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THE GROWING SPREAD BETWEEN RETAIL BEEF AND LIVE CATTLE PRICES

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BEFORE THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

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CONTENTS

WITNESSES AND STATEMENTS

THURSDAY, AUGUST 1, 1985

WEDNESDAY, SEPTEMBER 4, 1985

AFTERNOON SESSION

THURSDAY, OCTOBER 3, 1985

SUBMISSIONS FOR THE RECORD

Thursday, August 1, 1985

Wednesday, September 4, 1985

AFTERNOON SESSION

Thursday, October 3, 1985

THE GROWING SPREAD BETWEEN RETAIL BEEF AND LIVE CATTLE PRICES

THURSDAY, AUGUST 1, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room SD-562, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and D'Amato.

Also present: Robert J. Tosterud, deputy director.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. We will call the subcommittee to order. I want to first thank our witnesses. They all have busy schedules and we greatly appreciate them taking the time and the effort in assisting this subcommittee in a factfinding mission. The purpose of this hearing is to try and understand and hopefully explain, the historic wide spread between retail beef and live cattle prices.

According to Department of Agriculture figures, this farm-retail price spread has widened by more than 10 cents a pound during the last 12 months. The USDA data are clear. Between April 1984 and April 1985, the net farm value of the retail price of choice beef has dropped 18.5 cents a pound, of which only 8 cents was passed on to the consumer. And that is up to April 1985 and I think there would be some most revealing figures if we could see the present-day situation.

The remaining 10.5 cents was absorbed by individuals and firms which I shall call, for lack of a better term, middlemen—those involved in processing, fabricating, wholesaling, retailing, transporting, and other services which convert the live animal into an acceptable consumer product. I might note at this time that the farm-retail price spread for pork has also expanded almost 10 cents a pound during the last year.

Ten years ago, in 1975, the farm value share of the retail cost of meat stood at 57 percent; that is, out of every dollar the consumer spent on meat, 57 cents found its way into the farmer's pocket. Today, according to the Department of Agriculture, the livestock producers get less than 45 cents out of the consumer dollar. I personally feel this figure is much too high. I will throw in an aside here as well. The food grain producer gets a dime out of every dollar the consumer spends on cereal and bakery products. Ten years ago, it was 19 cents for every dollar.

I just cannot help but wonder what the current economic condition of American agriculture would be if farmers and ranchers were receiving the same share of today's retail prices of meat and cereal products as they realized 10 years ago. Seeing that 75 percent of all farm sales come from the domestic market—U.S. consumer purchases—I would hazard a guess that we likely would not have a farm economic crisis at all. Farmers have grown to expect abuses in the international market. Maybe the problem is closer to home, a heck of a lot closer to home. This, we hope to find out one way or the other.

Perhaps it is time to ask the tough question, what is it within the economic structure of this country's food system which so disadvantages the American farmer and rancher. I note that United States consumer expenditures on food increased $44.3 billion between 1981 and 1984. Before I am through with this subject, somebody is going to explain something to me and to American farmers and ranchers. Why have the producers of this food realized only $3 billion from this $44.3 billion increase, while transportation and fuel and power sucked up $3.6 billion, packaging took $4.5 billion, corporate profits took $4.5 billion, and labor took $17.3 billion?

Every year since 1981, labor costs have represented a larger share of consumer food expenditures than farm value, and we have got to start asking ourselves is that not strange. In fact, labor made $22 billion more than did all farmers and ranchers from the sale of food last year.

Pardon me if it looks like I am picking on labor. If they are getting a fair price, then let us make sure our farmers do a lot better.

The historic and widening spread in the retail price of beef and the price of live cattle is but a case in point. We estimate that if the current trend in this price spread continues, cattlemen could give their animals away and consumers would still pay $2 a pound for choice beef. What these middlemen need to understand, and quickly, is that their apparent inability to control their costs, or greed—we hope to find out—is about to kill the goose that lays their golden eggs. All livestock producers want is a fair shake for a great steak. We can say that pun, but that is what they want, a fair shake for a great steak. We had best find a way to deliver on this most reasonable request.

I look forward to hearing from our witnesses today, but first I want to introduce to this audience a very active, interested, and talented member of this committee. He comes from New York, and he let me know he has more agriculture than most States and he has a great interest in agriculture and the Joint Economic Committee.

Senator D'Amato.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'Amato. Thank you, Mr. Chairman. Mr. Chairman, let me commend you first of all for calling these hearings, and I would like to make a point of interest for the record.

New York is not known as a great agricultural State; indeed it may pale in comparison to the agricultural significance of some others. But it is about a $3 billion-a-year industry, and with respect to cattle we have a production of about $150 million annually in terms of cattle and calfs in the State of New York.

However, I find it most noteworthy that there is a consumer issue here as well. While we are interested in seeing to it that the vibrance of our Nation's No. 1 industry—and that is the agricultural industry that we take for granted and have taken for granted for so long—is assured, in addition to it, what about the consumer?

If the farmer and the cattle grower have seen prices diminish in terms of what they receive, what about the benefits and the pass-through with respect to the consumer? Have we seen a corresponding reduction of those prices being reflected currently as prices for cattle have been going down?

I think that these hearings are important so that we can focus in on that, and if there have to be economies made within the middlemen and the distribution, then that be the case.

Certainly, we want a strong agricultural base, and certainly we want to see to it that the consumer benefits if prices are going down and that this not be just lost along the way, as you have spelled out.

So, Mr. Chairman, I am interested in hearing from our distinguished colleagues and from those who are on the front line so that we can better get a grasp of what is taking place so that we can see to it that this vital economic base is strengthened and that the American consumer also shares in the benefits.

Senator ABDNOR. Thank you, Senator D'Amato, for those words.

We have taken enough time. We will get right on with our witnesses because our leadoff witnesses are busy people, I know. They have some of the biggest decisions yet to come before us in the next few days.

Did you have a vote on, Virginia?

Representative SMITH. I just went and made it.

Senator ABDNOR. Well, then, we will try to take care of this as quickly as possible.

Obviously, there is a great, great deal of interest in Nebraska on this very subject, or we would not have two Senators and a Congresswoman here eager to testify. I am very flattered that they are willing to take off from their busy schedules to get into this subject because it is going to take the support and help of all of us.

Senator Zorinsky, do you want to kick this thing off as the first witness? Can we bring all three of you up here? Senator Exon of Nebraska, Senator Zorinsky of Nebraska, and Congresswoman Smith, who comes really from the heart of the cattle country out there in central and western Nebraska, we welcome you all.

I appreciate your interest in this. Senator Zorinsky is on the Agriculture Committee here, and I know all of these people have a great interest in agriculture and what it is doing to their States.

Go ahead, Senator.

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

Senator ZORINSKY. Thank you very much, Mr. Chairman. I want to thank you personally, Senator Abdnor, and the rest of the members of the committee and you, Senator D'Amato, for taking time out of your schedule to hold this hearing to address the disparity between wholesale and retail beef prices.

The cattle industry in Nebraska has inventories in excess of 6 million head and cash receipts from farm marketings of more than $3 billion. Thus, this industry represents a major segment of the State's economy.

Cattlemen are going out of business at an unprecedented rate. Profits are nonexistent. Cattle feeders and ranchers are now selling at a loss ranging from $100 to $175 a head.

An 1,100-pound steer, for example, selling at 50 cents per hundredweight would bring about $550, yet cost more than $700 to produce. As a Senator from a State that depends upon the cattle business for a significant part of its income, I am especially concerned about the impact of these depressed prices on our farm economy.

Historically, cattlemen have been an independent group. They have steered away from Government intervention and relied on their own business skills and instincts. They would not be interested in this hearing unless they thought there was a problem. It is quite obvious that the cattle industry is in the throes of a devastating financial crisis.

Although retail beef prices have come down since the first of the year and are presently at an 18-month low, I am receiving comments from cattle producers that the retail price does not adequately reflect the cheap prices that retailers are paying on the wholesale end.

Figures released since December 1984 show that the farm-retail price spread has increased by 12 cents per pound through April 1985. During the same period of time, the retailer's share of the final retail price has increased from 37.8 to 43.9 percent.

Even though the retailer's share has leveled off to 43.4 percent in May and June of this year, it is difficult to argue that the retail spread has come down in relation to live cattle prices.

I am well aware that retail meat price changes typically lag behind livestock prices by several weeks. This is due partly to the physical time that it takes for the animal sold at the farm gate to reach the consumer.

Cattlemen, however, are now looking at a timelag of several months, and their share of the farm-retail spread is an 18-month low of 53 percent. They are asking questions about this situation, and rightfully so.

With cattle feeders and ranchers losing their shirts, unresponsive supermarket prices have more than raised some eyebrows in the cattle industry. Although consumers are benefiting from retail beef prices that have dropped 8 cents since December, they may question whether they ought to be seeing more in the way of reduced prices.

Ultimately, this issue may catch the attention of our Nation's consumers, and I think this issue very well should. People in the cattle business as well as consumers have a tremendous interest in this situation, and I personally intend to take whatever actions are appropriate to address these concerns.

I think we all need to pull together to minimize the tremendous pressure that is being exerted on our agricultural producers.

Mr. Chairman, I would like to thank you once again for the opportunity to testify. Certainly, your scrutiny of this matter clearly indicates your concern for the future welfare of the consumers as well as the continued, viable support of an industry that is very important to this Nation, that being the cattle industry. Thank you, Mr. Chairman.

Senator ABDNOR Well, I thank you, Senator Zorinsky. I know I am going to need a lot of help on this subject and we have fine people on the committee, but I certainly hope I can have your continued help on this because we need to get to the bottom of it.

I have said many times that if there is no one taking advantage of it, then we all ought to know that. People's minds would rest a lot easier and maybe we would have to accept it.

But if it is wrong—and a lot of people think that it is, that something is not fair about this—then we ought to get to that, too. There is quite a distance between the cull yard and up to the supermarket.

So we encourage your help and really thank all three of you people for coming. Senator Exon.

STATEMENT OF HON. J. JAMES EXON, JR., A U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator EXON. Mr. Chairman, thank you very much, and I want to join my colleagues in congratulating you, Chairman Abdnor, and Senator D'Amato, for calling these hearings that are of tremendous importance to the breadbasket of America.

Mr. Chairman, I am pleased that you are holding these because it shows that we are getting involved in this matter here in the Nation's Capital. It is about time that we are becoming involved.

I appreciate the leadership in the cattle industry for initially suggesting that we do something about it here. I am also pleased that this is being considered by the joint subcommittee of the Congress that you chair because I think you know a great deal, as much as anyone here, about agriculture and the situation that we have out there in the heartland of Nebraska today.

While no one likes to hear the word, all of agriculture, and I emphasize all of agriculture, is in a severe depression; not a recession, a depression. It is not an overstatement to say that agriculture is bringing the agricultural States right to the brink of a total economic disaster of major, major proportions.

During the first 6 months of the year, we found that live cattle prices at the Omaha Livestock Market had dipped nearly 8 cents a pound. But at the same time, the margin between the sale of the price of live cattle and the price that this beef brings at the supermarket has increased from 39 to 44 percent.

To go back even further in time, we find that this margin has risen from a historical rate of about 30 percent to its current spread of over 44 percent. To put it another way, I have learned that this margin has risen from $375 to $430 per animal in just the last 6 months alone.

