begin making wider and wider swings).

Attached for your attention are further comments on the effect of potential reductions in meat imports on the foodservice industry.

Sincerely,

ROBERT NEVILLE,
Washington Counsel.

Attachment.

NATIONAL RESTAURANT ASSOCIATION COMMENTS ON H.R. 2727 AND S. 55

We cannot say whether the countercyclical formula in H.R. 2727 would work as smoothly as its advocates claim. However, we are concerned that the formula ignores a crucial fact. Our domestic producers, for perfectly valid market reasons, concentrate heavily on producing grain fed beef, about 90 percent of which is graded choice or prime. Therefore, the great bulk of imported, manufacturing grade beef, which is grass fed, does not compete with the domestic product. This is an important factor, often overlooked in considerations dealing with import quotas. Domestic production of lean, manufacturing grade beef, on the other hand, does not approach the quantity necessary to meet market demands. Under the countercyclical formula, we would be able to get lean, manufacturing grade beef in sufficient quantities only when domestic production of beef is low, as it is now, and the quota would be high. When domestic production rises and the quota decreases, the availability of lean beef would decline and the price would rise.

We oppose any legislation which would decrease the supply of imported manufacturing grade beef for the following reasons: 1. It does not compete with the great bulk of our domestic beef; 2. Domestic supplies of manufacturing grade beef do not approach domestic requirements and give no promise of doing so; and 3. Reduction in quotas or other action resulting in reduced supplies would increase prices for the consuming public.

The principal value of imported beef to our industry lies in two characteristics: its chemically lean consistency, and the fact that it is frozen. Let me explain why these characteristics are so important.

Imported boneless manufacturing beef has a remarkably consistent fat content of 10 to 15 percent. As you may know, USDA standards for hamburger require that it be all beef and have a fat content not in excess of 30 percent. Faced with this government standard, the foodservice operator, or his supplier, find it much more practical and economical to base the preparation of hamburger on a very lean beef and add fat in the desired amount, rather than attempt to remove fat to reach a desired fat content.

The hamburger generally sold by foodservice companies does not even approach the 30 percent fat content limit set by the Government. Each company sets its own standard to meet its determination of the most desirable flavor, texture, juiciness, and handling characteristics. Domestic beef is used extensively in combination with the imported canner and cutter grade beef to add fat and flavor. The imported product provides the better base for the two reasons previously stated: it has a low fat content, and it is frozen.

The importance of beginning hamburger manufacture with a frozen base of lean beef rests on imperatives of sanitation, public health, and lower prices to the consumer.

Even if the mixing process begins with well-chilled meat, the processing itself will markedly raise the temperature of the product. On the other hand, by including a sufficient proportion of frozen beef, the frozen beef will lower the temperature of the nonfrozen beef and enable the manufacturer to achieve his goal of an end product temperature of 34 degrees to 36 degrees. At this temperature, bacteria does not grow rapidly and the useful shelf life of the hamburger is extended. Bacteria count will double every 20 minutes at room temperature, and becomes a dangerous factor at temperatures above 40 degrees.

Domestic boneless beef is not available frozen. If it were frozen and packaged, as the imported product must be to preserve it for shipment over long distances, the cost would be considerably higher. If we were to make hamburger with unfrozen beef of varying fat content, it would increase quality control spoilage problems, increase shipping costs, and result in higher prices to the consumer.

We do not have precise statistics on the capacity of domestic producers to meet the demand for manufacturing grades of beef. However, using beef "disappearance" figures for 1976 we find a total of over 8 billion pounds of beef was used for hamburger and sausage manufacture. In that same year, the total domestic supply of the needed canner and cutter grade beef was only about 2.6 billion pounds, and even some of this was used as special cuts and therefore was not available for manufacturing. Total imports of boneless beef in 1976 added only 1.2 billion pounds to this tital supply of manufacturing grade beef. Obviously, even with imports the supply of lean manufacturing grade beef falls far short of demand and we need the imports.

In summary, we ask that in your deliberations on this problem you fully consider that domestic supplies of manufacturing grade beef are not adequate to meet market demand; imports of this type do not compete with domestic production; and the imports simply help to alleviate the shortage and provide some stability to prices.

NATIONAL GRANGE,
Washington, D.C., September 25, 1979.

Hon. ABRAHAM RIBICOFF,
Chairman, Subcommittee on International Trade, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange was a strong proponent of the Meat Import Act of 1964, because we felt at the time that it was good import/export policy to share our expanding domestic market with overseas suppliers. That still is good policy, but using increased domestic production as the yardstick to measure increased domestic demand and tying imports to that formula has proven to be a false reasoning because it allows increased beef imports at a time when our own increased production has lowered the domestic price to producers.

The National Grange, at its Annual Meeting held in November of 1977, recognized the failure of the Act to provide the necessary price protection to the U.S.

cattle industry. The delegate body of the National Grange, responding to the shortcomings of the Act, adopted the following resolution:

"MEAT IMPORTS"

"Whereas, the cost of producing beef and pork in the United States is above the price received at the marketplace, and

"Whereas, the quota system has been effectively by-passed by the importation of live beef and pork from Canada and Mexico, and it is estimated that approximately a third of a million head of cattle have entered the U.S. annually and then have been counted as domestic beef by this means, therefore, be it

"*Resolved,* That the National Grange work to get all imported live beef and pork counted in the quotas, and be it further

"*Resolved,* That meat import quotas should be restructured so as to restrict the importation of beef when domestic meat production is high and increase it when domestic meat production is low, and be it further

"*Resolved,* That the National Grange support strict enforcement of the 1964 Meat Import Act and the Act be amended to include boned, processed, packaged meats and meat products under the quota system, and that all meat imports be required to pass our health and inspection standards."

In addition, the National Grange has over the years called for the labeling of imported meat and meat products as to their country of origin. In November of 1974, the delegates at the National Grange Annual Meeting adopted the following policy on the Labeling of Imported Meat:

"LABELING OF IMPORTED MEAT"

"Whereas, the consumer at the present time has no clear way of knowing whether he is purchasing domestic or imported meat; and

"Whereas, some consumers prefer buying domestically-produced meat products; therefore, be it

"*Resolved,* That the National Grange support legislation for clear and plain labeling of all imported meat and meat products sold; and be it further

"*Resolved,* That all food establishments serving imported meats post signs to that effect."

Therefore, the National Grange supports amendments to the Meat Import Act of 1964 that would: (1) apply to the importation of live cattle and hogs that are imported for slaughter; (2) apply to all meat products cooked or processed in any way; (3) require all imported meat to be labeled to show the country of origin; and (4) reverse the boom-and-bust cycle in the cattle industry by allowing increased imports during periods of high prices and reducing imports at times when the U.S. cattleman is unable to obtain a fair price for his product.

We would appreciate this letter being made a part of the hearing record on meat imports. Thank you.

Sincerely,

JOHN S. SCOTT,
Master.

STATEMENT BY R. L. BLISS, FIRST VICE PRESIDENT, TEXAS CATTLE FEEDERS ASSOCIATION

The Texas Cattle Feeders Association (TCFA) supports amendments to the Meat Import Law, as proposed in S. 55 and H.R. 2727.

TCFA represents most of the cattle feeders in Texas, Oklahoma and New Mexico. In 1978, this area marketed 6.085 million head of fed cattle or 23 percent of the U.S. total.

While meat imports may appear to be relatively small in relation to U.S. production (about 7 percent), increased imports can have a devastating impact on our domestic prices during times of overproduction. We saw this in 1974-77, when cattlemen were experiencing severe losses. The current Meat Import Law, which increases imports as domestic production increases, is like adding fuel to a fire. Conversely, now that domestic production is down, and beef prices are up, the current Law restricts imports—again adding fuel to the fire.

Therefore, we strongly support the counter cyclical formula in the proposed bills. Although we feel that a floor of 1.2 billion pounds is reasonable and preferable to our members, we are willing to compromise on a 1.25-billion-pound floor, if it will get Administration support.

We fear the Presidential authority in the current law, which permits the President to suspend quotas when it appears politically or economically advantageous. We think this authority should be limited to times of "national emergency" or "natural disaster," which the proposed bills accomplish adequately and reasonably.

For these reasons, the Texas Cattle Feeders Association supports S. 55 and H.R. 2727, and urges their quick passage.

TEXAS FARM BUREAU,
Waco, Tex., September 24, 1979.

Hon. LLOYD BENTSEN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BENTSEN: Please accept this speedline message as our official Texas Farm Bureau statement to your International Trade Subcommittee of the Senate Finance Committee relative to proposed amendments to the Meat Import Quota Act (Public Law 88-482). We are in full support of the policy adopted by voting delegates at our most recent annual convention which reads as follows:

We recommend that the Meat Import Act of 1964 be amended so that all meats, whether fresh, chilled, frozen, canned, cooked, or cured, irrespective of packaging or processing, will be regulated by the Act and subject to quotas. Quotas should be revised on a quarterly basis rather than an annual basis.

We endorse the countercyclical approach to meat imports to protect and support domestic meat production.

We recommend that the federal regulations now in force on sanitation requirements for meat for human consumption be extended to cover all imported meats and that such requirements be strictly enforced. We also recommend that all imported meats be clearly labeled.

The countercyclical approach is the logical answer to the major problem encountered under the present act—the problem of increased imports when domestic supplies of beef are at high levels. It makes sense to increase imports when domestic supplies are at low levels as at present, and to restrict imports when domestic supplies are at high levels.

While we would like to see a meat import quota annual base of no more than 1.2 billion pounds, we will accept the compromise figure of 1.25 billion pounds if this is what it takes to get the countercyclical formula enacted into law.

We respectfully request your support for these proposed amendments to the Meat Import Quota Act.

