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A POLICY ANALYSIS OF THE U.S. MEAT IMPORT LAW

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ABSTRACT

Beef and veal imports are part of a large group of commodities known as competitive imports. Competitive imports are those which compete directly with commodities produced in the U.S. Competitive imports have a direct effect on the prices consumers pay and producers receive for similar livestock products. Because of the large quantity of imports brought into the U.S., Congress has passed two significant laws with quota implications, in an attempt to alleviate the conflict between producers and consumers.

This paper analyzes the laws used to restrict meat imports and their implications on meat exporting countries. Annual data were collected and analyzed to determine the origin of U.S. beef and veal imports and their share of the U.S. high quality meat market.

Research indicates that the Meat Import Act of 1979 has had some effect, but not as significant as thought, on the importation of beef and veal. Other factors such as weather conditions, changes in consumer preferences, fluctuations in U.S. beef production, and fluctuations in the exchange rates between the U.S. and the exporting countries have had a great effect on the rise and/or fall in meat imports over the six year period.

INTRODUCTION

Beef and veal imports are part of a large group of commodities known as competitive imports. Competitive imports are those which compete directly with commodities produced in the United States (U.S.), and have a direct effect on the prices consumers pay and producers receive.

The importation of meat into the U.S. has traditionally been a controversy for both producers

and consumers. Beef producers see imports reducing their incomes and jeopardizing the domestic beef industry. Consumers feel that import restrictions force them to pay higher retail prices (Nelson, Martin, et al., Ryan). As a result of these conflicts, Congress passed the Meat Import Act of 1979 in order to alleviate some of the tension between these two groups.

There were three main objectives in this study. The first

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objective was to describe the Meat Import Act of 1979, thus providing a clearer view into the framework or mechanisms behind the annual quota. The second objective was to analyze the effects the law has had on beef and veal imports and on U.S. beef production. The third objective was to discuss the implications of this law on the economies of the U.S. and the respective exporting countries. These economic implications greatly effect the prices paid by consumers and received by producers in all the countries involved.

THE MEAT IMPORT ACT OF 1979

The Meat Import Act of 1979 was the first major piece of legislation enacted since the previous law, the Meat Import Law of 1964. Both laws used formulae to arrive at the annual quota. The formula for the 1979 law is as follows:

$$\begin{array}{rcl} \text{Annual} & & \text{Average} \\ \text{quota} & = & \text{annual} \quad \times \\ & & \text{imports} \\ \\ \text{3-yr. MADP} & & \text{5-yr. MADCBP} \\ \text{10-yr. ADP} & \times & \text{2-yr. MADCBP} \end{array}$$

Where MADP is the moving average of all domestic production, ADP is the average of domestic production, and MADCBP is the moving average of domestic cow beef production for the period 1968-77 (Simpson).

The current law allows a basic import level of 1,204.6 million pounds in product weight for those meats covered by the law. This basic import level is adjusted annually by two factors: the production adjustment factor (the three year MADP and ten year ADP) and the countercyclical factor (the five and two year MADCBP).

The production adjustment factor consists of a three year moving average of domestic production and a ten year average of U.S. production from 1968-1977. The law also states that the carcass weight equivalents of all imported cattle must be deducted from U.S. production totals for each year involved in the calculations. This particular factor will tend to increase allowable import levels with U.S. beef production trends in the long run. In the short run, this factor of the law would allow imports to impair the price effects of the U.S. cattle cycle by expanding imports during the reduction phase of the cycle when beef supplies are abundant.

The second factor has a countercyclical effect which is also used to modify the annual quota. This effect consists of a five year moving average of U.S. per-capita cow beef supply and a two year moving average of per-capita cow beef supply. A one year forecast of per-capita cow beef supply is used in computing both components of this factor. If the U.S. beef industry is in the liquidation phase of the cattle cycle and production is high, the two year average will be larger than the five year average, thus the factor will tend to reduce the permitted level of imports. However, when the cattle cycle returns to the rebuilding phase and production is low, the five year average will be larger than the two year average and imports will increase.

The countercyclical effect serves two purposes. First, imported beef tends to be manufactured beef which competes directly with domestic cow beef. Second, the degree of cow slaughter is a sensitive indicator of growth in the U.S. cattle production/inventory cycle because cow

slaughter directly reflects producers decisions on breeding herd expansion or reduction.