It is painful, to say the least, for cattlemen to accept smaller and smaller portions of the retail price of beef, especially when they are operating in an ever-tightening economic environment and are facing, in many cases, total economic disaster.

No one at this juncture can affix certain blame, Mr. Chairman, or prove wrongdoing. But the figures suggest that something might be amiss. My State of Nebraska has great concern for this issue; so much concern that Governor Kerrey has directed the attorney general to investigate specific cases all across the board.

It is my opinion that this situation is not limited to Nebraska. Therefore, we should take investigative action at the Federal level as well. I want to suggest, Mr. Chairman, that at a minimum, for us to do something constructive about this, I urge your subcommittee to require the Secretary of Agriculture to conduct an investigation and report back in a timely fashion to your subcommittee on this matter, and recommend any appropriate remedy that the Secretary of Agriculture feels is in order.

With that kind of concrete information, then, we might be able to take whatever action is necessary here for possible correction.

The fact of the matter is that red-meat sales are down clear across the board, and the figures that I have cited for cattle also basically apply to the hog industry. The anti-red-meat tone that we hear time and time again coming out of Washington, DC, and our various bureaucracies is just one more nail in the coffin for those who are losing, as Senator Zorinsky has said, up to $150 per head as of now.

I suspect, although I do not know, Mr. Chairman, that when we get this report back, one of the things that we are going to see is that the increased price that meat is selling for at the stores today may be just another case where the middleman that you mentioned in your opening statement has increased his price, in many cases probably justifiably so, to reflect increased costs.

And I suspect, Mr. Chairman, that we may find some inequities somewhere up and down this chain of supply from the farm to the food market. But I suggest, Mr. Chairman, that maybe we ought to go back and take a look at parity.

Parity is almost a word that even farmers are afraid to mention these days. There is not anything wrong with parity because parity simply is a measuring stick that tells us how much less the producers of food are receiving for their products today than the rest of the industry that they support, and in this case the middlemen that you mentioned so well in your opening remarks.

To put it another way, Mr. Chairman, I think we are going to find that the prices received for their products are simply too low in cattle, in hogs, and in grain and other things that come out of the great breadbasket of America.

I think this is a very timely subject that you were good enough to hold these hearings on, Mr. Chairman, and I hope my suggestion that at least the Secretary of Agriculture become involved in it at your suggestion would be at least one step in the right direction.

There are other remedies; there are other investigative agencies. I would certainly leave it to the judgment of you and the subcommittee as to what the proper course will be. Suffice to say I think the bottom line is that we have got to take investigative action here now to see what is wrong, if anything. Thank you very much, Mr. Chairman.

Senator ABDNOR. Well, thank you, Senator Exon. I could not agree more with what you are saying. As I said earlier, it is easy to point fingers, but until we have some real figures and facts before us, we really cannot do that.

I also said that maybe when we get through, we will find there is nothing wrong. But until we do get the facts, we are not going to know. Whether it is the Department of Agriculture, the GAO, or the Department of Justice—I do not know who would be the best investigator on this.

I understand it has been attempted before, but we have got to get someone going on this and we need everyone's help, and we really thank you.

Senator EXON. I would hope, Mr. Chairman, that whatever agency we go with is one that you think would be most prompt in reporting back to you because I think time is of every essence in this matter. Thank you.

Senator ABDNOR. Thank you.

Our next witness is someone who really knows the ins and outs of the cattle industry, and has done a great job of speaking for that central and western part of Nebraska. I have been out to her district and I have watched her operate in the House. And let me tell you, when she is on an issue, she is on it, and she is wrapped up in this one.

She brought the Omaha production credit and land banks together for us today so we might discuss the problem. I know of your deep, abiding interest and loyalty to your farmers and ranchers in Nebraska and I am really pleased you are here today, Virginia.

STATEMENT OF HON. VIRGINIA SMITH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT OF THE STATE OF NEBRASKA

Representative SMITH. Thank you very much, Mr. Chairman, my long-time friend and former colleague in the House. We really appreciate your calling this hearing today. Senator D'Amato, I appreciate your interest. We appreciate your leadership in bringing this issue of the spread between retail and farm-gate cattle prices into the public eye.

As you said so well, Senator Abdnor, this review should give us a chance to actually know the facts and where to go from here. Also, I want to express my appreciation to the Nebraska Stock Growers, who have taken a leading role in alerting us to the seriousness of this situation, and the National Cattlemen's Association which has worked on it at the national level.

This issue of beef price spreads has gained increasing significance and urgency during the past several weeks. Fed cattle prices have declined to their lowest level since 1978. Meanwhile, it is evident that the retail prices have not reflected these price reductions.

The beef industry, as we all know, is extremely important to our home State of Nebraska. Nebraska ranks first among the 50 States in fed cattle and calves marketed. It ranks second in cattle on feed and commercial cattle slaughter, and it ranks fourth in cow-calf production. In my congressional district, we have 11 head of cattle for each man, woman, and child.

In addition to understanding the great significance of this industry to Nebraska and many other States, I think it is important that the entire Congress realize the dire circumstances that cattle producers face at this time. In the Sandhills ranges of northwestern Nebraska, many ranchers are experiencing the driest summer in 80 years—in many cases, drier than the dust bowl years of the early thirties. Grasshoppers continue to ravage the rangeland. We are seeking involuntary liquidation of breeding livestock on many ranches, further depressing the cattle prices. Place on top of this the fact that the Federal Land Bank interest rates have increased by 1½ points in the past year.

So our cattle producers are in a very distressed situation at this time. Under such conditions, it is absolutely essential that every component of the beef industry, from the cow-calf and the feedlot operators to the retail store and the restaurant owner, cooperate to restore a more favorable economic scenario for our producers.

An important component of this cooperation is for price spreads between farm-gate, wholesale, and retail prices to be equitable and reasonable. I am not an expert on what is equitable and reasonable, and would yield to the more informed opinions of later witnesses. However, it is definitely a fact that the gap between farm and retail prices is at its highest level in recent times. In the past 12 months, the retail price of a pound of choice beef has fallen 8 cents, while cattle prices have dropped 19 cents a pound—a decline of more than 25 percent.

When cattle markets are depressed as they are currently, one positive outcome that should occur is an increase in the demand for beef. But this can only be realized if retail prices decline, in accordance with the fall in the raw product price. Some retailers are reluctant to adjust prices downward, fearing that subsequent farm price increases will cause unpopular beef price increases in the supermarket. While the retailer's position is understandable, there has to be a point at which there must be a response in favor of producers and in favor of consumers.

In closing, the livestock producers of this Nation realize that they depend on the supermarkets and other food retail outlets for the distribution of their product to our consumers. However, this producer-retailer partnership requires cooperation from both sides to work. For that reason, the investigation of this issue is of the utmost importance to our cattle producers and our beef consumers, and I offer the subcommittee my heartiest commendations and encouragement and I am pleased to be sharing in this forum with our two Senators from Nebraska.

Senator ABDNOR. Well, thank you for that excellent statement.

I would like to introduce a gentleman to you who will be one of our witnesses today—Mr. Ewen Wilson, the Deputy Assistant Secretary for Economics from the Department of Agriculture.

Will you please stand?

[Mr. Wilson stood.]

Senator ABDNOR. He is not only going to testify, but I think he understands our purpose for this meeting and will be very helpful in checking out some of these points we want to make. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I just want to commend our colleagues for being in the forefront in terms of these problems. I am most concerned with the fact that it appears as though many of our cattle growers are facing elimination. That is not good, and I too wonder why the consumer has not shared in the price reductions that have been taking place.

It is one thing to see prices going down, another thing to see that the consumers have not also benefited with the reduction in prices. So, obviously, there is a twofold problem here. How do we maintain a strong agricultural base, and how do we assure that as a result of increased productivity and prices going down that those prices are passed on so that consumers will then take advantage of the reduction in prices and demand will go up? There is a stabilizing effect in both areas.

So let me commend our three colleagues, our two from the Senate and Congresswoman Smith.

Senator EXON. Could I add one statement to what Senator D'Amato just said?

Senator ABDNOR. You bet.

Senator EXON. Senator D'Amato, I hope that people will also listen to what I said very clearly and carefully. This might be a combination of the problem of the price not being too high at the retail level, but the price being too low for the producer.

Let us remember that the farmers of America have basically been subsidizing food to the American consumer for a long, long time. The American consumer pays the smallest per capita of his annual pay or monthly pay or weekly pay of any industrialized nation in the world for the best food in the world.

So I emphasize that while eventually the price should come down some, I hope that we do not bring the price down to the point where our retailers would find themselves in the same loss situation that the cattle producer is in today.

There is nothing wrong with profit, and there should be profit up and down the line so long as one sector of that chain is not taking advantage of another.

Senator D'AMATO. The Senator has no argument with me on that account. But, again, it seems to me that if you are not experiencing a corresponding reduction at the end of the line, at least percentagewise with those prices, that should be even a doubly galling matter.

It should be even more outrageous to the farmer, who says, look, we are getting less and we do not see a corresponding reduction along the line. So some people are being enriched, and profits should flow, as you say, up and down that line.

Of course, if we see farmers forced out, eventually everyone is going to be disadvantaged—that farmer who is no longer producing. We will see one of those cyclical changes where the prices will go back up again. We do not want to see that kind of activity.

Senator ABDNOR. Well, we do know that the American people are getting their food cheaper than anywhere else in the world. If we are going to get farm prices up—not just meat prices, but prices for all farm products—people are going to have to pay more.

I think the Department of Agriculture of every administration since I have been around pays too much attention to a rise in consumer prices. Perhaps I do not make a lot of friends of city people, but it does not bother them a bit to see everything else go up. Yet, when the price of food increases even a amount they get very excited, probably because they buy it everyday.

But somehow, some way, if we are going to help these farmers out, prices have got to go up, and probably eventually food prices. However, I think we had better make a decision one of these times that we should not let that happen.

On the other hand, let me point out something that I just read the other day. I think there are less cattle—I may be all wrong; I read this somewhere—less cattle on feed, but more meat coming across the counter because the feeders are feeding them too much and putting too much extra weight on them. They are their own worst enemies.

So these are the kinds of things we want to get out. Everyone could probably help make this situation better, but whatever the answer is, I am going to need your help. If you have any ideas about who we ought to bring forth on these hearings so we may obtain more information, I tell you, we would appreciate it very much. Do not hesitate in letting us know your thoughts on this matter.

We hope to have additional hearings. In fact, I am going to hold some in South Dakota. If you would like to attend one in Nebraska, we are interested. We are not going to get the answer overnight, but we ought to get it as quickly as we can. Thank you very much, all three of you.

Senator EXON. Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you.

Senator ABDNOR. Well, we have got some excellent witnesses who work in the cattle business and I am appreciative of all of them being here. I guess we will try bringing all four of you up at one time—Jo Ann Smith, Jim Strain, Ewen Wilson, and Gene Futrell.

I welcome you all to this subcommittee. We think we have picked some very fine witnesses to start us off on the right track. If you have been around here very long, you know we Senators and Congressmen think we ought to begin by telling you all the answers.