Sincerely,

CARROL G. CHALOUPKA,
President.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

Farm Bureau is a voluntary, dues-supported organization of more than three million member families in 49 states and Puerto Rico, encompassing more than 2,800 county units and representing more than 75 percent of the commercial farmers and ranchers in this country.

We appreciate this opportunity to present our views on legislation to revise the Meat Import Quota Act (Public Law 88-482).

Farm Bureau recognizes that American agriculture is heavily dependent on export markets and that this must be considered in connection with questions of reciprocal access to U.S. markets.

American livestock producers and feeders are greatly interested in international meat trade. This interest is understandable. The United States is the world's largest meat importer, and we would like to be a larger exporter of meat.

The proportion of red meat in our exports is relatively small. A large part of our exports consists of lower-priced products, such as tallow and lard. The United States imports about 5 percent of its red meat supply. These imports are chiefly manufacturing grade beef which 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.

Farm Bureau recognizes that the domestic meat industry, as a part of total U.S. agriculture, has much to gain from policies which favor an expansion of international trade on a mutually advantageous basis. Conversely, we have a great deal to lose from restrictive international trade policies. In the long run, it is essential that the expansion of international trade be based on comparative advantage and fair competition.

In recent years, many other organizations also have recognized the fact that, if the United States expects to export agricultural products—including meat—it will likely have to accept some agricultural product imports simply because the United States is not self-sufficient in the production of all the different foodstuffs its people demand. Coffee, sugar, bananas and many fish products are good examples.

We are pleased that the recently concluded multilateral trade negotiations included modest increases for U.S. red meat exports to Japan and the European Community to help meet the market demand in those countries for high quality U.S. beef products.

Imports of beef into the United States have been limited for several years, except for brief periods when formal quotas have been in effect, by so-called voluntary agreements with other countries.

Farm Bureau:

Supports the countercyclical method of establishing meat import quotas.

Recommends that special emphasis be given in support of legislation that would require imported meat to comply with U.S. health standards and that products made from imported meat be labeled as to country of origin. These labels should be retained throughout the distribution process.

Recommends that if amendments are sought in the Meat Import Act, all imported meat, whether fresh, chilled, frozen, canned, cooked or cured, irrespective of packaging and processing, and live slaughter cattle be included under the Act and subject to quotas.

Enactment of the countercyclical formula for establishing beef import quotas would be a useful signal from Congress and the Administration to cattlemen. Such action would be an indication that government does not intend to be a part of the problem in the decision-making by cattlemen to rebuild the U.S. herd to meet the growing demand for beef.

We will appreciate consideration of our views when proposed amendments to the Meat Import Quota Act are acted upon.

Before the

SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
U. S. SENATE

Washington, D. C.

PROPOSALS TO AMEND :
P.L. 88-482, S.55 et.al. :

Statement

on behalf of the

NEW ZEALAND MEAT PRODUCERS BOARD

This statement is submitted on behalf of the New Zealand Meat Producers Board in response to your invitation for comments on S.55 and similar legislative proposals to amend the Meat Import Act of 1964 (PL 88-482), dated September 12, 1979. As you are undoubtedly aware New Zealand is, and has been for many years, a major exporter of meat to world markets including the United States, where its principal products are manufacturing beef and lamb cuts. The Board, which is the representative of the livestock producers of New Zealand, is the only organization promoting New Zealand meat on an

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international scale. It undertakes a variety of advertising and public relations programs in many world markets and contracts for sea and air carriage of meat products. Thus the Board has the power to regulate the flow of these products to individual markets, although it is not itself usually an exporter.

S.55, like most of the other bills alluded to in your September 12 press release, would amend PL 88-482 by adding a so-called countercyclical adjuster, establishing a 1.2 billion pound import floor, and limiting the President's authority to suspend quotas under the Act. All these provisions, like those in HR 2727 which is now awaiting House action, have a singular purpose, that is, they are designed for one reason, and one reason only - to provide protection for the U. S. beef industry, as incredible as such a notion is with the current situation in the beef market. As the dissenting views to HR 2727 correctly note, not only should this type of legislation be defeated, but indeed the Congress should repeal meat import quotas altogether. To provide protection to an industry whose product has doubled in price in the last year would be incongruous to say the least. In the words of the dissenting views to HR 2727, "Food prices have been surging upward for more that a year, and rising beef prices largely account for this situation".

But it is not just this last year that is involved. This industry has been investigated time and time again by countless objective U. S. agencies and the conclusion has always been the same. The U. S. industry is unaffected by beef imports and is in no need of protection from them. As these studies have reported, the importation of beef into the United States has been controlled by the Meat Import Act for the last 15 years. The product that has been imported both from New Zealand and elsewhere has been a lean, grass fed product which is not competitive with domestically produced beef which is grain fed and fat. The ITC in fact found that imports are complementary to the United States production to the extent that they are mixed with fat trimmings. Lean beef production in the U. S. is almost exclusively a by-product of cow/calf and dairy operations.

With these findings in mind, it is clear that any quota reduction would be totally unjustified and could, in fact, hurt the U. S. industry inasmuch as it would decrease the supply of the lean beef needed to mix with fat trimmings. The effect on the consumer is even more obvious and equally detrimental - prices, particularly for hamburger, would go up even more than they already have.

Turning to the particular provisions of S.55, several comments are in order. First, countercyclicalism, although more difficult to pronounce than some other "isms", shares their quintessential characteristic, it is not what it seems to be. The phrase is attractive and catchy but the concept is misunderstood and it is misunderstood at a very basic level, namely when we talk about countercyclical, what are we really talking about. Countercyclical to what?

The current law has, by virtue of the Presidential authority to suspend quotas, allowed for the importation of the greatest amount of meat when it was most needed. This point is made most succinctly by the ITC in their just released Summary of Trade and Tariff Information on live cattle and meat of cattle where they state that:

> "Through the years the Meat Import Act has held beef and veal imports quite stable relative to consumption and imports have been a known factor in the marketplace. At times when domestic supplies were limited, such as in 1973, the act was administered so as to allow unlimited imports, thus stabilizing prices and assuring consumers of adequate supplies. On the other hand, when supplies were plentiful (e.g., 1975 and 1977) the act was administered so as to provide for voluntary restraints on exports to the United States, or, as in October 1976, to implement an actual import quota. Thus, the act has provided a degree of stability for consumers and, at the same time, has maintained imports at levels lower than otherwise might have occurred."

In contrast, if the so-called countercyclical formula in the Bentsen bill had been operating over the past twelve years, U. S. imports of New Zealand beef would have been nearly 250 thousand tonnes less than actual shipments - a 20% reduction. Moreover, the most serious reductions would have occurred in the most recent years of 1973 onwards. Consequently, there would have been reductions in the very years that the U. S. was clamoring for more off-shore supplies of meat. Such a formulation is hardly counter to the cow cycle.

A second level of misunderstanding is the failure of the proponents of such a system to realize that they cannot turn off-shore production on and off anymore than they can their own. That such a system would be unworkable seems clear from the testimony dealing with the biological factor, that is, the 2-1/2 year delay between calving and market for a cow, submitted to the ITC in its recent investigations. What's more, this 2-1/2 year period does not even include the gestation period nor the time before breeding necessary for the decision to breed to be made. That the proponents of these formulations would seriously contend that they could turn this off-shore production on and off like a spigot is incredible. The off-shore suppliers have the same problem, the same biological factor to contend with. In order to be a consistent source of supply they need a consistent market.

Likewise the notion that off-shore production can somehow be manipulated to go out of phase with U. S. production is absurd. The off-shore dependance on the U. S. market is great, consequently the reaction to U. S. economic factors is not only great but identical to the reaction of on-shore producers. In fact, producers here and everywhere respond to current or short-term prices and forecasts. Legislation cannot alter this phenomenon - New Zealand can no more go out of phase with the cattle cycle than Texas. The whole countercyclical notion is, in this case, a wolf in a cow's clothing.

Further, the restrictions which the bill would place on the President's authority to suspend quotas would remove the flexibility to be countercyclical in the true sense of the word. That is, to react to real market needs, not to some hypothetical formulation whose application in the real world no one can predict. Again, we need only to look to the most recent ITC Summary, quoted above, to realize that this is fact, not argumentation.

Finally, the inclusion of a 1.2 billion pound import floor simply does not provide adequate assurance of access to the U. S.'s traditional suppliers of meat. Population growth forecasts for the U. S. alone renders such a low guaranteed level of access inadequate.

The U. S. and New Zealand are both agricultural exporting nations. The United States itself is a net exporter of beef and beef by-products in addition to the huge revenues it gains from its export sales of other agricultural products. Both countries have just concluded MTN negotiations to lower the many barriers to international agricultural trade which severely impact them both. In this context it would seem unthinkable to erect yet a new barrier to agricultural trade. In fact, the only rational consideration would be a total repeal of the 1964 Meat Import Act. The current market reflects the U. S. industry's strength and justifies a reconsideration of the efficacy of the meat import quota scheme in its entirety.

Respectfully submitted,

Edward J. Farrell

BRONZ & FARRELL

Attorneys for the New Zealand Meat Producers Board

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Telephone: 212/298-5966

Edward J. Farrell
of counsel

September 26, 1979

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, D.C.

STATEMENT OF THE AUSTRALIAN
MEAT AND LIVESTOCK CORPORATION ON
PROPOSALS TO AMEND THE MEAT IMPORT ACT (P.L. 88-482)

The Australian Meat and Livestock Corporation (AMLC)[1/] opposes the passage of any legislation which would amend the U.S. Meat Import Quota Law by applying a so-called counter-cyclical mechanism to regulate meat imports into the United States. Our opposition to such legislation is maintained for the same reasons expressed to the United States Congress last year when similar measures were under consideration. We pointed out at that time and wish again to emphasize that the mechanism incorporated in the proposed legislation will prove to be totally ineffective in overcoming the problems of cyclical change in the U.S. cattle industry. Moreover, it will be severely damaging in the long run, not only to the cattle industries of foreign suppliers, such as Australia, but to the interests of the beef consuming public in the United States.