Two other factors in the 1979 law: (a) 110 percent trigger level, based on the adjusted base quantity (if imports exceed the 110 percent figure then controls must be imposed) and (b) Presidential authority. The President has a limited authority to suspend limitations stated under the Meat Import Act. If the countercyclical factor is 1.0 or greater due to limited domestic cow beef supplies, then the President can dismiss limitations on meat imports or increase the import level in the economic interest of the U.S. cattle industry or the nation as a whole. If the factor is less than 1.0 due to plentiful domestic cow beef supplies, then the President can suspend the quota only in the case of a national disaster, disease or a major market disturbance (Conable).

METHODOLOGY

A descriptive analysis will be done to determine the effects of the U.S. beef production. More specifically, three major components will be examined in a theoretical framework: imports, production levels, and exchange rates, to determine how the Meat Import Law has affected domestic producers for the 1980-85 period.

THEORETICAL FRAMEWORK

Using Australia as an example in a two country world, the economic welfare of the effects of an import quota can be illustrated. As seen in Figure 1, the world price (WPe) is set by the excess demand curve (ED) from the U.S. and the excess supply curve (ES) from Australia. When an

import quota (WQ) is imposed by the U.S., the result is excess supply in the world and the world price (WP) has been lowered.

Australian consumers are willing to consume more (Qd_2) at a lower price (WP). Australian producers supply less (Qs_2) because the Australian price is lower (WP).

U.S. consumers are consuming less (Qd_2) because there is a higher retail price (WP) due to decreased supply. However, U.S. producers are supplying more (Qs_2) because they are receiving higher prices (WP) thus expanding their herds.