We are very interested in this subject and we appreciate your willingness to help us come up with some answers. As I said, I have an open mind in trying to understand the problem, but I think we should get the facts to the people and I cannot think of any better group to start with than the people we have here today.

I met Jo Ann Smith a number of years ago when she was the head, I think, of the Florida Cattlemen's Association. She was here fighting for the beef checkoff, and I was shocked to think that my good friend, Congressman Sam Stagger, would oppose this.

I sent Jo Ann and Pat Adrian from South Dakota to confront Sam Stagger. He said he had never been so beaten down in his life, but they did not get him to vote for it.

Nevertheless, I know what a fighter for the beef industry you are, Jo Ann, and we thank you for being here. You go right ahead.

STATEMENT OF JO ANN SMITH, PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION

Ms. Smith. Thank you, Senator. My name is Jo Ann Smith and I am a beef producer from Micanopy, FL. I am currently serving as president of the National Cattlemen's Association, and we appreciate this opportunity to explain the current devastating situation in the beef cattle industry.

Our production costs have gone up, but the prices we receive for our cattle have not increased during the past 7 years. Right now, prices on our feed cattle—the cattle that are finished in feedlots for markets—are the lowest since 1978. Cattle feeders are sustaining losses of $130 and more.

With cattle feeders losing that much per head, demand is much weaker for the feeder cattle produced by cow-calf operators—the farmers and ranchers with our basic cow herds. That means lower feeder cattle prices and another year of financial losses for those producers who have just survived thus far.

For the industry as a whole, including both feeders and the producers of feeder cattle, out-of-pocket losses for the first half of the year have totaled more than $1 billion. Unless the situation improves, this may be the last year of operation for many producers. They just simply will not be able to get financing for another year.

One of our biggest problems is too much beef and other meat. Fewer cattle have been slaughtered than last year, but the cattle are heavier and we are producing more pounds of beef than we did in 1984. The increase in average weights is equal to the production of 40,000 extra cattle a week to be sold. The cattle feeding industry is losing $10 million per week as a result.

Because of the extreme financial losses among cattlemen, more producers are being forced to cut back on their cow herds or go out of business, and more feeders are being forced out. In fact, we now expect the Nation's beef cow herd on January 1, 1986, to be the lowest in 25 years. Eventually, all of this will mean a decrease in beef production and, we hope, higher cattle prices. But, unfortunately, unless things improve soon, many cattlemen will not be around to enjoy the rise in prices.

The immediate problem is one of getting the beef supply off of our backs. We must have help from retail stores and restaurant operators to get the product moved to the consumer.

During the past 7 months, the average retail beef prices have decreased by only a few percentage points, while cattle and wholesale prices have dropped 25 percent. The average retail prices have not been low enough to move our big beef supply rapidly through the distribution channels.

We think that many retailers and restaurants are ignoring a big opportunity. If retail store and restaurant prices were reduced by as much as the cattle prices have fallen, we could move the big supply to the consumer at a very reasonable price.

Wholesale beef prices have dropped from $101 per hundredweight in January to $76 today. Choice feed steers have decreased from $67 per hundredweight to $50. This is a decrease of 25 percent.

U.S. Department of Agriculture figures indicate that choice retail beef prices averaged $2.40 a pound in January and $2.32 in June. This is the latest figure. That represented a decrease of only 3 percent. The margin between wholesale and retail prices, USDA indicated, climbed by 10 percent. The farm-to-retail spread is now at a record high.

We in NCA have strongly urged retailers and restaurant operators to do a lot more beef featuring and to cut their prices and advertise the good beef bargains. It appears that some retailers have responded and we have seen examples of beef prices that should be attractive to consumers, and we appreciate this.

However, the fact is that there has still not been enough promotion of beef at lower prices, and frankly we would like to see more featuring in a lot more stores. The only way to get this done is to lower average retail prices to a point where consumers will buy the product.

It is hard for us to understand why the average retail beef prices have remained fairly level since the first of the year, while cattle prices and wholesale prices have fallen by 25 percent.

Again, we recognize the retailer has taken some steps, which we sincerely appreciate, but there is a long way to go before their problem is resolved.

Another marketing problem that will affect the prices, of course, is clear title. We really need clear title legislation badly, and we are asking the Senate and House to expedite the approval of clear title.

The problems we are having today with marketing and the large supply of beef at reasonable prices will be only compounded by the terrible financial situation in agriculture. We need to be taking action within the industry and through Congress to address the financial condition of agriculture and agricultural lenders. A good start would be to resolve our market problem and get beef prices on track.

Let us talk about supply and demand—problems which are mostly longer term in nature, but certainly have an impact right now. They only add to the distressed situation. At this point, there are considerable problems and we are concerned that some ill advised and inappropriate Government actions and inactions have been partly responsible.

I am here to say that we hold Members of Congress, as well as Government agencies, responsible for these problems. While some people keep bad-mouthing our product and giving us a bum rap, I must point out that we still have a preferred product among most people. American consumers are still spending more of their meat dollars on beef than on poultry and other red meats combined, but we do have demand problems.

To illustrate the problem, let me just ask, did you know that beef contains no more cholesterol than chicken? Did you know that most cuts of beef contain no more fat than servings of chicken? Did you know that less than half of the fat in beef is saturated? Did you know that zinc and iron are the nutrients which are most commonly deficient in American diets and that beef contains far more zinc and iron than chicken?

If you really want to help the beef industry, let me assure you that the diet recommendations issued by the Government should be based on research, and that the role of modern beef in recommended diets, including low-fat diets, is properly recognized.

We are not asking for special favors. We are only asking for proper recognition of the nutrient content of beef. The Government is responsible for safety and wholesomeness of beef and other foods. Government should make it clear what foods are safe.

I want to remind you—and, Senator, you indicated the checkoff that we previously tried to pass. But producers have never asked, and they are not asking now, for Government price supports. We want to help ourselves, and we want to do that without spending taxpayers' money.

If the industry could go ahead with a national checkoff for promotion and research and generate the kind of funds that we need for the development of new products that will better satisfy consumer demand and provide the information and promotion that will improve acceptance of our product, we feel the Beef Promotion and Research Act would be a document and enabling legislation that would provide funds to accomplish this.

We would also, of course, have comparable assessment on imported beef. Our industry is very much in need of State and national cooperative programs, and I hope that Congress will act quickly in our favor so that we can progress with this.

As you can see, the biggest, single problem cattlemen currently have is more fed cattle than can be sold at a profit to the producer. We are asking that the retailers do still more featuring of beef at low retail prices, helping to get the backlog of cattle moved.

Also, we are asking that Government not compound our supply-and-demand problems. Rather, we should have a better opportunity to help ourselves. If steps are not taken to ease the supply-and-demand problems currently troubling our industry, I can guarantee you that there will be a lot fewer cattle and cattle producers, with still more economic problems in rural America and with smaller beef supplies and higher meat prices for the consumer.

The last thing we need is legislative action or inaction that make things tougher, not better, for the livestock producer across the country.

I thank you on behalf of the National Cattlemen's Association for the opportunity to appear today.

[The prepared statement of Ms. Smith follows:]

PREPARED STATEMENT OF JO ANN SMITH

My name is Jo Ann Smith. I am a beef cattle producer from Micanopy, Florida. I am serving as president of the National Cattlemen's Assn. We appreciate this opportunity to explain the current devastating situation in the beef cattle business.

Our production costs have gone up, but the prices we receive on our cattle have not increased during the past seven years. Right now, the prices on our fed cattle---the cattle that are finished in feedlots, for the market---are at the lowest levels since 1978. Cattle feeders are sustaining losses of $130 and more on every animal they market.

With cattle feeders losing that much per head, demand is much weaker for the feeder cattle produced by cow-calf operators---the farmers and ranchers with our basic cow herds. That means lower feeder cattle prices and another year of financial losses for those producers who have survived so far.

For the industry as a whole---including both feeders and the producers of feeder cattle---out-of-pocket losses during the first half of the year totaled more than $1 billion.

Unless the situation improves soon, this may be the last year of operation for many producers. They simply will not be able to get financing for another year.

SUPPLY PROBLEMS. One of our biggest problems is too much beef and other meat. In fact, for the past several months, we have had record large per capita supplies of all meat. The cattle situation is much worse now than we expected. Fewer cattle have been slaughtered than last year, but the cattle are heavier, and we are producing more pounds of beef than we did in 1984. The increase in average weights is equal to the production of 40,000 extra cattle that have to be sold each week. The cattle feeding industry is losing ten million dollars per week as a result.

Because of the extreme financial losses among cattlemen, more producers are being forced to cut back on their cow herds or even go out of business, and more feeders are being forced out of business. In fact, we now expect the nation's beef cow herd on Jan. 1, 1986, to be at the lowest level in 25 years. Eventually, all of this will mean a decrease in beef production and, we hope, higher cattle prices. Unfortunately, unless things improve soon, many cattlemen will not be around to enjoy the rise in prices.

IMMEDIATE CHALLENGE. The immediate problem is one of getting the big beef supply off our backs. We have to get more cattle and beef moving rapidly through the distribution channels. We simply cannot tolerate the recent sluggish movement. We seem to be having our own going-out-of-business sale, with cattle moving only at extremely low prices and more of us going out of business. We must have more help from retail store and restaurant operators to get the product moved to consumers.

RETAIL PRICES. During the past seven months, average retail beef prices have decreased by only a few percentage points, while cattle and wholesale prices have dropped by 25%. Average retail prices have not been low enough to move our big beef supply rapidly through the distribution channels.

We think that many retailers and restaurants are ignoring a big opportunity. Because retail store and restaurant menu prices have not been adjusted enough to reflect the large drop in wholesale prices, consumers have not been getting the full benefit of lower cattle prices. If retail store and restaurant prices were reduced by as much as cattle prices have fallen, we could move the big supply of beef to consumers at very reasonable prices.

Wholesale beef prices have dropped from $101 per hundredweight in January to $76 today. Choice fed steer prices have decreased from $67 per hundredweight to $50. Those are decreases of 25%.

U.S. Department of Agriculture figures indicated that Choice retail beef prices averaged $2.40 per pound in January and $2.32 in June (the latest available figure). That represented a decrease of only 3%. The margin between wholesale and retail prices, USDA indicated, climbed by 10%. The farm-to-retail spread is now at a record high.

NCA's own monthly survey of supermarkets showed that the average price of five beef cuts in July was $2.39 per pound, down only 6% from the high earlier in the year.

We in NCA have strongly urged retailers and restaurant operators to do a lot more beef featuring, to really cut their prices and advertise the good beef bargains. It appears that a good many retailers have responded; we have seen examples of beef prices that should be very attractive to consumers. We appreciate that beef featuring.

However, the fact is that there still has not been enough promotion of beef at lower prices. We frankly want to see a lot more beef featuring in a lot more stores and restaurants in a lot more cities. We want to see average retail prices drop in line with wholesale beef prices. We simply have to get out from under the burdensome supplies now pressuring our markets. The only way to get that done is to lower average retail prices to a point where a lot more consumers will buy a lot more beef.

I must add that retailers should reexamine their methods of pricing and distributing beef and other meats. It is hard for us to understand why average retail beef prices have remained fairly level since the first of the year, while cattle prices and wholesale beef prices have fallen by 25%. This suggests a market inefficiency that hurts movement of beef to consumers at reasonable prices.