1/ The AMLC is an entity established by Australian Federal Statute for the purpose of advancing the general welfare of the Australian meat and livestock industry. See Exhibit A for a detailed description of the organization and function of the AMLC.

II. THE INTERNATIONAL TRADE COMMISSION FINDINGS; U.S. INDUSTRY NOT INJURED BY IMPORTS

In 1977 the United States International Trade Commission (ITC) undertook, at the request of both members of Congress and the domestic cattle industry, an investigation to determine whether live cattle and meat products 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.

The investigation covered live cattle and processed meat imports as well as meat currently regulated under PL 88-482.

The subcommittee will note that the Commission determined that the items covered by the investigation were "not being imported into the United States in such quantities as to be a substantial cause of serious injury, or the threat thereof to the domestic industry... ."

In commenting on the effects of imports, the Commission stated that:

(i) "Since the enactment of the Meat Import Act (PL 88-482) imports have been subject to restraint, and the domestic industry has been able to determine within a reasonable degree of certainty that imports will not exceed levels"; and

(ii) "Although imports have contributed to the total meat supply, they have had but a <u>minor impact in comparison with the significant increase in supplies resulting from increased domestic production</u>".

The proposed legislation is, in the Corporation's view, inconsistent with the findings of the ITC. It is founded on the belief that manipulating imports mechanically is the key to overcoming the problems of cyclical change in the domestic cattle industry. However, in light of the Commission findings, any market imbalance in the U.S. is caused essentially by domestic factors. Arbitrary countercyclical management of imports amounting to no more than seven percent of the domestic beef supply could not, therefore, stabilize domestic outputs which make up the other 93 percent of supply, at levels consistent with the interests of U.S. producers and consumers.

III. INTERNATIONAL OBLIGATIONS OF THE UNITED STATES

A countercyclical law would be contrary to the letter and spirit of the General Agreement on Tariffs and Trade (GATT). As a signatory to the GATT, the U.S. is obliged to avoid any restrictions on imports unless safeguard action is justified. Such justification under Article XIX of GATT requires evidence that imports have increased to an extent causing or threatening serious injury. As the ITC hearings have shown, injury is not caused by beef imports.

A countercyclical law would also be inconsistent with U.S. policy in the Multilateral Trade Negotiations (MTN), which urged all countries to liberalize trade. The Deputy

Assistant Secretary for International Resources and Food Policy of the Department of State, testified before the Senate Finance Committee on February 27, 1978 while discussing the Meat Trade Policy of the United States that, "we cannot take actions which are protectionist and expect at the same time to encourage other countries to liberalize their trade."

It is also relevant that when announcing his disapproval of HR-11545 in November, 1978 the President stated that he could not accept legislation which would adversely affect U.S. trade relations with the meat exporting countries and thus affect their reliability as long-term supplies.

Beef exports from Australia to the United States are the largest single item of trade. Any impairment of Australia's ability to ship to this market will effect Australia's ability to purchase U.S. products and create an even greater imbalance than the present 2:1 in the United States favor.

IV. MINIMUM IMPORT QUANTITY

The proposed legislation provides for a minimum import of 1200 million pounds per year. Any such import floor should at least meet the terms agreed to recently by U.S. trade negotiators in Geneva, which are designed to assure minimum access, under a countercyclical law, of 1300 million pounds per annum.

An examination of imports over the last two cycles (1959-1968 and 1969-1978) shows actual imports averaged 768 million pounds and 1234 million pounds respectively. On figures presented to the subcommittee in May, 1978, the average over the next ten years is estimated at 1594 million pounds per year. These figures make it clear that there is a consistently growing U.S. market for imported meat which already far exceeds the 1200 million-pound floor established in the proposed legislation.

V. ADDITIONAL RESTRICTIONS ON PRESIDENTIAL AUTHORITY WILL HAVE DISRUPTIVE CONSEQUENCES

The legislation provides for greater restrictions on the President's authority to suspend import controls, or to increase the level of imports, than does PL 88-482.

Under the existing law, when market demand justifies such action the President can override the formula and suspend restrictions to allow adequate supplies to enter the country. To cripple the President's discretion by prescribing a complex formula based on price ratios and requiring 30 days advance notice of any intention to act severely reduces his ability to "fine tune" imports to meet unexpected changes in market demand. In addition, some versions of the proposed legislation would so restrict the President with further provisions calling for two successive quarterly ratio calculations that, as a practical matter, suspension of the quota in the third and fourth quarter of each year would be meaningless from the consumer standpoint.

VI. MEAT IMPORTS ARE COMPLEMENTARY TO DOMESTIC BEEF

A countercyclical law would undermine the complementary relationship between imports and the U.S. beef industry. U.S. meat imports are predominantly lean, manufacturing beef which is necessary to supplement insufficient U.S. production of that product. Given present U.S. production methods (lot feeding) it would be uneconomic for the U.S. industry to produce sufficient quantities of lean manufacturing beef to satisfy the huge demand for hamburgers and comparable products.

In a situation in which domestic fed beef production is increasing, more, not less imported lean beef is needed for mixing with the increased supply of fat trimmings.

VII. THE COUNTERCYCLICAL APPROACH TO IMPORT CONTROLS

a. THEORY AND FACT

Ever since the phenomenon of the cattle cycle first was recognized, beef producers everywhere have dreamed of finding some way to moderate the extremes of the cycle and thus ease the hardships they experience when downward cyclical fluctuations cut their returns on beef production.

Indeed, for many producers the down side of the cattle cycle becomes a battle for the survival of their entire operation. Numbers of Australian producers, along with cattlemen in other countries, have lost that battle.

The difficulty in attempting to bring the cattle cycle under control is, of course, to identify any significant causative element that is subject to artificial influence. It is fair to say that many cattle producers in the United States have held the belief for well over a decade that growing beef imports into this country (in response to growing demand) have depressed beef prices, intensifying the lower extremes of the cattle cycle and making it more difficult for the domestic industry to rebound. Even though exhaustive investigations by the United States International Trade Commission have shown that imports are not a factor in the difficulties of the U.S. industry, the belief somehow has persisted that proper manipulation of imports can help to overcome the difficulties of the cattle cycle. Within the past several years this belief has led to efforts in the United States to replace existing import control mechanisms with highly formulated, arbitrary devices intended to produce "countercyclical" effects.

The theory is that if import supply patterns can be managed so that imports are restrained when domestic beef supplies are plentiful, and not restrained when domestic supplies are short, this will even out the peaks and valleys of the domestic cattle cycle and materially benefit domestic producers.

It is assumed that in response to these artificial constraints, producers in supplying countries will simply adjust their production and reorient their cattle cycles so that the upward and downward fluctuations of those cycles will complement the movement of the cycle of the importing country. Unfortunately, practical realities comport neither with the expectation of material benefit from manipulating imports nor with the assumption that foreign supply can be maintained in an atmosphere divorced from natural market forces.

The Australian Meat and Live-Stock Corporation hardly could criticize any beef producing country for taking measures which promised effective relief from the hardships of cyclical fluctuation. Our concern, however, is that the irresistable appeal of that worthy goal has enabled the proponants of a variety of complex legislative proposals to garner widespread support, simply by using the term "countercyclical". But the application of this nomenclature to any particular formulation is meaningless in itself. The would-be supporter of any such suggestion deceives himself if he does not seek to ascertain its real impact upon all concerned.

During the past several years Australian beef industry and government representatives have had many opportunities to examine whether the practice of controlling imports into the United States can be conducted so as to achieve countercyclical effects. We are firmly convinced that the answer to that question is negative. Since imports have not been a significant factor in recent difficulties of the U.S. beef industry, a fact repeatedly confirmed upon objective inquiry, it is then ludicrous to suggest that by somehow restricting and manipulating those same imports, repetition of the same difficulties can be avoided on a long-term basis.

Moreover, the so-called "countercyclical" legislative approach is not just a harmless experiment. Leaving aside that this protectionist trend runs counter to the development of a demand-based world beef market, an ideal which Australia keenly pursues, any such enterprise undertaken on an experimental basis could lead to disasterous consequences for all concerned including cattle producers everywhere and the beef consuming public in the United States. This has led the Australian Meat and Live-Stock Corporation to voice our opposition in the strongest possible terms, in the hope that such a serious mistake can be avoided.

b. THE IMPOSSIBILITY OF FORECASTING

Great emphasis is placed by the proponents on the surface logic of a countercyclical approach, but they virtually assume its beneficial performance by reference to a comparison of projected import levels under the existing law and under the proposed formula. However, even if the supply factor could be taken as assured, which it cannot, it would still be impossible to forecast the performance of the formula with any confidence due to the imprecise factors upon which any countercyclical arrangement must be based.

At no point has any information been supplied on the basic data and assumptions which underlie the proffered estimates of import levels over the next 10 years. It seems apparent that the comparison of import levels under the two formulae takes no account of the President's discretion under existing law to increase the level of imports and thus does not provide a valid comparison.

Moreover, estimates of cow numbers, slaughterings and production are extremely difficult. Cow numbers are the most volatile component of the herd. The major element of the countercyclical formula relates to production from cows. Yet, the legislation does not clearly define what is meant by cow beef production. One cannot discern, for example, whether the legislation would have the Secretary include all commercial or federally inspected beef, or whether he would include beef from dairy cows.

The problem of inaccurate projections shows up particularly in attempting to assess long run (10 years) effects of a countercyclical formula, on beef imports. As an example of this, in the late 1960's projections by the United Nations Food and Agriculture Organization were for a continuing strong market for beef to 1980. The events of 1974 showed how wrong such forecasts can be.