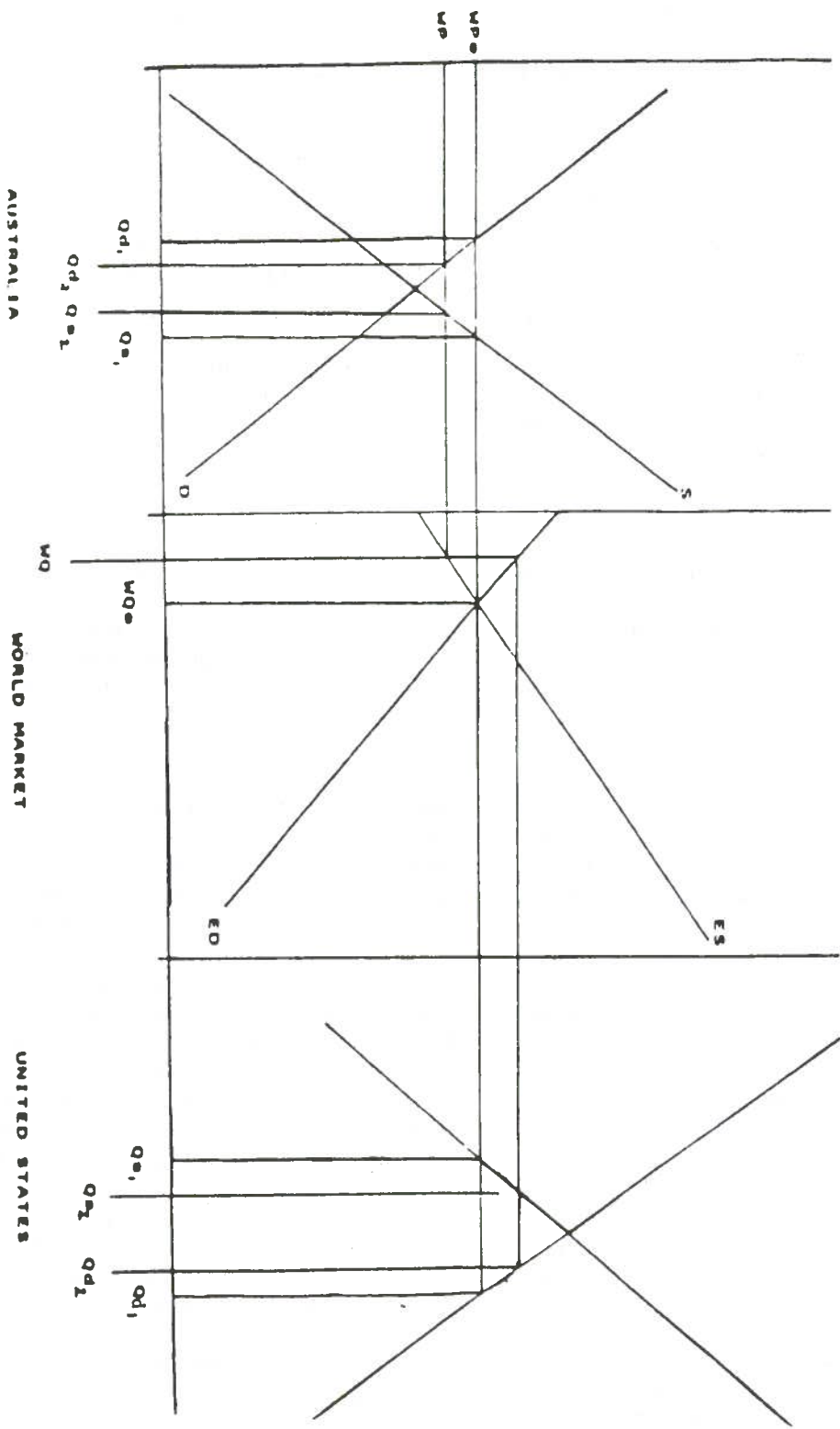
DATA

The data used were annual imports from 1980 to 1985. This was the time period immediately following the implementation of the 1979 law. The commodities examined are beef and veal. These meats were chosen because they are value-added products which make them more valuable to the exporting country. These broad categories of meat then break down into two smaller categories: fresh or frozen and prepared or preserved.

The fresh or frozen sector consists of meats that have been detendonized and deboned but not prepared or preserved. The prepared or preserved sector consists of meats which have been ground, diced or cut into sizes for stew meat or similar purposes, rolled or skewed or processed into fancy cuts, shapes or otherwise prepared for particular uses by the retail consumer (Conable).

Within each broad category, there are five components: country, quantity, value, unit value, and unit value per pound. Quantity is measured in metric tons, value is in 1,000 dollars, unit

Figure 1. Economic Welfare Effects of a Import Quota.



value is the cost per ton, and unit value per pound is the price in U.S. dollars (FATUS).

In the years 1980 to 1982, the only available data were beef and veal. In the years following 1982, more value-added products were included because of increased demand for these types of imports by U.S. consumers.

POLICY IMPLICATIONS OF THE U.S.

Over the six year period, beef and veal imports have remained the largest part of total meat imports for the U.S. and one of the largest components of total competitive imports. Tables 1 and 2 show the total U.S. imports and commercial beef and veal production, respectively. Evidence has shown that the U.S. is a price maker at the international level. This is a result of being the world's largest beef and veal importer, producer and consumer at the international level (Simpson). As shown in Table 1, beef and veal imports make up anywhere from one half to two thirds of all meat imports making it a contributing factor in the total import figure.

For the years 1980 to 1981, there were declines in beef and veal imports. These declines were due, in part, to increased beef production (Table 2), lower U.S. beef prices and reduced beef shipments from Australia. Australia has been a leading exporter of beef and veal to the U.S. (FATUS).

In 1981, Australia provided the U.S. with 43 percent of beef and veal while in 1980 Australia's share was 52 percent. Other leading exporters to the U.S. were New Zealand, Canada, and Argentina.

The dollar was strong during the 1980-81 period against the Canadian dollar and the New Zealand dollar, however, the dollar was somewhat weaker against the Australian dollar (Table 3). This indicates that although Canada and New Zealand were least cost producers compared with Australia and the U.S., Australia would still have the largest amount exported to the U.S. since each year's annual global U.S. import level is based on past entitlements (North America and Oceania, Weeks).

Most of the volume of beef and veal imports have come from Australia and New Zealand but in recent years, Canada and Argentina have increased their market share. Canada has long been a leading exporter of its goods to the U.S. since the two countries border each other. Thus, location gives Canada an advantage in exporting into the U.S. beef market.

In 1982 and 1983, meat imports continued to decline. In 1982, demand for beef shifted as consumers increased their consumption of poultry and decreased their consumption of beef. Other factors causing the decline were reduced demand for manufactured grade beef and a drought in Australia. During 1983, farmers were faced with higher grain prices and poor pasture conditions forcing them to reduce their herds. Since there was an increase in the domestic supply of beef and veal, prices fell causing imports to fall due to low import prices (FATUS).

In 1982-83, Australia and New Zealand continued to lead the way in exports of fresh or frozen beef and veal into the U.S. Australia shipped over 50 percent of the imports while New Zealand supplied an additional 29 percent.

Table 1. Total U.S. Imports of Beef and Veal

<u>Year</u>	<u>Quantity</u> (mt)	<u>Total Meat Imports</u> (mt)	<u>Percent</u>
1980	695	912	76.21
1981	669	905	73.92
1982	663	902	73.50
1983	661	938	70.47
1984	550	905	60.77
1985	674	1,123	60.02

Source: Agricultural Outlook.