Again, retailers have taken some steps, which we appreciate. But there is a long way to go before this problem is resolved.

CLEAR TITLE. Another marketing problem that will affect prices is clear title. We are working to assure that agricultural producers---like people in other industries--get clear title when they buy grain or cattle. Because of difficult times in our industry, some packers are trying to shift all responsibility for clear title on slaughter cattle to our feedlots. This is just one more obstacle to getting our fed cattle marketed.

We are asking packers to delay any actions like this until clear title legislation is passed by Congress, but they have not been as cooperative as we would like. We really need that legislation badly, and we are asking the Senate and the House to expedite approval of the clear title proposal.

AGRICULTURAL CREDIT: The problems we are having with marketing the large supply of beef at a reasonable price will only compound the terrible financial situation in agriculture. We are suffering, grain producers are in tough shape and our lenders are hurting. The agricultural credit delivery system, which includes Farmer's Home Administration, the Farm Credit System and commercial lenders is already under substantial pressure.

We need to be taking action, within the industry and through Congress, to address the financial condition of agriculture and agricultural lenders. A good start would be to resolve our market problem, and get beef prices on track.

LONGER TERM. Now let me comment on a few additional supply and demand problems---problems which are mostly longer term in nature but which are having an impact right now. They only add to an already disastrous situation. I hasten to point out, too, that these problems are, to a considerable degree, a result of ill-advised or inappropriate government actions or inactions. And I am here to tell you that we hold members of Congress as well as government agencies responsible for these problems. If you really want to do something about cattlemen's problems, please pay attention to my next observations.

DEMAND. First, on the demand side: While some people keep bad-mouthing our product and giving us a bum rap, I must point out that we still have the preferred meat product, among most people. American consumers are still spending more of their meat dollars on beef than on poultry and other red meats combined. However, we do have some demand problems that we frankly feel are not justified.

To illustrate the problem, let me ask you a few questions. Did you know that beef contains no more cholesterol than chicken? Did you know that most cuts of beef contain no more fat than most servings of chicken? Did you know that less than half the fat in beef is saturated? Did you know that zinc and iron are the nutrients which most commonly are deficient in American diets and that beef contains far more zinc and iron than chicken?

If you did not know those things, you certainly are not alone. Too many people have misconceptions about what is and is not in beef. I say that if government is going to spend many millions or even billions to develop and disseminate information on nutrition and diet and health, than it should be obligated to see that its recommendations are not misinterpreted. It should help see that the media and health professionals and the public know about the nutrient content of beef as well as other foods.

Again, if you really want to help the beef industry, you can help assure that diet recommendations issued by the government are based on sound research and that the role of modern beef in recommended diets---including low-fat diets---is properly recognized. We are not asking for special favors. We are only asking for proper recognition of the actual nutrient content of beef.

Similarly, if government is responsible for the safety and wholesomeness of beef and other foods, government should make it clear that the foods are safe. We know that our beef is wholesome. Beef is far less likely than chicken to contain salmonella bacteria, for example. Also, we know that our beef does not contain dangerous chemical or drug residues. If that is true, and we know it is and government knows it is, then government officials responsible for the safety of our food supply should publicly call attention to the safety of beef---and not let misconceptions continue.

BEEF PROMOTION ACT. At this point, I remind you that beef cattle producers never have asked and are not now asking for government price supports. We want to do more to help ourselves. And one way to do that, without spending any taxpayer money, is to enact the proposed Beef Promotion and Research Act. If the industry goes ahead with a national check-off for promotion and research, we can generate the kinds of funds we need for the development of products that will better satisfy consumer demands, and we can provide the information and promotion that will improve acceptance of our product. The Act, as proposed, will insure total industry support by including a comparable assessment on imported beef. We believe the supplying countries and importers of beef will benefit from this program, as well as our domestic producers, and we expect the importers to pay their share.

Our industry is very much in need of this state-national cooperative program and I hope Congress will act swiftly in our favor so we can proceed with it.

PROGRAMS AFFECTING BEEF SUPPLIES. As I have indicated, our major problem currently is one of excessive meat supplies. The last thing we need is government programs that artificially increase beef supplies.

Again, if you are truly concerned about cattlemen's problems, you have to be concerned about anything that needlessly increases cattle production and beef supplies. Therefore, we are calling on you to oppose enactment of another dairy diversion program, with its inevitable effect of increasing the amount of beef on the market, in competition with already more than abundant beef from non-price-supported beef cattle producers.

Also, I must mention the long-term conservation reserve---a program being proposed as a means of reducing crop surpluses. We support the idea of a conservation reserve, but any reserve program must prohibit haying and grazing on the conservation reserve acreage, at least while government payments are being made. Unless this provision is included, the government will be subsidizing an increase in cattle numbers at the very time the nation's current cattle producers are being put through a wringer and are being forced to cut back on their own herds.

CONCLUSION. As you can see, the biggest single problem cattlemen currently have is more fed cattle than can be sold at a profit to producers. We are asking that retailers do still more featuring of beef at low retail prices, helping to get the backlog of cattle moved. Also, we are asking that government not compound our supply and demand problems. Rather, we should have better opportunities to help ourselves.

If steps are not taken to ease the supply and demand problems currently troubling our industry, I can guarantee you that there will be a lot fewer cattle and a lot fewer cattle producers---with still more economic problems in rural America and with smaller beef supplies and higher meat prices for consumers. The last thing we need is legislative action or inaction that makes things tougher, not better, for livestock producers across the country.

Thank you.

Senator ABDNOR. Well, we thank you, Jo Ann, for coming before us today and giving us the benefit of your views and the knowledge of your great organization. I am familiar with your organization, being a member at one time of the South Dakota Stock Growers Association.

Ms. SMITH. Thank you.

Senator ABDNOR. Senator D'Amato is supposed to attend a meeting at this time. Before you leave, Senator, is there some statement you want to make?

Senator D'AMATO. Well, let me, Mr. Chairman, commend the witness, Jo Ann Smith, president of the National Cattlemen's Association, for her presentation because I think you allude, rightfully so, that if we do not see a better distribution of the profits, in the long run we are going to see consumer prices move up dramatically and as a result of the forcing out of the supply side these cattlemen will be driven out.

So it is far better to get that kind of promotion that you speak about; bring an awareness in terms of the necessity for well-balanced diets, not to be one sided in the presentations; and also to take advantage of the lower prices now by increased marketing efforts.

So I commend you for coming forward with some very constructive suggestions on how to deal with the current problem that your industry faces.

Thank you, Mr. Chairman.

Senator ABDNOR. I thank you, Senator D'Amato, for being here, even though you are supposed to be in another place.

Senator D'AMATO. I will be a little late and I will tell them of the good work that you are doing.

Senator ABDNOR. All right, thank you.

Our next witness is a gentleman I am very proud to have here from South Dakota, who I know from firsthand knowledge has about as fine an understanding of the cattle industry as anyone we have out there.

He is the chief executive officer of the American Cowmen's Association. His name is Jim Strain. Jim, we are extremely pleased that you came in today to take part in this hearing.

STATEMENT OF JIM STRAIN, CHIEF EXECUTIVE OFFICER, AMERICAN COWMEN'S ASSOCIATION

Mr. STRAIN. I am pleased to be here, Senator. You mentioned that I am the chief executive officer of the American Cowman's Association. I am also a rancher from the Badlands of South Dakota.

It is of grave concern to our association that the choice cattle market has lost 20 percent of its value in approximately 21 days. We suggest that neither supply nor demand has changed enough to warrant a price adjustment of this magnitude.

This is a price change without precedent, certainly in the recent history of our business, and perhaps in the entire history of the beef business.

Now, if this 20 percent live cost reduction figure does not show up soon at the retail level, one would have to conclude that it is being picked up by someone in the processing or retailing end of the business.

In this country, we process over 500,000 choice cattle per week. The producer price reduction of $10 to $12 per hundredweight represents conservatively $100 to $135 per head for each beef processed.

Assuming that all segments of the beef chain beyond the production end had been receiving the usual handling margins prior to the present live price collapse, these figures mean that $10 to $13.5 million is being denied either the consumer or producer daily.

Senator ABDNOR. Stop; that 20-percent drop to the animal—what should that reflect accordingly in the market?

Mr. STRAIN. In the retail price?

Senator ABDNOR. Yes.

Mr. STRAIN. I truthfully believe, Senator, that there are people who are more qualified to answer that question than I am.

Senator ABDNOR. Yes; I just wanted to ask.

Mr. STRAIN. I am not prepared and do not have the material to supply you with a comprehensive answer at this time.

Senator ABDNOR. Sorry I threw you off.

Mr. STRAIN. This comes at a time when, before the most recent $10 to $12 per hundredweight price reduction, the production end of the beef business was already below the break-even point, at best.

Today, each beef sold by the producer represents a $125- to $200-per-head loss. A recent issue of a widely read western livestock trade publication carried an article in which a livestock market analyst from a nationally known commodity futures brokerage firm states, and I quote him:

> The consumer should not be blamed for low retail beef demand. At least part of the blame goes to the retailers who do not feature beef when supplies are large.

This article further states, and I am quoting again:

> USDA cattle on feed report numbers have been telling the retailers that supplies will tighten toward the end of summer and into autumn. That is when prices should rise. Fearing the high visibility of price changes, retailers do not want to drop prices now just to raise them a few months down the road. So sluggish demand may mean worsening cash cattle markets.

I want to point out that this is not necessarily the position of our association. However, this is a June 17 issue and the analyst's projection of lower prices has been proven remarkably accurate.

It seems to our association that retailers, if they fear higher prices later this summer and fall, should be securing their needs for that period in the live cattle futures market on the Chicago Mercantile Exchange, where the type of livestock used in the choice beef trade is available 5 days per week and, in recent days, at prices which seem to fit the prevailing retail beef prices quite well for retailer profit margins.

If, for some valid reason, they do not choose to use this means of securing supply, our association believes the entire forward-pricing apparatus of the Chicago Mercantile Exchange should be looked at to see if it actually provides the pricing options it was established to provide and purports to provide.

Further, a truly free and competitive market situation—if it is to exist, bargaining positions must be kept as even as possible. The practice of forward contracting of the physical, live animal from the producer by the packer, with the delivery of the contract group of animals regulated by the packer within a pre-agreed-upon timeframe, puts producers at an unfair disadvantage in that rather than being forced to go out and compete daily to secure slaughter requirements, the packer is able to go to the shelf, so to speak, to get some or all of his requirements, thus taking himself partly or completely out of the competition for supply for the timeframe he chooses to use this reserve. This practice should be eliminated for the good of the system.

In conclusion, I would like to go back to the question raised by our association at the outset. As Clara posed the question: "Where is the beef?" I want to restate the question about where is the $10 to $13.5 million per day?

If the consumer gets it after everyone in the beef chain has received a reasonable price for the service they perform, we have no problem with that. However, if someone is taking their just share and the producer's share too, we would like it back because this amount is the difference between surviving and failing for thousands of very efficient beef producers, their bankers, the businessmen who supply their basic needs, their local schools, and governments and, in extreme cases, the welfare of entire States such as my home State of South Dakota, where beef production is the primary business enterprise.