Any countercyclical formula can only be tested on the basis of 10 year projections of items including per capita cow beef supplies, human population, cow numbers, cow slaughterings and slaughter weights. Projections of these factors are notoriously inaccurate, yet, the proponents of the countercyclical approach rashly guarantee substantial benefits and deny restrictive trade effects while ignoring the sensitivity of the enterprise to forecasting errors.

c. SUPPLY - THE FATAL FLAW IN COUNTERCYCLICAL LOGIC

Perhaps the most serious defect in the rationale associated with a countercyclical approach to beef imports is the false assumption that any desired level of foreign supply can be obtained, virtually on call. It is astounding that such defective reasoning is employed by proponents of the countercyclical idea, many of whom are themselves quite familiar with the business of raising beef cattle.

While the Australian cattle industry has developed over a period of years to a point where it can now be regarded as a dependable source of supply, that development has taken place under circumstances which permitted a reasonable degree of forward planning for production. Any countercyclical proposal poses a grave risk that it will become infeasible to maintain the rate of production experienced in recent years. With annual United States requirements for imports isolated from the influence of market demand and thrown into a state of uncertain mechanical constraint, the chilling fact is that when higher levels of meat imports are needed, those imports likely will not be available.

A countercyclical law would impose an unrealistic and disproportionate burden on the countries exporting meat to the United States to adjust their production to account for this country's annual cyclical fluctuations. The disproportion and unfairness of this expectation towards Australia is shown in that Australian exports in 1978 were only three percent of U.S. consumption, but 25 percent of Australia's production.

As noted previously, the theory of such legislation is that exporters can and will adjust to the importing country's beef production cycle to produce a trading pattern which has countercyclical effects. However, it is not realistic to expect that cycles in exporting countries can be adjusted or maintained to complement the U.S. cycle. In point of fact, Australia's beef production pattern has followed very closely that of the U.S. since the late fifties, when Australia's industry responded to the steadily increasing U.S. demand for lean manufacturing beef. Comparison of U.S. and Australian data demonstrates corresponding fluctuations in the levels of cattle numbers, although Australia's pattern is not as regular as that of the United States due to the heavy influence of weather and climatic conditions on our pastures. Australia, unlike the U.S., is almost totally dependent on pasture feeding.

Australia today exports approximately 50 percent of total beef production of which half is shipped to the United States. Since the U.S. occupies such a predominant position among export markets, the price signals to U.S. cattle producers coincide strikingly with the price signals to Australian producers. Those price signals form the basis of producers' decisions to increase or decrease production both there and here, but due to the inherent biological constraints, production changes only become a reality several years later. Thus both Australian and U.S. cattle cycles fluctuate in response to the same market indicators and on the basis of forward market predictions which can be made with some degree of certainty by experienced producers.

Unanticipated fluctuations in overseas demand can cause serious damage to vulnerable segments of the Australian cattle industry even when price indicators are provided by natural market forces. For example, during the period 1974-5 to 1976-7 the number of enterprises in Australia engaged in cattle-raising declined from 49,918 to 27,176. It was in this period that the Australian industry and its United States counterpart as well, went through the most severe price slump ever experienced. Even so, the confidence that market forces would, as prices recovered, continue to provide a reasonably consistent share of U.S. requirements, supplied the incentive for preservation of a substantial production capacity in spite of the difficult circumstances.

The preceding discussion should make it clear that cattle producers in Australia, just as cattlemen elsewhere, rely completely upon long, hard years of experience in the marketplace in taking the dangerous risks associated with long-range production commitments. Beef production in Australia, despite emphasis on exports, is not centralized, organized or otherwise subject to government control. To ask this industry as a whole to realign its cattle cycle in the circumstances under consideration is to ask that thousands of individual producers set aside their ingrained commercial instincts, but nevertheless maintain forward production commitments. They are asked to do so on blind faith that a mechanistic, unproven and unprovable legislative formula will afford them markets for their product at the proper time. They are asked simply to ignore the risk that such a formula might, in practice, operate to close off markets unexpectedly, precipitating an untenable survival situation. To state such an illogical proposition points unerringly to one conclusion. It is that, in human terms, the response of Australian producers to the installation of the proposed manipulative regime cannot be an orderly readjustment of production patterns followed by a reformation of their cattle cycle. The response can only be the onset of a virtual crisis of confidence, a retreat from the marketplace, and a possible disappearance of production so substantial as to force a fundamental reassessment of Australia's future role in its present major export markets.

If imported meat is to be available when United States supplies are short, then exporting countries must be afforded an equitable market share even when domestic supplies are at their peak. In no other way can these countries maintain herds at levels consistent with U.S. and other countries' market requirements for reliable long-term supply.

VIII. CONCLUSION

The Australian Meat and Livestock Corporation urges that the proposed, so-called "countercyclical" legislation not be adopted. The notion that producers of 93 percent of U.S. beef supplies can overcome complex cyclical influences merely by applying restrictive management techniques against the remaining seven percent of that supply is not only cruelly misplaced but even officially discredited. We submit that the weight of evidence from the ITC hearings, the danger to consumers and foreign suppliers inherent in an experimental meat quota formula, the retreat from flexibility in the exercise of Presidential discretion and the obvious protectionist nature of the proposed legislation which cannot be justified under the GATT are all sound grounds for complete rejection of the legislation.

Respectfully submitted,

AUSTRALIAN MEAT & LIVESTOCK
CORPORATION

September 26, 1979

Exhibit A

THE AUSTRALIAN MEAT AND LIVE-STOCK CORPORATION -- ORGANIZATION AND FUNCTION

On December 1, 1977, the Australian Meat and Live-Stock Corporation was created by the Australian Meat and Live-Stock Corporation Act of 1977, replacing the Australian Meat Board which was formed in 1935 and ceased to exist on November 30, 1977.

The Australian Meat and Live-Stock Corporation continues the basic task of the Australian Meat Board, which was and is to safeguard and promote the long-term interests of the Australian livestock and meat industries. The Australian Meat and Live-Stock Corporation Act directs that the Corporation shall (a) promote and control the export, sale and distribution after export of meat and livestock from Australia; (b) promote trade and commerce in meat and livestock within Australia; and (c) improve the production of meat and livestock and encourage the consumption of meat within Australia. Even though it is constituted by statute, and by statute exercises certain controls over export, the Corporation, nevertheless, is an organ of the Australian livestock and meat industry. The Corporation's funds for operation and research are derived in full from a levy paid by livestock producers on all cattle, sheep and lambs slaughtered in Australia for human consumption. These funds will be supplemented by a livestock export charge, expected to be effective from the middle of the current calendar year.

The Corporation currently comprises nine members, a Chairman, four representing livestock producers, one representing meat exporters, one representing the Australian Government, and two other members with special qualifications. It is supported by a full-time professional staff with representatives posted in key market areas throughout the world. The task of each area office is to maintain awareness of regional industry trends and problems in order to be in a position to recommend marketing policies from a first-hand point of view. Each office also maintains surveillance of Australia's meat operations in the area concerned, covering such fields as handling and transportation, distribution and customer acceptance. One such representative office is located in New York City. The North American representative constantly monitors the flow of Australian beef to this country and ensures that importers, users, shipping companies, government officials and cattlemen's organizations in the North American market are updated on trends and developments in the Australian beef and livestock industry.

Other offices are located in London, Teheran and Tokyo, and each office actively seeks to develop new markets for Australia's meat products -- a program which has been very successful over the last decade.

There are certain characteristics of the Corporation which distinguish it from similar organizations elsewhere in the world. The Corporation itself does not normally engage in meat trading. Australian meat production and marketing has traditionally been based on private trading at all levels and thus it has been the Corporation's, as well as the Australian Meat Board's, firm policy to support private enterprise and the free, unimpeded operation of market forces to determine insofar as it has been possible, fair and reasonable price returns to each section of our industry. There have been occasional and exceptional circumstances, such as in the case of the initial Russian contracts, where, after statutory consultation with the industry, the Australian Meat Board acted as prime contractor at the request of the buyer. In the vast majority of instances, however, the Corporation will not be a contracting party and will limit itself to the role of licensing exporters, based on factors designed exclusively to maintain standards of orderly, efficient and responsible trading in Australian meat in all markets.

Another somewhat unusual feature of the Corporation is one which makes it hard to classify in comparison with various industry-oriented promotional and regulatory bodies in the United States. This refers to the fact that the Corporation within a single organization conducts both promotional efforts and regulatory activities for export trade with respect to the Australian meat industry. This can be attributed largely to the fact that the Corporation, even though constituted by statute, is intended to operate as a direct representative of the Australian meat industry for the purpose both of promoting that industry's best interests and of imposing a degree of self-regulation.

The Corporation through its licensing system exercises strict control over the Australian exporter and his shipments. The Corporation's regulatory function is perhaps best exemplified by its current implementation of an "export control scheme" which follows the "diversification scheme" which first operated in 1968 when export restraint arrangements were first instituted for the United States. The current export control scheme operates to encourage development of new world markets and as an offsetting prerequisite to quantities that are to be shipped against Australia's annual share of the total global quantity of imports for the U.S. market.

Non-quota beef and veal products for export to the United States are reviewed each month by the Corporation, and the tonnage restricted to nominal quantities. Annual shipments of this type of beef have been limited to approximately 6.6 million pounds.

Australian frozen beef exported to the United States is basically of manufacturing quality and is all derived from cattle grazed under range conditions. The Corporation will not permit the shipment of fresh or chilled beef which would tend to compete with the grain-fed quality beef produced under the U.S. feed-lot system. The modern technology embodying high standards of hygiene, Cryovac film wrapping and absolute temperature control by the use of containers makes the shipment of such beef quite feasible. Nevertheless, Australia has so far deliberately withheld from this more lucrative segment of the trade. In the main then, Australian exports to the United States are a different product to most American production. Our lean Australian manufacturing beef complements the U.S. feedlot production in that it is blended with the fatty trimmings of the grain-fed beef and is manufactured into such popular items as hamburger, hot dog and dry sausage.