Table 2. U.S. Commercial Production of Beef and Veal

<u>Year</u>	<u>Quantity</u> (mil. lb.)
1980	21,849
1981	22,629
1982	22,784
1983	23,488
1984	23,897
1985	24,056

Source: Agricultural Statistics.

Table 3. Exchange Rates, 1980-1985

<u>Year</u>	<u>Australia</u>	<u>Canada</u>	<u>New Zealand</u>
1980	.878	1.169	1.027
1981	.870	1.199	1.149
1982	.983	1.234	1.330
1983	1.108	1.232	1.495
1984	1.137	1.295	1.729
1985	1.469	1.400	2.010

Source: North American and Oceania Situation and Outlook Report and Statistical Abstract of the United States: 1987.

During the 1982-83 period, the U.S. dollar strengthened against the currencies of Australia, Canada and New Zealand (Table 3). The exchange rate factor, however, did not appear to have much effect on the level of imports from these countries because of the previously mentioned causes for the decrease (North America and Oceania).

In 1984 beef and veal imports dropped dramatically from 661 metric tons in 1983 to 550 metric tons. It appears this was caused by an increase in U.S. domestic production and a decrease in Australian production. In spite of the decrease, Australia and New Zealand still maintained market share by supplying 41 and 24 percent, respectively. But in 1985, there was a somewhat larger increase in beef imports due to reduced U.S. beef production and increased U.S. consumption. Thus consumer prices fell due to short domestic supplies and increased imports.

In 1984-85, Australia's market share slipped to 39 percent while New Zealand and Canada combined to provide another 39 percent. It was during this time that Brazil entered the U.S. import market with a small share of the prepared or preserved beef and veal market (FATUS).

The U.S. dollar continued to strengthen against the currencies of Australia, Canada, and New Zealand during the 1984-85 period (Table 3). This steady increase in the value of the dollar both helped and hurt the economies of the U.S. and the exporting countries of beef and veal. The dollar's strength helped producers exporting into the U.S. but hurt the U.S. as a whole in its efforts to reduce its trade deficit through expanding its exports (North America and Oceania).

IMPLICATIONS FOR EXPORTING COUNTRIES USING AUSTRALIA AS AN EXAMPLE

For the past two decades, Australia has been the major market exporter of beef and veal to the U.S. During these twenty years, 20 percent of the total Australian production has been exported to the U.S., thus making the Australian beef industry dependent on the U.S. market.

Since U.S. commercial production of beef and veal have increased over the last six years, there will be limited access to the U.S. market. This, however, is not the only event which will limit Australia's access. Changes in Australian beef production will definitely impact the quantity exported to the U.S. If U.S. production is high and Australian production is high then the excess will be shifted over into other markets. However, if U.S. production is low and Australian production is high, then, Australia will divert its exports to other countries over to the U.S. (Weeks).

FUTURE RESEARCH

Possible future policies for the U.S. could be to re-evaluate the current situation. If the U.S. government could lower the annual quota and use such quotas in conjunction with a per-unit tariff, a better method could evolve. The previous entitlements of the leading exporting countries could be used to reduce the annual quota and then a per-unit tariff could be imposed on the units following each country's fixed amount.

Another possibility could be to use projected exchange rates for the coming year. If a country

Table 4. Average Beef and Veal Exports by Country, 1980-1985.

<u>Country</u>	<u>Quantity</u> (mt)	<u>Value</u> (\$1000's)	<u>Unit Value</u> (\$/mt)	<u>Unit Value/lb.</u> (\$/lb.)
Australia	248,510	599,894	2,414	1.10
New Zealand	132,986	325,274	2,446	1.11
Canada	62,874	121,811	1,937	.88
Argentina	35,138	110,689	3,150	1.43
Brazil	35,382	77,651	2,195	1.00

Source: FATUS.

was projected as having a favorable exchange rate to the U.S. dollar, a larger portion of the annual quota could be given to that country.

Data should be examined as to which country had the least unit value per pound. Table 4 shows that Canada had the least unit value per pound indicating that other factors are involved in addition to the Meat Import Law. Such factors as transportation costs, per capita consumption, retail prices, consumer price index, and exchange rates should be included in any further

analysis of this particular problem.

CONCLUSION

Over the six year period examined, beef and veal imports declined while U.S. domestic beef production increased. This caused consumer as well as producer prices to decline. The exchange rates between the U.S. and the major beef and veal exporting countries did not have a very significant effect on beef and veal imports into the U.S. since the annual quota is based mainly on past entitlements.

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