It is our sincere hope that out of these hearings, answers will be forthcoming. I personally want this group to know that I am not opposed myself to profits; our association is not opposed to profits because in our history there have been fleeting moments when we have experienced profits, and we believe in it; we like it.

We thank you for your time, Senator, and we appreciate you having us in here.

Senator ABDNOR. Thank you very much, Mr. Strain. I know profit is the thing that keeps people going.

Our next witness is Ewen Wilson, who is the Deputy Assistant Secretary for Economics at the USDA. I might say he is a former chief economist of the American Meat Institute. That gives you some great credentials, Mr. Wilson, and I am very appreciative that you are here today with us.

STATEMENT OF EWEN M. WILSON, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Mr. WILSON. Thank you, Mr. Chairman. I am pleased to be here. As you indicated, my name is Ewen Wilson, Deputy Assistant Secretary for Economics at the U.S. Department of Agriculture. I appreciate the opportunity to report to you today on the beef price spreads calculated by the Department's Economic Research Service.

Price spreads are the difference in value between two points in the marketing system. They are measured on a common-weight basis to adjust for product transformation from the live animal to the retail equivalents. The transformation currently used is 2.4 pounds of live weight to produce 1 pound of retail beef.

The farm-to-retail price spread for Choice beef in June, which is the latest month we had available, averaged 109.1 cents per retail pound. That was up slightly from the May average of 109 cents, but down from the recent high in April of 109.8 cents. The average for the entire second quarter of 1985 was 109.3 cents. Now, while these nominal values are high by historical standards, price spreads in the third quarter of 1983, the third and the fourth quarters of 1982, and the fourth quarter of 1981 were within 0.2 to 1.4 cents of what we experienced in the April–June 1985 quarter.

The record high spread, I should mention, was 113.5 cents, and that was reported in September 1982. Over the past year, the monthly spread has been down to 96.8 cents and has averaged 103 cents for the past 12 months. In June, the price spread was up 6 percent from 1 year earlier. Choice steer prices in June averaged $57.11 a hundredweight. That was down 12 percent from the $64.94 a year ago. The June Choice steer price is the lowest since the fall of 1978, and most of the decline that we have seen has occurred since February of this year.

Record total supplies of beef, pork, and poultry have depressed live animal prices. Record carcass weights for beef cattle during the past quarter led to substantial price discounts for overfinished yield grade 4 cattle and had a negative impact on the reference price of Choice yield grade 3 cattle, which we use in calculating these price spreads.

The retail price for Choice beef in June averaged $2.32 a pound. That was down 3 percent from a year ago. Retail prices typically vary within a much narrower range than farm prices, and retail prices today are below the record $2.55 which was reported in June 1982.

The current wide farm-to-retail price spread for beef is the result of unexpectedly lower farm prices. Historically, retailers have been reluctant to adjust retail beef prices up or down with every change in farm-level prices. Retailers' price decisions are based on expected prices, as well as on current prices and past experience.

At the beginning of this year, most analysts were predicting lower supplies and higher prices in the spring and summer of 1985. With higher prices expected, retailers probably were reluctant to lower prices since they believed they would only have to raise them again shortly thereafter.

Senator ABDNOR. Do you believe that? I mean, I am shocked here a little bit—you have to forgive me—by some of these things I am hearing. Do you really believe that retailers think, well, why lower prices since we are going to have to raise them anyway?

Is that the way they work in elevators when grain prices drop or go up?

Mr. WILSON. There was a widespread expectation, Senator, that prices would be stronger in the spring and the summer.

Senator ABDNOR. Who are they to say? How do they know? Are they masterminds that they can control markets over these farmers and ranchers who are out there trying to make a living? I mean, they have no responsibility to reflect what happens to that market from week to week?

How long does it take before—what is this lag time? I have been wanting to ask you that. What is the lag time?

Mr. WILSON. Senator, if you would allow me to finish my statement, I think we could address that, Senator.

Senator ABDNOR. All right.

Mr. WILSON. With the anticipation that was widespread of higher prices this year and with lower grain prices, animals were fed longer. Good weather also contributed to weight gains. Consequently, more beef was available than expected.

Pork and poultry supplies also were plentiful and, as a result, live cattle prices, contrary to expectations, have been under extreme downward pressure. Now, the beef price spread is measured using concurrent retail and farm prices. Thus, this price spread does not reflect the 2 to 3 weeks that it normally takes for fresh cuts to meet the market, nor does it reflect the month that is needed for processed beef to reach the market.

The time needed to physically process and distribute the product and plan and promote the product all enter into the time taken to reflect these price changes. This time lag is not accounted for in the ERS price spread series.

One other comment I would make would relate to the short run versus the long run. In the long run, there are possibly changes in these spreads that account for marketing cost changes, for productivity changes, for changes in industry capacity, for demand for additional marketing services, and for the competitive structure of the marketing and distribution system.

In summary, the farm-to-retail price spreads are near their historical high, but they have declined somewhat from the April level. Spreads are not very much above levels which they have reached in the past 3 years. The fact that they are wide can be largely explained by the declining cattle prices, by the expectations of declining beef supplies, and by normal marketing lags.

Thank you, Mr. Chairman. That concludes my statement and I would be happy to try and answer any questions you have.

[The prepared statement of Mr. Wilson follows:]

Prepared Statement of Ewen M. Wilson

Mr. Chairman and members of the Subcommittee, I am Ewen Wilson, Deputy Assistant Secretary for Economics at the U.S. Department of Agriculture. I appreciate the opportunity to report to you today on the beef price spreads calculated by USDA's Economic Research Service.

Price spreads are the difference in value between two points in the marketing system. They are measured on a common weight basis to adjust for product transformation from the live animal to retail equivalent. The transformation currently used is 2.4 pounds of live weight to produce 1 retail pound of beef.

The farm-to-retail price spread for Choice beef in June averaged 109.1 cents a retail pound, up slightly from the May average of 109, but down from the recent high of 109.8 in April. The average for the second quarter of 1985 was 109.3 cents. While these nominal values are high by historical standards, price spreads in the third quarter of 1983, the third and fourth quarters of 1982, and the fourth quarter of 1981 were within 0.2-1.4 cents of the April-June 1985 quarterly average.

Monthly spreads have been as low as 96.8 cents during the past year, and have averaged 103 cents for the past 12 months. In June, the price spread was up 5.9 percent from a year earlier. Choice steer prices averaged $57.11 a cwt in June 1985, down 12 percent from $64.94 a year earlier. The June Choice steer price is the lowest since fall 1978. Most of the decline in line cattle prices has occurred since February.

Record total supplies of beef, pork, and poultry have depressed live animal prices. Record carcass weights for beef cattle during the past quarter led to substantial price discounts for over finished yield grade 4 cattle, and a negative impact on the reference price of Choice yield grade 3 steers used in calculating the beef price spread series.

Retail prices for Choice beef averaged 232 cents per retail pound in June, down 3.2 percent from a year earlier. Retail prices typically vary within a much narrower range than farm prices. Retail beef prices have declined from the record 254.6 cents reported in June 1982.

The current wide farm-to-retail price spread for beef is the result of unexpected lower farm prices. Historically, retailers have been reluctant to adjust retail beef prices up or down with every change in farm level prices. Retailers' price decisions are based on expected prices, as well as current and past prices. At the beginning of the year, most analysts forecast lower supplies and higher prices in the spring and summer of 1985. With higher prices expected, retailers probably were reluctant to lower prices since they believed they would only have to raise them again shortly thereafter. However, with everyone expecting increasing cattle prices, and with lower grain prices than last year, animals were fed longer. Good weather also aided weight gains. Consequently, more beef was available than expected. Pork and poultry supplies also were plentiful. As a result, prices for live cattle--contrary to expectations, have been under extreme downward pressure.

The beef price spread is measured using concurrent retail and farm prices. Thus, the price spread does not reflect the 2-3 week time period needed for fresh cuts to reach the market, nor the month needed for processed beef cuts to reach market. The time needed to physically process and distribute the product, and plan and promote the product all enter into the time taken to reflect price changes. This time lag is not accounted for in the ERS price spreads.

A simple forecasting equation for short term estimation of beef price spreads is depicted in the attached charts (actual versus estimated or fitted price spreads). About 91 percent of monthly variation in farm to retail price spreads for beef can be explained by changes in the current farm value and the farm value for the preceding month. In other words, a lower farm price today typically would be expected to lead to a larger price spread. However, the effect of a lower farm value last month would be to reduce price spreads this month. These are short-term changes only. Over the longer term, changes in marketing costs, productivity, industry capacity, demand for additional marketing services and competitive structure for marketing all influence the direction of price spreads.

In summary, current farm-to-retail price spreads are near their historical high but are declining. Spreads are near the level reached several times in the past 3 years. The fact that they are wide can be largely explained by the decline in cattle prices this year, expectations of declining beef supplies, and normal marketing lags.

Thank you, Mr. Chairman that concludes my statement, and I shall be pleased to answer any questions.