It is perhaps significant that the Corporation has never engaged in direct promotion of Australian beef in the United States. This is appropriate because Australian beef is almost entirely used as raw material in the United States processing industry.

May 22, 1978

EXHIBIT B

BEFORE THE

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In The Matter Of:	
LIVE CATTLE AND CERTAIN EDIBLE MEAT PRODUCTS OF CATTLE	Investigation No. TA-201-25
and	
CONDITIONS OF COMPETITION IN U.S. MARKETS BETWEEN DOMESTIC AND FOREIGN LIVE CATTLE AND CATTLE MEAT FIT FOR HUMAN CONSUMPTION	Investigation No. 332-85

SUBMISSION OF THE

AUSTRALIAN MEAT BOARD

Kansas City, Missouri

July 19, 1977

THE TRADE IN AUSTRALIAN MEAT TO THE USA: A PARTNERSHIP OF COOPERATION

Throughout the history of the trade in Australian meat to the United States of America, and particularly since the enactment of U.S. Public Law 88-482 in August 1964 and the subsequent introduction of a program of voluntary restraint, Australia has clearly demonstrated its willingness not only to cooperate fully with the United States Government but also to insure that Australia's exports to this country are rigidly controlled in accordance with arrangements agreed year to year between our two countries. Australia, through its meat export authority, the Australian Meat Board, in accepting restraints on its meat trade to the United States, has also accepted the administrative burden and the attendant costs of adjusting its export policies and has been most careful and prudent in attempting to avoid direct competition with the principal type of meat produced in the U.S.A. This is illustrated by the Australian Meat Board's:

(a) refusal to permit the export of Australian chilled beef to the U.S.A.;

(b) rigid restriction on the export of processed meats to the U.S.A.;

(c) rigid control of exports from Australia through a system of licensing Australia's exporters and approving American importers; and

(d) maintenance of a scheme of diversification to markets other than the U.S.A. in order to achieve entitlement to export to the U.S.A.

Furthermore, at no time has Australia, by way of subsidy or any other incentive to cattle producer, processor, packer or carrier, endeavored to undercut normal price ruling in the United States market.

United States imports of beef from Australia provide the largest single source of export earnings for Australia from the United States and, in fact, go only part way to redress the imbalance in trade -- which presently runs approximately two to one in the United States' favor.

The various investigations that have taken place on meat imports going back almost for 15 years have revealed on each occasion that imported meat is not a disruptive element in the U.S. domestic meat market. Australia, as an exporting country, has always stressed the need for orderly marketing and its honest approach on each occasion that problems have arisen is evidence of its strongly held belief in such orderly marketing.

The evidence presented by the Board to this hearing of the Commission, we believe strongly underlines the validity of our arguments and strongly points up that there is no firm basis on which to impose any further restrictive measures to limit or reduce the trade in imported meat to the United States.

In an attempt to support the statements above and to assist the Commission in its understanding of the Australian

United States relationship in the trade in meat, the following historical outline and appropriate comment is offered.

The beginning of a substantial trade in meat from Australia to the U.S.A. dates from late 1957. Both the origin and growth of the trade over the last two decades resulted from a growing demand in the U.S.A. for meat and particularly manufacturing grade beef. This development arose from several factors including:

(i) a decline in beef from the U.S. dairy herd;

(ii) increasing production of "lot fed" beef in the U.S.A. which reduced the quantity of pasture (lean) beef;

(iii) an increase in consumer demand in the U.S.A. for cheap convenience foods through "fast food" outlets.

This change was reflected in the upward movement in prices for canner and cutter cows. Based on quotations at Omaha, prices for this class of stock rose from $US 12.06 per 100 pounds (liveweight) in 1957 to $US 16.54 in 1958.

Under the Tariff Act of 1930, the United States tariff duty on imports of fresh, chilled and frozen beef and veal was 6 cents U.S. per pound. But in 1947 this duty was reduced to 3 cents per pound as the result of negotiations accompanying the establishment of the General Agreement on Tariffs and Trade. Australian meat exports to the U.S.A., however, were not significantly stimulated by this 50 percent reduction (see Table A, attached) perhaps because, in 1952, the United Kingdom offered a 15-year Meat Agreement with attractive terms of purchase, which committed Australia to supply most of its exportable surplus of beef to the United Kingdom.

By 1958, however, prices in the United Kingdom were depressed and the U.K. agreed to waive the terms of the Agreement so as to allow increased quantities of beef to be sold in the U.S.A. at the higher prices prevailing there. As a result, exports of Australian beef to the U.S.A. entered a period of growth. The figures of total U.S. domestic meat production, total meat imports and per capita consumption as set out in Table A indicate clearly the market "pull" of high and rising U.S. meat prices.

In May 1959 the United States authorities on quarantine grounds prohibited further fresh, chilled and frozen beef and veal imports from certain Latin American countries in which foot and mouth disease was prevalent. At about this same time the U.S. introduced the Wholesome Meat Act which established much higher inspection standards for domestic and imported meats.

Despite the high standard already maintained by Australia, expenditure of huge sums was incurred by Australian packers and processors in order to meet the inspection requirements set by USDA, which were of a different order from those required by the United Kingdom and other authorities.

United States production of processed beef products such as hamburger and sausage increased notably in the period between 1954 and 1962; for example, the volume of hamburgers produced under Federal inspection increased by 28 percent. On the other hand, over the period 1954-1963, the U.S. domestic supply of beef for manufacturing decreased from 4.1 billion pounds to 2.8 billion pounds. This reduced supply of domestic manufacturing beef proved quite inadequate to meet the increasing demand for processed beef products -- a situation which was aggravated by the great increase in the number of U.S. cattle being lot fed to meet the increasing demand for table beef. This in turn produced an increased supply of fat trimmings which were of little commercial value. When blended with lean manufacturing beef as imported from Australia, these trimmings achieved substantial commercial value.

Despite this situation and despite rising United States production of beef and increasing domestic consumption of beef, U.S. cattle producers complained about the importation of beef. It was frequently suggested that if imported hamburger meat was not available consumers would substitute roasts or steaks. The most effective reply to those assertions was given by the U.S. Assistant Secretary of Agriculture, George L. Mehren, in an address to the California Cattlemen's Association in December 1963, in which he opposed any reduction in imports of manufacturing beef in the following terms:

> "I do not believe that it is reasonable to suppose that by lowering the supply of hamburger and hot dogs and other processed beef products which is where most of the imported beef goes -- I do not think it

> reasonable to suppose that if we did this, it would automatically increase the demand for fed beef -- that those who can afford only this kind of beef would start buying rib roasts and sirloin."

Reacting to continuing industry pressure, the Senate Finance Committee directed, on November 20, 1963, that the U.S. Tariff Commission make an investigation under Section 332 of the Tariff Act of 1930 and report no later than June 30, 1964. At about the same time, the U.S. administration initiated negotiations on bilateral restraint agreements with Australia, New Zealand, Mexico and Ireland (the major suppliers) seeking to limit the total level of imports. The United States' insistence upon this agreement infringed GATT obligations since it represented a restriction on trade other than by tariff and breached the binding commitment given to Australia in 1947. Nevertheless, in the spirit of cooperation, Australia accepted this proposal and a bilateral agreement was concluded early in 1964. The agreement gave Australia a basic entitlement for 1964 set at an average of performance during the year 1962 and 1963. As a result Australian exports in 1964 were to be reduced to 533.5 million pounds or some 42.5 million pounds below the level of the previous year.

Despite the agreements entered into, which placed an effective limit on imports for the period 1964 to 1966, the U.S. Congress, in August 1964, passed Public Law 88-482 which provided a mechanism to limit imports from January 1, 1965.

As a result of this enactment of the United States Meat Legislation, Australia's contractual rights under GATT, which had given Australia unrestricted access to the U.S. market for meat and a tariff of 3 cents per pound for beef and 2 1/2 cents per pound for mutton, suffered permanent impairment.

Despite the introduction of the Meat Import Law, imports for three years remained below the level at which Congress had considered it necessary to impose any form of restraints. Imports from Australia declined from 576 million pounds in 1963 to 333.8 million pounds in 1965 and then increased only to 478 million pounds in 1967; even though prices for Australian manufacturing beef in the United States increased from a yearly average of 36.3 cents per pound in 1965 to 43.3 cents per pound in 1967. This decreased supply to the U.S.A. followed a revived demand in 1965 on the United Kingdom market at a price which attracted additional Australian exports.

For the following two years (1966 and 1967), exports of beef from Australia were limited while cattle producers in Australia were building up herd numbers after a severe drought.

In August 1968 the U.S. Administration advised all supplying countries that estimated imports into the U.S. would be likely to exceed the maximum permitted level of imports of 1045.3 million pounds and that, in the absence of a voluntary restraint (V.R.) program, the Meat Import Law would require the imposition of quotas to restrict imports to 950.3 million pounds. Accordingly, the U.S. sought to negotiate bilateral voluntary restraint agreements with Australia and other suppliers. By such an agreement, exports from Australia for 1968 were reduced to 505 million pounds, compared with earlier estimates that imports, if unrestrained, would be some 535 million pounds.

It is worth noting that voluntary restraints were agreed despite the sharp increase in U.S. market demand between July and August 1968 and despite high U.S. market prices, which in September 1968 reached a record level 47.1 cents per pound for manufacturing cow beef.