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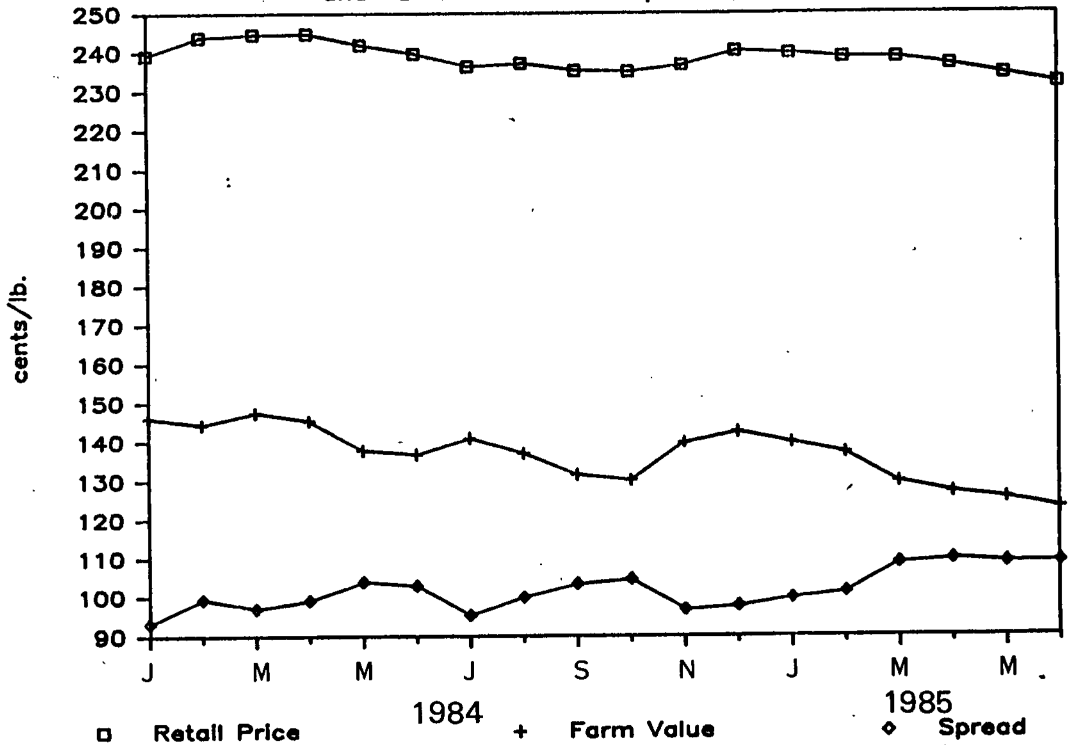
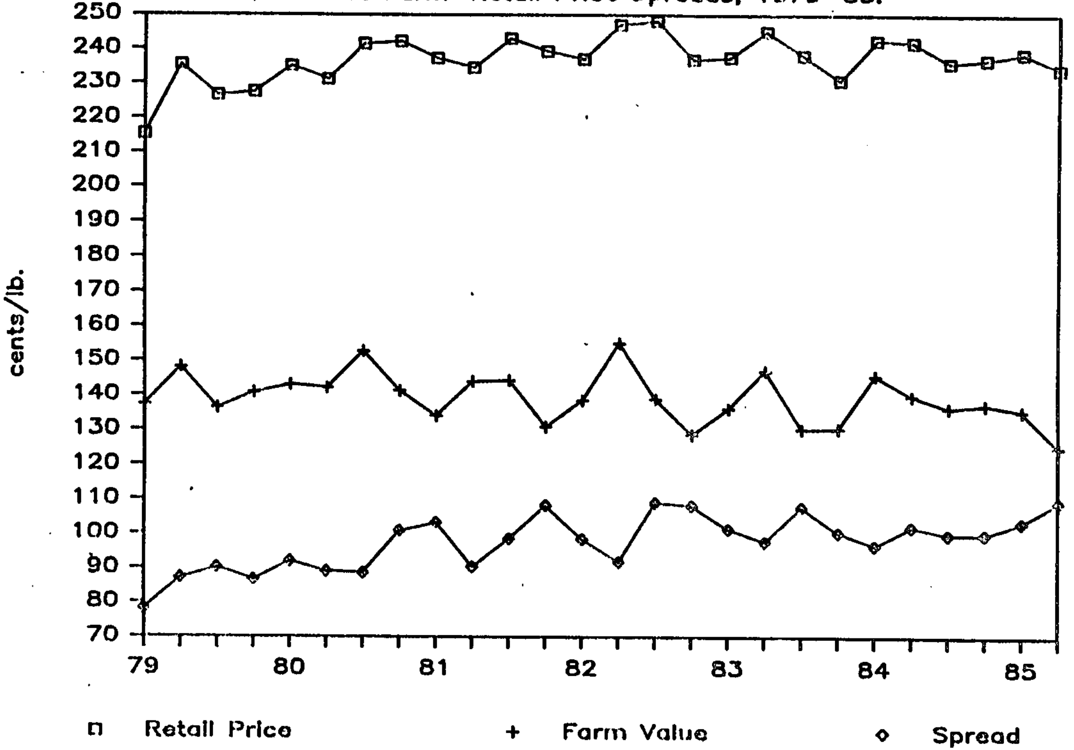
Choice Beef Retail Price, Farm Value,

and Farm—Retail Price Spreads, 1984—85.



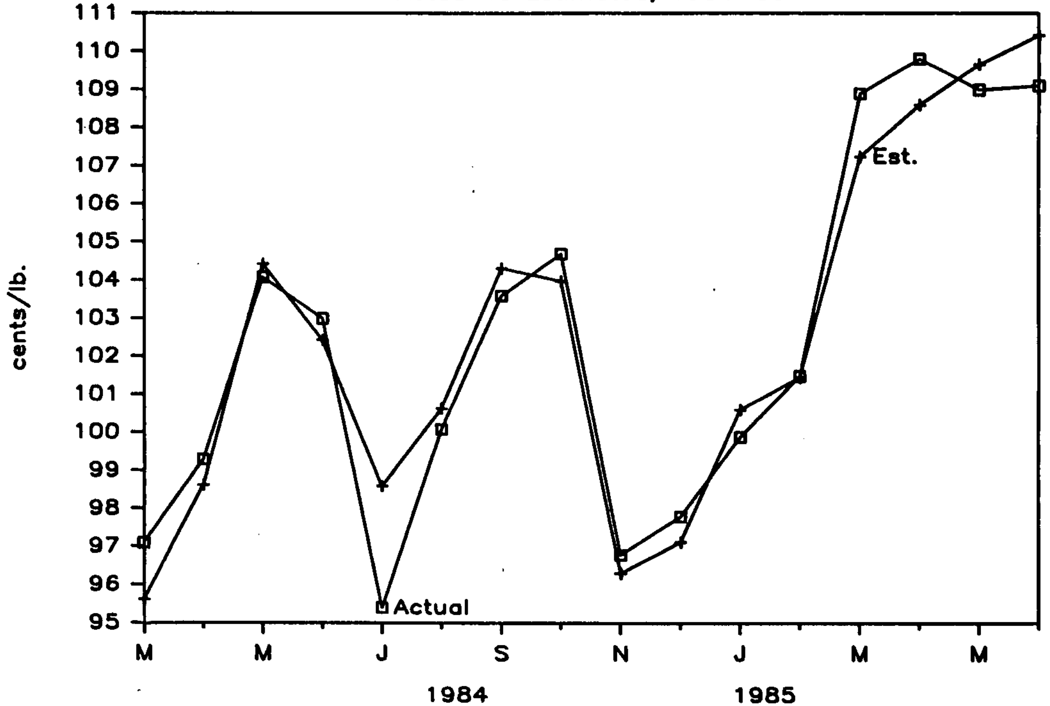
Choice Beef Retail Price, Farm Value,

and Farm–Retail Price Spreads, 1979–85.



Choice Beef Price Spreads

Actual vs Estimated, 1984–85



Beef, Choice yield grade 3: Retail, carcass, and farm values; farm-retail spread, and farmers' share, 1967-84 1/

Year	Retail price 2/	Gross carcass value 3/	Carcass by-product allow-ance 4/	Net carcass value 5/	Gross farm value 6/	Farm by-product allow-ance 7/	Net farm value 8/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm-carcass	Farmers' share 9/
	Cents/lb.										Percent
1975:											
I	137.2	90.5	1.6	89.0	87.5	7.2	80.0	57.2	48.2	9.0	58
II	155.3	118.5	2.1	116.4	117.6	9.8	107.8	47.5	38.9	8.6	69
III	166.0	120.6	2.2	118.4	118.1	10.7	107.5	58.5	47.6	10.9	65
IV	160.9	111.3	2.0	109.3	111.0	10.5	100.5	60.4	51.6	8.8	62
1976:											
I	161.3	94.3	1.7	92.7	93.4	9.4	84.0	67.3	58.6	8.7	56
II	150.8	97.6	1.7	95.8	100.5	11.5	89.0	61.8	55.0	6.8	59
III	145.3	88.0	1.6	86.4	89.9	10.4	79.5	65.8	58.9	6.9	55
IV	145.4	92.6	1.7	90.9	94.0	10.2	83.8	61.6	54.5	7.1	58
1977:											
I	144.6	89.9	1.7	88.2	91.2	11.6	79.7	64.9	56.4	8.5	55
II	146.4	95.5	1.9	93.6	98.6	12.5	87.0	59.4	52.8	6.6	59
III	149.0	96.1	2.1	93.9	97.3	11.6	85.7	63.3	55.1	8.2	58
IV	153.4	101.3	1.9	99.4	102.3	11.7	90.6	62.9	54.0	8.9	59
1978:											
I	162.7	108.5	2.0	106.4	110.4	12.6	97.8	64.9	56.3	8.6	60
II	185.7	129.1	2.2	126.9	133.8	14.2	119.6	66.1	58.8	7.3	64
III	189.4	124.3	2.4	121.9	129.3	16.2	113.1	76.3	67.5	8.8	60
IV	189.7	124.5	2.4	122.1	131.0	17.2	113.8	75.9	67.6	8.3	60
1979:											
I	215.4	148.8	2.7	146.1	158.4	21.1	137.3	78.1	69.3	8.8	64
II	235.5	160.8	3.1	157.7	175.3	27.0	148.3	87.2	77.8	9.4	63
III	226.6	149.3	2.7	146.6	158.7	22.3	136.4	90.1	79.9	10.2	59
IV	227.7	154.4	2.6	151.8	160.9	17.9	141.0	86.7	75.9	10.8	62
1980:											
I	235.2	155.8	2.2	153.6	160.4	17.2	143.2	92.0	81.6	10.4	61
II	231.4	154.4	2.1	152.3	156.5	14.2	142.3	89.1	79.1	10.0	62
III	241.6	165.4	2.5	162.9	171.1	18.2	152.9	88.7	78.7	10.0	63
IV	242.3	155.1	2.3	152.8	159.5	18.1	141.4	100.9	89.5	11.4	58
1981:											
I	237.5	147.5	2.0	145.4	150.1	16.0	134.1	103.4	92.1	11.3	56
II 10/	234.7	155.5	2.1	153.4	160.8	16.6	144.2	90.5	81.3	9.2	61
III	243.1	158.3	2.3	156.0	160.8	16.3	144.5	98.6	87.1	11.5	59
IV	239.5	144.5	2.1	142.4	146.4	15.2	131.1	108.4	97.1	11.3	55
1982:											
I	237.3	151.9	2.0	149.0	153.5	14.7	138.8	98.5	87.4	11.1	59
II	247.2	168.0	2.5	165.5	171.2	15.9	155.3	91.9	81.7	10.2	63
III	248.3	150.7	2.1	148.6	154.5	15.4	139.1	109.1	99.7	9.5	56
IV	237.2	140.6	1.8	138.8	142.7	13.9	128.9	108.3	98.4	9.9	54

1983:											
I	237.9	146.7	1.7	144.9	149.9	13.5	136.4	101.5	93.0	8.6	58
II	245.1	158.0	2.0	156.1	162.9	15.5	147.4	97.7	89.0	8.7	60
III	238.4	142.8	2.1	140.7	147.0	16.5	130.5	107.9	97.7	10.2	55
IV	231.1	142.0	2.0	140.0	147.4	16.8	130.7	100.4	91.1	9.3	57
1984:											
I	242.6	157.2	2.8	154.3	164.5	18.5	146.0	96.6	88.3	8.3	60
II	242.1	151.2	3.1	148.1	159.8	19.8	140.0	102.1	94.0	8.1	58
III	236.2	146.7	2.8	143.9	155.2	18.7	136.5	99.7	92.3	7.4	58
IV	237.3	147.1	2.9	144.2	154.9	17.4	137.5	99.8	93.1	6.7	58
1984:											
Jan.	239.3	158.7	2.8	155.9	164.1	18.0	146.1	93.2	83.4	9.8	61
Feb.	243.9	154.8	2.7	152.1	162.8	18.3	144.5	99.4	91.8	7.6	59
Mar.	244.6	158.0	3.0	155.0	166.7	19.2	147.5	97.1	89.6	7.5	60
Apr.	244.8	155.8	2.9	152.9	164.9	19.4	145.5	99.3	91.9	7.4	59
May	241.9	150.7	3.8	146.9	158.6	20.8	137.8	104.1	95.0	9.1	57
June	239.7	147.1	2.7	144.4	155.9	19.2	136.7	103.0	95.3	7.7	57
July	236.3	151.3	2.8	148.5	159.3	18.4	140.9	95.4	87.8	7.6	60
Aug.	237.1	146.6	2.6	144.0	155.8	18.8	137.0	100.1	93.1	7.0	58
Sept.	235.2	142.2	2.9	139.3	150.4	18.8	131.6	103.6	95.9	7.7	56
Oct.	234.9	139.6	3.0	136.6	148.3	18.1	130.2	104.7	98.3	6.4	55
Nov.	236.6	149.6	3.1	146.5	157.1	17.3	139.8	96.8	90.1	6.7	59
Dec.	240.3	152.2	2.7	149.5	159.4	16.9	142.5	97.8	90.8	7.0	59
1985:											
Jan.	239.7	149.6	2.6	147.0	155.9	16.1	139.8	99.9	92.7	7.2	58
Feb.	238.7	146.7	2.4	144.3	152.8	15.6	137.2	101.5	94.4	7.1	57
Mar.	238.6	139.2	2.2	137.0	144.6	14.9	129.7	108.9	101.6	7.3	54
I	239.0	145.2	2.4	142.8	151.1	15.5	135.6	103.4	96.2	7.2	57
April	236.8	135.0	2.1	132.9	142.8	15.8	127.0	109.8	103.9	5.9	54
May	234.4	134.8	1.8	133.0	140.6	15.2	125.4	109.0	101.4	7.6	53
June	232.0	132.9	1.7	131.2	137.1	14.2	122.9	109.1	100.8	8.3	53
II	234.4	134.2	1.8	132.4	140.2	16.1	125.1	109.3	102.0	7.3	53

1/ Revised series. 2/ Estimated weighted-average price of retail cuts from Choice yield grade 3 carcass. 3/ Value of carcass-quantity equivalent to 1 pound of retail cuts. A wholesale-carcass equivalent of 1.464 pounds was used prior to 1970. It was increased gradually to 1.476 pounds in 1976 and later years. 4/ Portion of gross carcass value attributed to fat and bone trim. 5/ Gross carcass value minus carcass byproduct allowance. 6/ Market value to producer for quantity of live-animal equivalent to 1 pound of retail cuts. The farm-product equivalent of 2.36 pounds was used prior to 1970; it was increased gradually to 2.40 pounds in 1976 and later years. 7/ Portion of gross farm value attributed to edible and inedible byproducts. 8/ Gross farm value minus farm byproduct allowance. 9/ Percent net farm value is of retail price. 10/ ERS data through May 1981, BLS series since June.

SOURCE: Economic Research Service.

Senator ABDNOR. I will ask you questions in a few moments. Thank you for your statement.

Our next witness is Gene Futrell, who has come all the way from Iowa State University. He is a renowned economist on the subject of livestock and cattle. We appreciate your being with us today, Mr. Futrell, and you can go right ahead.

STATEMENT OF GENE A. FUTRELL, PROFESSOR OF ECONOMICS AND EXTENSION ECONOMIST, IOWA STATE UNIVERSITY

Mr. FUTRELL. Thank you very much, Senator Abdnor. My name is Gene Futrell. I am an extension economist and a professor of agricultural economics at Iowa State University. My work over the last 20 years or more has been concerned with agricultural marketing, with emphasis particularly on the analysis of livestock markets.

Severely depressed fed cattle prices, particularly since mid-February of this year, have again focused attention on the spread or the margin between live cattle prices and retail prices of beef. Certainly, there is a great concern within the cattle industry and by others related to the industry about this, and also concern that retail beef prices may not have adjusted downward to reflect the lower live and wholesale prices. I think to the extent that this is so, movement of beef through retail channels has been slowed, and if indeed there is a wider farm-to-retail spread, this has contributed to the downward pressure on live cattle prices.

I think we all know this is not a new question or concern; it has been raised numerous times in the past under somewhat similar market conditions. I would say that I am not in a position to say whether recent or present spreads on beef are warranted by costs or other factors. This would certainly require a comprehensive study of the processing and distribution system for beef and of the costs and the profits within the system.

What I would like to do is make some general comments about beef spreads, then attempt to describe very briefly from available data what has happened to the cattle and beef market in recent months, and then discuss the extent to which I believe beef spreads have affected cattle prices.

Just some general comments first on beef spreads. Certainly, the amount of the farm-to-retail spread on beef is an important influence on cattle prices. The size of this spread is one of the determinants of the retail price. Since the consumer demand is registered at the retail level, the retail price does determine the volume of beef that will move into consumption.

Now, if retail prices do not change, the increase in the beef margin must be offset by a proportional price reduction at the wholesale or live-animal level. The magnitude of this price effect, whether it is up or down, is determined by the conversion factor that has already been mentioned.

It takes approximately 2.4 pounds of Choice live steer or heifer to yield a retail pound of beef. This means, for example, that if you had a 5-percent increase in the farm-to-retail spread on beef, it could have a weakening effect on fed cattle prices of around 2 percent; in other words, the .05 divided by 2.4.

We know that spread data is developed and published by the Economic Research Service of the USDA. Again, very briefly, the farm-to-retail spread on beef did trend up fairly sharply from 1977 to 1981, from about 63 cents per retail pound up to about $1 per pound in 1981.

Since 1981, on average, in terms of annual averages, this spread has remained very close to the dollar-per-pound level. I would want to stress that the spread, even though it has not changed much on average, has shown some very wide variations in each of these years. It does appear that the monthly variance in the spread has increased very noticeably and that it is much more difficult to predict the amount of this spread into the future than it perhaps was in the past.

I would like to point out that there are two parts to the overall farm-to-retail spread on beef, as estimated by the Economic Research Service. One part is the farm-to-carcass spread, and the other the carcass-to-retail spread. These, of course, represent differences in product value—when everything is converted to retail weight equivalent—in live, carcass, and retail cut form, with some adjustment for the value of byproducts.

I would point out that the farm-to-carcass spread on Choice beef has held within a very narrow range during the past 9 years now. On an annual basis during that period, as computed by ERS, it has ranged from about 7.6 to 10.8 cents per pound. During the first 6 months of this year, the farm-to-carcass spread averaged only 7.2 cents a pound—actually, a cent lower than the previous year.

In contrast to the fairly stable farm-to-carcass spread, the carcass-to-retail spread has trended up rather sharply from 1977 through 1981, from about 55 cents per retail pound in 1977 to about 89 cents in 1981. During the last 3 years, 1982 through 1984, the annual carcass-to-retail spread averaged around 92 cents; again, on average for the year, fairly stable. But there were again very wide springs in this spread during each of those years, including differences in monthly spread in 1982 of about 21 cents a pound and nearly 17 cents in 1983 and about 15 cents in 1984.

These variations in spread have a very strong impact on cattle prices. Changes from month to month in the carcass-to-retail spread for beef, it seems to me, are in part a reflection of usual pricing practices in many retail meat departments.

I am certainly not an authority in that area, but retailers, I think, have typically adjusted retail prices both up and down only when there have been substantial price changes at the wholesale level and changes have persisted for a period of time.

I think retailers are not inclined to make frequent changes in retail prices of major beef cuts to reflect small, and what they view as temporary, changes in wholesale prices.

Now, just some quick comments about the cattle and beef price situation this year. This is, in part, a review or duplication of some things that perhaps have been said.

Choice steers at Omaha averaged around $66 per hundredweight in 1984. In the previous 2 years, prices averaged about $63 in 1983 and nearly $65 in 1982. So we had seen a little improvement in 1984. With beef production expected to decline moderately this year, fed cattle prices were widely forecast last fall to average as high as in 1984, and perhaps higher; not extremely high prices, but at least comparable to 1984 or a bit higher.

These seemed to be realistic forecasts at the time, but in contrast to the relatively favorable prices that were forecasted, prices have trended down from late last year to the present time. The January–March average on Choice steers at Omaha, at less than $63 per hundredweight, was down nearly $6 from a year earlier. The April–June average, the second quarter, dropped to $58, down $8.50 from 1984.

I think the most shocking thing of all was the continued drop in cattle prices during July which has been referred to. Prices on July 30 were down to the $49 to $50 per hundredweight level, down $16 per hundredweight from early January, and about $16 below earlier, and the lowest level, I believe, since March 1978.

I think there are several factors that have contributed to the downward pressure on cattle prices. I am not going to try to detail all of those, but I think it does include a lack of full downward adjustment of retail prices and the resulting widening of the farm-to-retail spread on beef.

Looking, then, at the impact of beef spreads this year, I think there is a normal lag in the adjustment of retail beef prices after changes at the live and wholesale levels. I think this is normal in part because of the time involved in the movement of live animals to carcass or boxed beef form, and then on to the retail counter.

We have some research evidence that indicates that perhaps the normal lag here is about 3 weeks. There is also some delay in the availability of data on retail beef prices and price spreads, as we know, and we are looking now at June data as the latest available. The July data will not be available until about the third week of August.

Now, the bulk of the decline in fed cattle prices this year has taken place since mid-February, so the remaining comments and my analysis, really, of the beef spread impact will focus on the March–June period compared with the previous 4 months, November through February, and compared with the March–June period of 1984.

Choice steer prices at Omaha averaged about $58.50 per hundredweight during March–June of this year—more than $6 below the previous 4 months and about $8 below the March–June period of 1984.

The U.S. average retail price of Choice beef during March–June of this year was $2.35 per pound. It was down very modestly, down 3 cents a pound from the November–February period. It was down 8 cents per pound from March–June 1984.

In percentage terms, Choice beef from November of last year to February 1985, from that period to the March–June period, averaged about 1.3 percent lower. Choice steer prices in that period were about 10 percent lower.

Year-to-year changes in the March–June period were down 3.3 percent. Choice steer prices were down 13 percent. Now, retail prices—I think we would not expect that the percentage changes would be comparable, considering the conversion factor of 2.4 pounds of live animal per pound of beef.

But if we look at actual price changes expressed in dollars per pound and adjusting everything to retail weight equivalent, then we have these kinds of comparisons. Choice beef prices in March–June 1985 averaged 3 cents a pound lower than in November–February.

On an equivalent basis, live Choice steer prices averaged about 15 cents a pound lower. From March–June of last year to March–June of this year, the difference in retail beef price was 8 cents per pound lower. The equivalent change at the farm level in Choice steers at Omaha was 21 cents per pound.

If changes in live cattle prices were fully reflected in retail prices, with the farm-to-retail spread constant, retail prices would show a comparable change to live prices in cents or dollars per pound when adjusted to retail weight equivalent.

Thus, to fully reflect live cattle prices in the March–June 1985 period, retail prices would have averaged around 15 cents per pound lower in March–June 1985 than during the November 1984 through February 1985 period. This is in contrast to the 3-cent-per-pound decline actually reported.

Similarly, retail prices would have averaged 21 cents per pound lower in March–June 1985 than in the year earlier period if the decline in live cattle prices had been fully reflected at retail. Again, this is in contrast to the reported 8 cents a pound lower average price.

This does not necessarily mean that retail prices should have declined 15 cents and 21 cents, respectively, in these two periods from the standpoint of the firms involved in transforming carcass beef to retail cuts and distributing it to consumers.