With the restriction imposed on the export of Australian meat to the U.S. market in accordance with the voluntary restraints program, the Australian Meat Board in 1968 with full government approval introduced a scheme of meat export diversification. The prime purpose of this scheme was to insure that despite the restriction placed on Australia by the United States, new and alternative markets would be explored and developed so that Australia's total meat production would be absorbed. This scheme also provided assurance that Australia would not contravene its obligations under the U.S. voluntary restraint program.

When Australia agreed to accept a share of 48.8 percent under a voluntary restraint program in 1968, the United States Government assured that this would not prejudice Australia's share in any future agreement relating to the meat trade with the United States. In 1969, however, the voluntary restraint levels were based upon the 1968 levels instead of 1967 levels, the last year of unrestricted trading in which Australia supplied 53 percent of all imports. Although the percentage of 48.8 was subsequently increased, it was not increased to the level of 53 percent as expected by Australia. Despite this fact, Australia remained a participant in the voluntary restraints program and restrained her exports accordingly.

Throughout 1969 the prices for Australian manufacturing cow beef in the United States increased rapidly (57.8 cents per pound in August compared with a monthly high of 47.1 cents per pound for 1968), and all sections of the trade anticipated that import restrictions would be waived in 1970. The United States Government, however, requested supplying countries again to restrain for a further year. Australia accepted an allocation of 527.2 million pounds, 49.7 percent of the total U.S. restraint allocation. This percentage was only slightly more than the 48.8 percent share allocated in 1968 and still took no account of the 53 percent performance in 1967.

In early 1970 prices for imported meat remained above average levels for the previous year. (For example, the price for Australian manufacturing cow beef in the U.S. reached 56.9 cents per pound in March compared against 46.6 cents per pound twelve months earlier.) As a result of this rising market, the President exercised his discretion in July and set an import level in excess of the maximum provided in the Meat Import Law, a small total increase of 78.5 million pounds. Australia's share of the new total was 548.8 million pounds, which represented an increase of 21.6 million pounds. With prices still rising, in October 1970 the President allocated a further increase of 20 million pounds in the total level of imports largely to accommodate an expected increase in imports from Canada, a nonrestraining country.

In 1971 the voluntary restraint entitlement was again set in excess of the trigger point with Australia receiving an allocation of 560.3 million pounds. In October Australia advised the United States Government that, principally because of disruption in American ports caused by longshoremen's strikes in the U.S., it was probable that Australian supply would be disrupted and that the 1971 Australian agreed total might fall short by as much as 33.6 million pounds. The United States Government re-allocated Australia's probable shortfall to suppliers who were not handicapped by the strikes and because of proximity could deliver in the United States on short notice.

For 1972 a restraint program 7 percent higher than the 1971 total allocation was agreed to by the principal supplying countries, including Australia. In June of that year, the President again exercised his discretion and suspended the operation of the Meat Import Law to permit unrestricted imports of meat.

This decision was taken in response to a continuing high level of U.S. demand and rising domestic meat prices and against the background of broad-based efforts on the part of the U.S. Administration to contain inflation. At this time, the price of Australian manufacturing cow beef in the U.S.A. had risen to 64.3 cents per pound (June 1972) compared against a yearly average price of 44.4 cents per pound some four years earlier.

Almost simultaneously with the President's announcement, the U.S. Secretary of the Treasury, George Schultz, appealed publicly for increased supplies of imported meat, and reassured countries such as Australia in the following terms:

> "We reported on the general discussion in these meetings to the President. I think in terms of our analysis of the problem, it is centered in meat prices and this is basically a phenomenon of a great increase in demand in this country and abroad. Everybody agrees on that basic analysis.
>
> "We talked about various things that were suggested at these meetings and things that the President has done and continues to suggest, and in summarizing the results of our meeting with the President, I would say the following.
>
> "He wants to see an aggressive policy on the increasing of the supply of meat. Now I suppose the principal thing that has been done in that regard is the opening up of the U.S. market to imports for the balance of 1972, and no quotas at all on imports into this country.

> "The President has instructed us, in the discussions next week with the people from other countries who are exporting to us, to emphasize to them that next year in the process of setting quotas for 1973, the rate of imports from these countries this year will be a very heavily weighted factor, so that if we are able to get a sizeable increase from Country A, whatever Country A happens to be, then as the 1973 quotas are set, Country A will be recognized to that extent. We hope this will act as a very positive incentive on the supply side."

Recognizing the serious nature of the U.S. situation which had prompted such a request, the Australian Meat Board suspended its diversification scheme so as to free meat for the U.S. market and advocated that the Australian industry should accede to the U.S. request for additional supply. All sections of the Australian industry spared no effort to meet the U.S. official call for additional beef.

Firm in the belief that performance would be recognized in subsequent years of restraints of Australian exports, Australia increased her total delivery of meat in 1972 to 727 million pounds, a most significant increase over the agreed total level of voluntary restraint from Australia of 600 million pounds for the previous year.

The suspension of restraints continued during 1973. Shipments from Australia continued at a high rate, with actual imports (709 million pounds) only slightly below the record level of 1972. Early in 1973 elements of instability developed in the meat import trade, as high meat prices in the U.S.A.

resulted in boycotts by consumers. Furthermore, the imposition of price ceilings by the Administration from March to September 1973 considerably disrupted the normal flow of domestically produced U.S. meat onto the U.S. market with resultant shortages and abnormally wide fluctuations in prices.

The years 1972 and 1973 were a period of accelerating world activity. Demand for beef rose strongly putting upward pressure on prices in all markets. At that time, it was widely expected that demand for beef would continue at a high level and producing nations, including the major importing countries (EEC, United States, Japan and Canada) responded by reducing slaughterings in order to build up cattle numbers. Australia was the only country to increase substantially its cattle production. Domestic prices in Australia, however, rose to record levels and Australian consumers and unionists pressed the Government to limit exports and thus restrain the high rate of increase in domestic meat prices. Nevertheless, in order to demonstrate Australia's status as a reliable producer and exporter, the Australian Government, supported by the Australian Meat Board, resisted such pressures and rejected the recommendations of a Joint Parliamentary Committee on Prices which recommended the imposition of export restraints on meat. Australian exports were permitted to continue on an unrestricted basis throughout 1973.

The suspension of import restrictions in the U.S.A. continued into 1974. Early in the year, however, market problems became apparent. One problem stemmed from the sudden release of U.S. over-finished domestic cattle which had been withheld during the price freeze, which in turn led to a serious over-supply of beef on the U.S. market. There was also a significant increase in the slaughter of culled cows and non-fed steers and heifers. The resulting severe recession in beef prices was further aggravated by a downturn in general economic activity which resulted in a decline in the demand for beef.

Appreciating the U.S. cattlemen's dilemma, Australia, although 1974 was a year of no restraint, restricted its exports of beef to the U.S. by a most significant tonnage.

With the further deterioration of world markets, U.S. cattlemen once again requested the Administration to take restrictive action against beef imports. It was suggested that, since Australian markets in the European Economic Community and Japan had been closed, large quantities of Australian and New Zealand beef would be shipped to the American market. As a result of these representations, the U.S. Secretary of Agriculture announced that the Administration would make an informal request to Australia and New Zealand to restrain their shipments of meat.

Without the necessity for any official restraint action, exports from Australia fell dramatically in 1974. This decrease occurred because Australian suppliers reacted in a normal fashion to the price decline in the U.S.A. by cutting back on exports. (E.g., the monthly price for Australian manufacturing boneless cow beef fell from 102.6 cents per pound in August 1973 to 64.0 cents per pound in August 1974.)

Formal voluntary restraints were re-introduced in 1975. Australia agreed to restrain to a level of 616 million pounds, slightly over 52 percent of the global allocation, 1180 million pounds. which included an additional 30 million pounds of which some 20 million pounds was allocated preferentially to Latin American countries without regard to Australia's entitlement.

A matter of new concern in the relationship arose from American meat import statistics made available by the United States authorities in mid-1975. These appeared to indicate that Australia might overship its entitlement. It was found that the Australian Meat Board's own figures based on ships' manifests correspond neither with the higher figures provided by the U.S. Customs nor the quite different (and even higher) figures provided by the United States Census.

These differences arose from delays in the U.S.A. in processing import details for meat from Australia which had, in large part, arrived and been discharged in the United States prior to December 31, 1974, but nevertheless had been recorded in U.S.A. 1975 statistics. Despite strong representations by the Australian Government, the United States authorities declined to correct their statistics by deducting 1974 arrivals. Australia was debited and thus lost some 30 million pounds in entitlements for 1975. This was referred to unfairly by certain U.S. domestic interests as an instance of deliberate overshipment by Australia. In any event, the amount was applied to reduce Australia's 1976 entitlement.

In 1976 the United States again sought voluntary restraint arrangements. Australia agreed to restrain to a level of 632.2 million pounds out of a total restraint level of 1223 million pounds (i.e., 51.7 percent of the total allocation). Nevertheless, during the course of the year, the question of the level of beef imports developed into a political issue in the Presidential campaign. In particular, cattlemen's groups complained about Australian and New Zealand beef exports to United States Foreign Trade Zones (F.T.Z.'s) for processing and subsequent entry into the U.S. Customs Territory.

These exports to F.T.Z.'s were the result of the business operations of certain United States corporations fully approved by U.S. authorities and established several years before in the Mayaguez F.T.Z. Repeated requests by the U.S. importers for meat caused considerable embarrassment to the Australian Meat Board which, of its own initiative, had restricted the export of various types of meat not covered in V.R. agreements.

The orders placed in Australia by American companies operating in Mayaguez, however, were accompanied by clear evidence that the United States Government's Foreign Trade Zones Board had approved the establishment of the processing facilities and that they were also both approved and inspected by USDA personnel. The United States companies concerned also provided evidence to suppliers that their operations, including processing and entry to the U.S.A., were both lawful and not excluded by the voluntary restraint program or by any bilateral agreement. Notwithstanding the legality of the operation and although against the wishes of some reputable licensed Australian meat exporters, the Australian Meat Board, of its own volition, on August 16, 1976, denied approval of any further shipments of Australian meat to Mayaguez or any other U.S. F.T.Z.

For its part the United States authorities took certain legal steps to bring the activities of the processing companies in Mayaguez under control, but these failed in the United States' courts.

By the end of September 1976, the volume of meat entering the United States threatened to exceed the maximum level permitted under law as a result of imports from countries not participating in the V.R. program. Following an estimate by the U.S. Secretary of Agriculture that imports would exceed the trigger point, President Ford on October 9 announced the imposition of import quotas. The total quota level was set at the trigger level (1233 million pounds) with most countries including Australia being allocated their full restraint entitlements.

The imposition of quotas also had the effect of allowing the U.S. Government legally to prohibit, for the remainder of 1976, any further entry of meat through free trade zones such as Mayaguez.

In November 1976 the United States Government indicated its desire to remove quotas with effect from January 1, 1977 and replace quotas with voluntary restraint agreements. Australia accepted a voluntary restraint allocation for 1977 of 653 million pounds out of a total restraint level of 1271.9 million pounds. It was also agreed that meat through Mayagüez and other Foreign Trade Zones would be debited against the allocation of the country of origin. The new voluntary restraint arrangements also provided that Canada would become a participant for the first time and agree either to restrain its exports or permit the United States to prevent overshipment of its entitlement and thus remove any risk of the triggering of quotas and losses to other participating countries.

CONCLUSION

Australia's history of ready and complete cooperation with the U.S.A. in respect of the trade in meat and the discipline imposed by the Board on exports of Australian meat to the U.S.A. provides convincing evidence that our industry has in fact been beneficial rather than harmful to the U.S. cattle producer in that we have helped him to receive a better financial return for his product.

TABLE A

U.S. PRODUCTION, IMPORTS AND CONSUMPTION OF ALL MEATS

(Carcass Weight Equivalent)

Year	Production (million lb.)	Imports (million lb.)	Imports as % of Production	Consumption Per Capita (lb.)
1947	23,338	N.A.	N.A.	155.3
1948	21,300	N.A.	N.A.	145.5
1949	21,662	N.A.	N.A.	144.6
1950	22,075	348	1.6	144.6
1951	21,898	484	2.2	138.0
1952	22,994	429	2.0	146.0
1953	24,688	271	1.1	155.3
1954	25,214	232	0.9	154.7
1955	26,895	229	0.9	162.8
1956	28,035	211	0.8	166.7
1957	26,859	395	1.5	158.7
1958	25,658	909	3.5	151.6
1959	27,319	996	3.6	159.5
1960	28,237	705	2.5	160.9
1961	28,611	965	3.4	160.5
1962	28,974	1,368	4.7	163.1
1963	30,582	1,600	5.2	169.7
1964	32,697	1,432	4.4	174.7
1965	31,539	1,347	4.3	167.1
1966	32,625	1,721	5.3	170.9
1967	34,238	1,841.1	5.4	178.3
1968	35,280	2,081.0	5.9	183.2
1969	35,336	2,201.6	6.2	182.5
1970	36,262	2,386.6	6.6	186.3
1971	37,795	2,316.9	6.1	191.8
1972	37,061	2,653.0	7.2	189.0
1973	34,899	2,589.0	7.4	175.7
1974	37,894	2,141.9	5.7	188.0
1975	36,762	2,237.5	6.0	181.1
1976	39,608	2,461.0	6.2	192.7

Sources: (1) U.S. Department of Agriculture

APPENDIX A

THE AUSTRALIAN MEAT BOARD -- ORGANIZATION AND FUNCTION

The text of this Appendix has been omitted because the Australian Meat Board was succeeded by the Australian Meat and Live-Stock Corporation ("AMLC") on December 1, 1977. A detailed description of the organization and function of the AMLC is set forth in Exhibit A of the attached Statement of Australian Meat and Live-Stock Corporation on proposals amending the Meat Import Quota Act of 1964.

APPENDIX B

THE SITUATION OF AUSTRALIAN BEEF CATTLE PRODUCERS 1/

Beef cattle are widely distributed throughout Australia. In 1975 over 150,000 holdings carried beef cattle, and of these 80,000 carried more than 50 head. By comparison, in 1956 there were 84,000 holdings with beef cattle, and only 26,000 with more than 50 head.

During the three years to June 1976, beef contributed, on average, 14 percent of the total gross value of agricultural production. Over the three years the annual contribution varied between 10 and 18 percent. Wool was the main single contributor, on average accounting for 19 percent. Wheat contributed slightly less than beef.

Between 1955 and 1976, cattle numbers increased from about 11 million to 33.4 million, and have subsequently fallen to 32 million at March 1977. Growth was particularly rapid over the five years to 1975 as beef prices rose in absolute terms and in relation to prices for wool, cereals, sheep (meat) and dairy products.

Most of the increase in beef cattle numbers was in New South Wales, Victoria and Queensland and which together carry about 80 percent of the national beef cattle herd.

1/ This portion of the submission draws upon research conducted by the Australian Department of Primary Industry's research arm, the Bureau of Agricultural Economics (BAE), and a soon to be published paper by two BAE economists, C. B. Johnson and G. M. White, titled "Current Adjustment Problems in the Australian Beef Cattle Industry."

The industry has been classified by the Bureau of Agricultural Economics (BAE) for the purpose of its annual grazing industries survey into the Pastoral, Wheat/Sheep and High Rainfall Zones.[2/] Each zone has a different production pattern, e.g., different average stocking rate, degree of diversification, and property size. Accordingly, farm business in each zone could be expected to be affected differently by the current market difficulties.

The Pastoral Zone is the largest in terms of area. It encompasses the arid and semi-arid parts of the continent, with livestock industries based on extensive grazing of native species of grasses and shrubs. In 1974-75, 34 percent of the national beef herd was located in this zone; 3,404 properties in the Pastoral Zone were estimated to be beef dominant producers, and a further 825 properties were "oriented" towards beef production.[3/] Properties in this zone are usually large and stocking rates are generally low, though marked variations can occur between regions and over time. Most properties in this zone are reliant on either sheep or beef.

Beef produced in the Pastoral Zone is generally lean, manufacturing quality, and a large proportion is exported. This

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2/ Location of these zones is shown on the attached map.

3/ Beef dominant producers are defined by the BAE as those for whom at least 75 percent of the property's land resources measured in stock equivalents are devoted to beef production; beef oriented producers are those for whom 50 to 75 percent of the property's land resources are devoted to beef production. In both cases producers with less than 50 cattle are excluded.

zone is also an important source of store cattle for southern and eastern fattening areas.

The Wheat/Sheep Zone is the second largest in area but had the smallest number of beef cattle (23 percent of the national beef herd) in 1974-75. Properties are generally smaller than those in the Pastoral Zone. Beef production is frequently combined with cropping and sheep enterprises; though a significant number of producers specialize in beef production. In 1974-75, 4,642 properties in this zone were classified as beef dominant and a further 4,070 properties were beef oriented. Stocking rates are generally higher in this zone than in the Pastoral Zone.

The High Rainfall Zone is the smallest in area, but is the most important in terms of numbers of beef cattle and of properties reliant on beef production. In 1974-75 the zone accounted for 44 percent of the national beef herd carried by 30,774 beef dominant and 6,591 beef oriented properties. The high stocking rates of this zone are made possible by a more favorable production environment which enables the widespread adoption of improved pastures.

All States export a significant proportion of their output, with Queensland exporting the highest proportion. Prior to 1972-73 the proportion of production exported was in the order of 45 to 50 percent. In 1972-73 this proportion rose to 60 percent but then declined to 43 percent in 1974-75. The proportion has subsequently increased to 48 percent in 1975-76 and is expected to reach 51 percent during 1976-77.

Many Australian beef cattle producers are facing severe income and debt problems due to low cattle prices and domestic cost inflation. The Sydney price for export quality ox, 660-700 lb., peaked at 42 cents per lb. dressed weight in September 1973, fell to 11 cents per lb. in January 1975 and had only risen to 22 cents per lb. in May 1977. The costs paid by rural producers for their inputs in 1976-77 will be about 76 percent higher than those paid three years earlier.

The results of this cost-price squeeze on Australian beef dominant producers in 1974-75, the latest year for which actual survey results are available, was that they lost an average $40.97 on each animal marketed. The results by zone are shown in the following table:

Property Characteristics: Beef Dominant Producers 1974-75

	High Rainfall Zone	Wheat/ Sheep Zone	Pastoral Zone	Total Australia
No. of farms	30,774	4,642	3,404	38,820
Average Net Farm Income 1974-75 ($A)	1,124	3,535	-4,071	957
Average Net Farm Income 1973-74 ($A)	7,871	12,660	25,487	9,988
Average Turnoff (No.)	98.1	232.2	428.0	143.1
Average Capital/Head Turnoff ($A)	1053.72	509.75	527.70	809.95
Average Total Cost/Head Turnoff ($A)	119.02	74.35	84.46	101.26
Average Price/Head ($A)	53.00	76.20	63.70	60.29
Average Profit (+) or Loss (-)/Head ($A)	-66.02	+1.85	-20.76	-40.97

Note: $1 Australian approximately equals $1.10 U.S.
Source: BAE.

The average net cash income (NCI) of these beef dominant producers was even lower than their net farm income.[4/] Worst hit were the 3,400 beef dominant producers in the pastoral zone who averaged $12,292 in 1973-74, -$6,684 in 1974-75, an estimated -$4,350 in 1975-76 and a projected $1,350 in 1976-77. The highest NCI's earned by Australian specialist (beef dominant plus beef oriented) producers during the past four years were by the 6,600 beef oriented producers in the high rainfall zone who averaged $17,323 in 1973-74, $8,862 in 1974-75, $10,750 in 1975-76 and $13,600 in 1976-77.

Of the approximately 50,300 specialist beef cattle producers in Australia, 28,039 or 56 percent are projected to earn less than $5,000 NCI in 1976-77. These producers run 10.74 million cattle, 34 percent of the Australian total, and represent a capital investment of $2,643 million and total debts of $415 million. With an average equity ratio of only .86 in their properties following three years of relatively low incomes, these producers are facing significant financial pressure to adjust their enterprise.

When the BAE's 1974-75 survey results are projected forward to 1976-77 under the usual assumptions that the supply response and inputs used are constant but assuming that the

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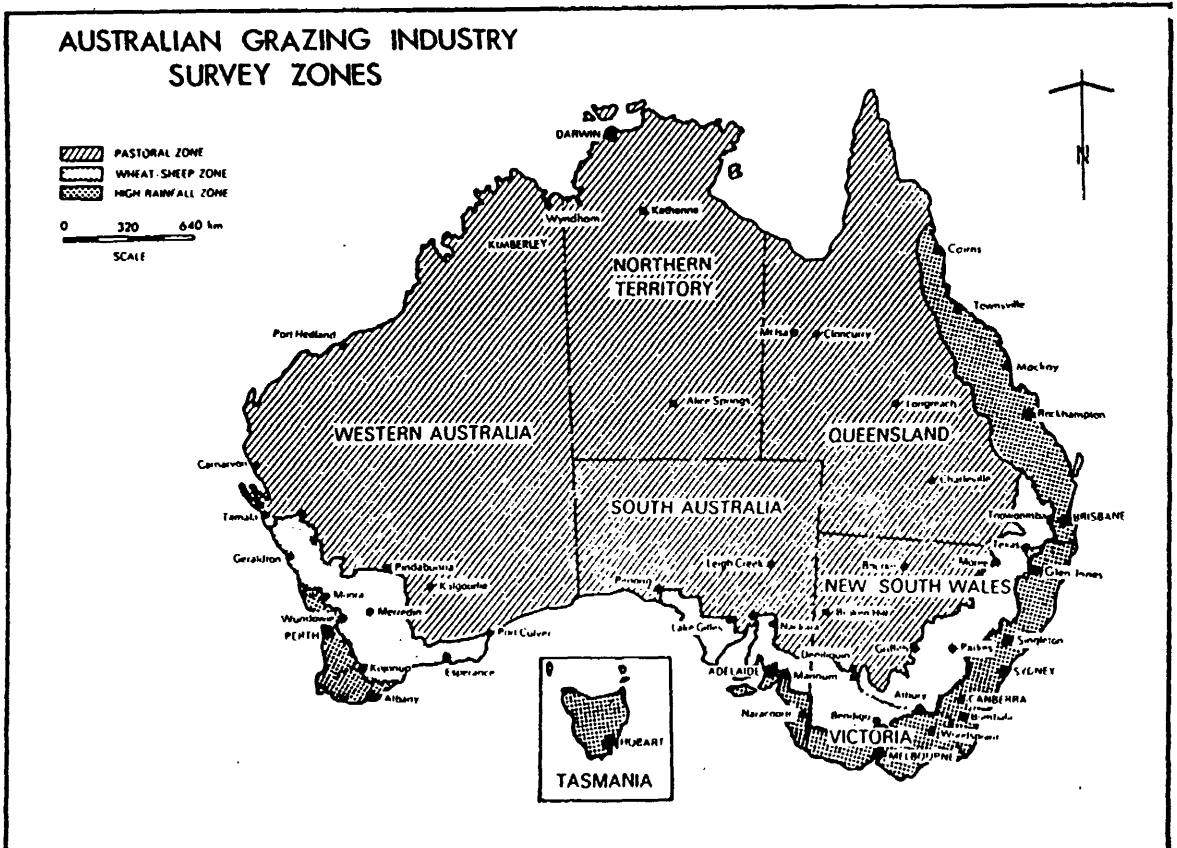
4/ Net cash income is a measure of the funds available to a producer from his year's activities. It is calculated by subtracting cash expenditure (excludes costs such as natural increase in his cattle herd and depreciation) from cash revenue (excludes non-cash returns). Net farm income is calculated by subtracting total operating costs from total returns.

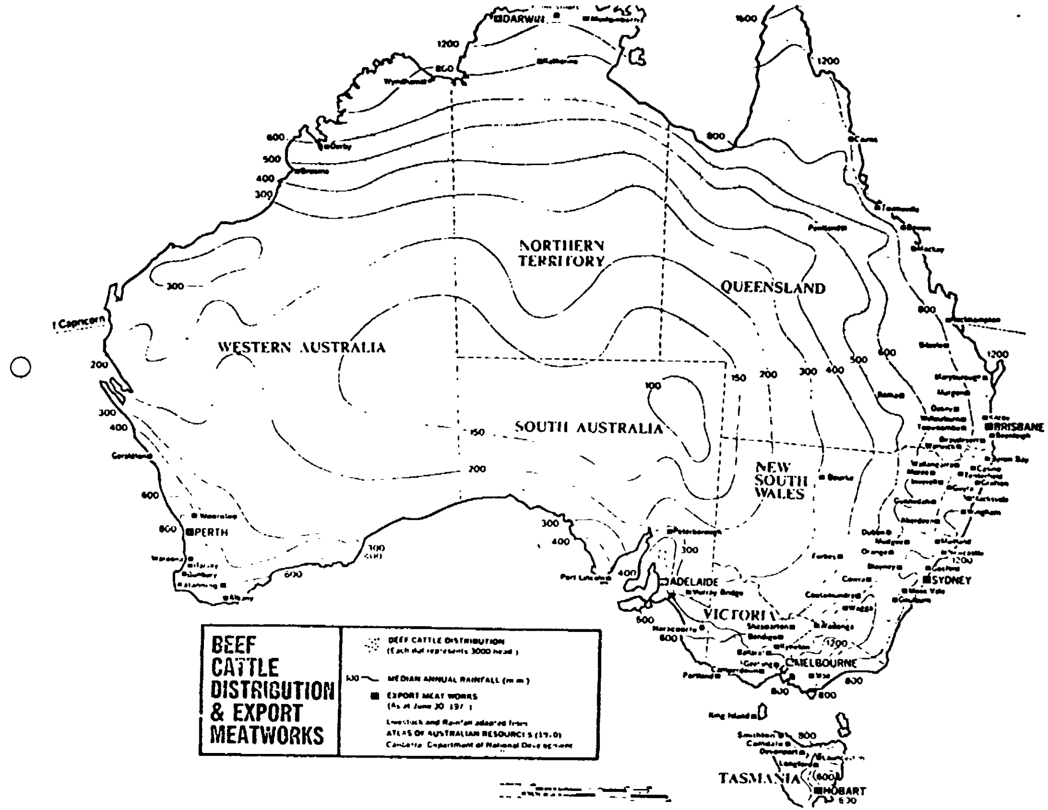
average annual cattle price will be 47 cents per pound dressed weight, twice the 23.5 cents price actually expected, then there are still 18,788 producers who would earn less than $5,000 NCI. These 18,788 producers run 6.0 million cattle and represent a capital investment of $1,499 million and total debts of $272 million. Approximately 90 percent of these producers are in the high rainfall zone. Considering that the outlook for Australian cattle prices is for only gradual improvement rather than an immediate doubling and that input costs are likely to continue rising during the next few years, most of these 18,788 producers face substantial pressure to adjust and many will be forced to leave the industry. These producers and their families will present a significant welfare problem for the Australian Government.

The assistance provided Australian beef cattle producers is negligible. There are no direct subsidies of any kind paid to cattle producers. During times of drought, however, in some parts of Australia, Federal or State Governments may subsidize freight rates in the drought-affected areas for either the movement of the livestock out of the area, or for the transportation of fodder to the area.

Another form of assistance to the producer in the present crisis situation has been the Government's decision to make a limited amount of loan money available at reduced rates of interest to producers whose livelihood is mainly dependent upon beef production.

In addition to this, there is no subsidization of the industry in the slaughter or processing of live animals for local consumption or export, nor is there any subsidization of sea freights to world markets.


AUSTRALIAN GRAZING INDUSTRY
SURVEY ZONES
PASTORAL ZONE
WHEAT-SHEEP ZONE
HIGH RAINFALL ZONE
0
320
640 km
SCALE
N
DARWIN
Wyndham
Katherine
KIMBERLEY
NORTHERN TERRITORY
Cairns
Townsville
Port Hedland
Cloncurry
Mackay
Alice Springs
Longreach
Rockhampton
WESTERN AUSTRALIA
QUEENSLAND
Carnarvon
Charleville
SOUTH AUSTRALIA
BRISBANE
Geraldton
Leigh Creek
Glen Innes
Kalgoorlie
NEW SOUTH WALES
Merredin
Wundowie
PERTH
Port Culver
Lake Gilles
Parkes
Singleton
SYDNEY
Esperance
ADELAIDE
Mannum
CANBERRA
Albany
Naracoorte
Bendigo
VICTORIA
MELBOURNE
HOBART
TASMANIA


BEEF CATTLE DISTRIBUTION & EXPORT MEATWORKS
BEEF CATTLE DISTRIBUTION (Each dot represents 3000 head)
MEDIAN ANNUAL RAINFALL (mm)
EXPORT MEAT WORKS
Livestock and Rainfall adapted from ATLAS OF AUSTRALIAN RESOURCES
Canberra Department of National Development
WESTERN AUSTRALIA
NORTHERN TERRITORY
QUEENSLAND
SOUTH AUSTRALIA
NEW SOUTH WALES
VICTORIA
TASMANIA
DARWIN
PERTH
ADELAIDE
MELBOURNE
SYDNEY
BRISBANE
HOBART