This would depend at least in part on the extent to which the margins or spreads in the two base periods were adequate to cover costs, including profits. If they were not, something less than the full price adjustment would seem warranted. But this comparison does present evidence, I believe, of less than full retail price adjustment to live cattle price changes and of widening farm-to-retail spreads on beef.

Looking, then, finally and very briefly at the data available from the Economic Research Service on the farm-to-retail spread, the March–June 1985 spread on Choice beef averaged a little over $1.09 per pound. Each month from March through June was roughly in the $1.09 to $1.10 per pound range. This was up from 99 cents per pound in the November 1984 to February 1985 period, and compared to about $1 per pound in the same 4 months of 1984.

Based on the conversion factor, again, of 2.4 pounds of live animal per pound of retail beef, the wider farm-to-retail spread, in my opinion, would explain around $3.50 per hundredweight of the year-to-year decline in average Choice steer prices during March–June.

A wider spread would account for around $4.25 per hundredweight with a lower average price in March–June of this year compared with the previous 4 months.

Fed cattle prices dropped very sharply during July, as has already been noted. At the end of the month, Choice steers at Omaha were down to the $49 to $50 per hundredweight range, compared to $55 to $56 just a month earlier.

We do not have retail price and beef spread data for July, but my guess is that the farm-to-retail spread widened further, possibly to record levels during July.

That concludes my statement. Thank you very much.

[The prepared statement of Mr. Futrell follows:]

Prepared Statement of Gene A. Futrell

Severely depressed fed cattle prices, particularly since mid-February of this year, have again focused attention on the spread or margin between live cattle prices and retail prices of beef. There is concern within the cattle industry and by persons related to the industry that retail beef prices have not adjusted downward to reflect lower live and wholesale prices. To the extent this is so, movement of beef through retail channels has been slowed and the wider farm to retail spread has contributed to the downward pressure on live cattle prices.

This is not a new question or concern. It has been raised and studied numerous times in the past during somewhat similar market situations. Price spreads on meats have been the subject of several Congressional investigations and of studies by special task forces within government.

I am not in a position to say whether recent and present spreads on beef are warranted by costs or other factors. This would require a comprehensive study of the processing and distribution system for beef and of costs and profits within the system. Rather, I will make some general comments about beef spreads and then attempt to describe from available data what has happened in the cattle and beef market in recent months, and to discuss the extent to which I believe beef spreads have affected live cattle prices.

General Comments on Beef Spreads

The amount of the farm to retail spread on beef is an important influence on cattle prices. The size of the spread is one of the determinants of retail price. And since consumer demand is registered at the retail level, the retail price determines the volume of beef that will move into consumption. An increase in the retail price due to a bigger margin must be offset by a proportional price reduction at the wholesale or live animal level.

The magnitude of this price effect, either up or down, is determined by the conversion factors between liveweight and retail weight. It takes approximately 2.4 pounds of Choice live steer or heifer to yield a retail pound of beef. This means, for example, that a five cent per pound increase in the farm to retail spread on beef would have a weakening effect on fed cattle prices of around 2 cents a pound--when other price influences are constant ($.05 \div 2.4 = .0208$).

Spread data developed and published by the Economic Research Service, U.S. Department of Agriculture, indicate that the farm to retail spread on Choice beef trended up fairly sharply from 1977 through 1981, rising from an annual average estimated at $0.629 per retail pound in 1977 to $1.002 per pound in 1981. Since 1981, the spread has remained in the $1.00 per pound range--on average for each year. From 1982 through 1984, the annual average spread ranged from $0.996 to $1.020 per retail pound. But while the spread has not changed much on average, there have been very wide variations in the reported spread within these years. It appears that the monthly variance of the spread has increased noticeably and that predicting the amount of the spread in future months has become more difficult.

There are two parts to the overall farm to retail srpead on beef, as estimated by the Economic Research Service—the farm-to-carcass spread and the carcass-to-retail spread. These represent differences in product value (when converted to retail weight equivalent) in live, carcass and retail cut form--with appropriate adjustment for the value of by-products obtained from the animal and carcass.
The farm-to-carcass spread on Choice beef has held within a narrow range during the past nine years. There has been little trend in the spread during this period. On an annual basis, the spread, as computed by the Economic Research Service, has ranged from 7.6 to 10.8 cents per pound. During the first six months of 1985, the farm-to-carcass spread averaged 7.2 cents per retail pound, compared to 8.2 cents in the same months of 1984.

In conrast to the fairly stable farm-to-carcass spread, the carcass-to-retail spread, trended upward rather sharply from 1977 through 1981--increasing from an estimated $0.546 per retail pound in 1977 to $0.894 per pound in 1981. During 1982-84, the annual carcass-to-retail spread averaged from $0.918 to $0.927. But there were wide swings in the spread during each of those years, including a 21.4-cent difference in monthly spread estimates in 1982, a 16.6-cent difference in 1983 and a 14.9-cent per pound difference in 1984. In the first six months of 1985, the carcass-to-retail spread, as estimated by the Economic Research

Service, averaged $0.991 per pound, compared to $0.908 per pound in the same months of 1984.

From 1980 through 1983, there was a fairly consistent seasonal pattern to the carcass-to-retail spread, tending to be narrowest for the year during the second quarter and widest in the last four or five months of the year. But this pattern changed in 1984 and so far in 1985. This year, the spread during the March-June period was much larger than late 1984 and early 1985.

Changes from month to month in the carcass-to-retail spread for beef appear to be in part a reflection of usual pricing practices in many retail meat departments. Retailers have typically adjusted retail prices (both up and down) only when substantial price changes have taken place at the wholesale level and when these changes have persisted for a period of time. Thus, many retailers are not inclined to make frequent changes in retail prices of major beef cuts to reflect small or temporary changes in wholesale prices. A more stable pricing pattern is preferred. And the objective is likely to be to maintain a desired gross margin on the overall meat department operation, rather than on each item or group of items.

Cattle and Beef Prices This Year

Choice slaughter steers at Omaha averaged approximately $66.00 per cwt. in 1984, with monthly average prices during the year ranging from $61.48 in October to $69.25 per cwt. in March. In the previous two years, average prices averaged about $63 in 1983 and nearly $65 in 1982. With beef production expected to decline moderately in 1985, fed cattle prices this year were widely forecast last fall to average as high as in 1984 and probably higher. My own forecasts, made in late October of 1984, were for Choice steer prices at Omaha to be in a $66-$69 per cwt. range during January-March of this year, in the upper $60's in the second quarter, and in the mid $60's or above in the third quarter. USDA price forecasts, also made in October 1984, suggested prices in a $64-$68 per cwt. range in the first quarter and within a $65-$71 range in the second quarter.

These seemed to be realistic forecasts at the time. In contrast to the relatively favorable prices forecast, prices have trended down from late last year to the present time. The January-March average on Choice steers at Omaha was $62.73 per cwt. down from $68.33 per cwt. a year earlier. The April-June average dropped to $58.00, compared to $66.59 in 1984. Most shocking of all was the continued drop in cattle prices during July, with prices on July 30 down to the $49-$50 per cwt. level. This was down $16 per cwt. from early January and also around $16 lower than a year earlier. It was the lowest level since March of 1978.

I believe several factors have contributed to the downward pressure on cattle prices, including a lack of full downward adjustment in retail prices and the resulting widening of the farm to retail spread on beef. But I can not explain the full decline on fed cattle prices--particularly the more recent drop into the $50 per cwt. range.

Beef production so far this year has been a little larger than forecast, but was still up only .7 percent from 1984 during the first half of the year. Expectations of relatively strong cattle prices during the winter and spring apparently caused many cattle feeders to delay marketings of cattle during the early to mid-winter period. Weather was also favorable for weight gains in feedlots and average marketing weights on fed cattle trended up. In addition, delayed movement of cattle also resulted in a buildup of over-finished, lower yielding cattle. This problem intensified in the late winter and spring and has continued to be a problem--adding both beef tonnage and a weak psychological tone to the market. Despite these negative aspects of the beef supply, the modest increase in beef output should not have been a major factor in the price decline.

Larger supplies of broilers and turkeys have also had a negative impact on cattle prices, with total poultry production in the first half of this year 6% larger than in 1984. Also contributing to lower cattle prices is a decline in the value of cattle by-products, including hides. This has trimmed a dollar or more from cattle prices in recent months, compared to a year earlier.

Impact of Beef Spreads This Year

There is some normal lag in the adjustment of retail beef prices, following changes at the live and wholesale levels. This is normal because of the time involved in the movement of live animals to carcass or boxed beef form and on to the retail counter. There is also some delay in the availability of data on retail beef prices and on price spreads. June data is the latest presently available, with July data not available until after release of the July Consumer Price Index in the third week of August. It is likely, however, that the spread has widened further with the additional drop in cattle prices.

The bulk of the decline in fed cattle prices this year has taken place since mid-February, so my analysis of beef spread impact will focus on the March-June period--compared with the previous four months and with the same months of 1984. Choice steer prices at Omaha averaged approximately $58.50 per cwt., during March-June, down from $64.85 per cwt. during November-February and $67.25 in March-June of 1984.

The U.S. average retail price of Choice beef during March-June of this year was $2.35 per pound, down modestly from $2.38 per pound during November-February and $2.43 per pound in March-June of 1984. Percentage changes in cattle and beef prices between these periods were as follows:

Percent Changes in Price

	November 1984-February 1985 to March-June 1985	March-June 1984 to March-June 1985
Choice Beef, U.S. Retail	-1.3	- 3.3
Choice Steers, Omaha	-9.8	-13.0

The actual price changes, expressed in dollars per pound, were as follows:

Change in Price Per Pound:

	November 1984-February 1985 to March-June 1985	March-June 1984 to March-June 1985
Choice Beef, U.S. Retail ($/lb.)	-$0.0300	-$0.0800
Choice Steers, Omaha		
$/lb live	-$0.0635	-$0.0875
$/lb.; retail weight equivalent	-$0.1524	-$0.2100

Percentage changes at the two market levels would not be expected to be comparable, considering the conversion factor of 2.4 pounds of live animal per pound of retail beef. However, if live cattle price changes were fully reflected in retail prices, with the farm-to-retail spread constant, retail prices would show a comparable change to live prices (in cents or dollars per pound) when adjusted to retail weight equivlaent. Thus, to fully reflect live cattle prices in the March-June 1985 period, retail prices would have averaged around 15 cents per pound lower in March-June 1985 than during the November 1984 through February 1985 period. This is in contrast to the 3-cent per pound decline actually reported. Similarly, retail prices would have averaged 21 cents per pound lower in March-June 1985 than in the year earlier period--if the decline in live cattle prices ~~have~~ had been fully reflected at retail. This is in contrast to the reported 8 cent per pound lower average price.

This does no necessarily mean that retail prices should have declined 15 cents and 21 cents respectively in these two periods, from the standpoint of the firms involved in transforming carcass beef to retail cuts and distributing it to consumers. This would depend on the extent to which the margins or spreads in the two base periods (November 1984-February 1985 and March-June 1984) were adequate to cover costs (including profits). If they were not, something less than the full price adjustment would seem warranted. This comparison, however, is evidence of less than full retail price adjustment to live cattle price changes and of widening farm-to-retail spreads on beef.

Looking specifically at the data available from the Economic Research Service on the farm-to-retail spread, the March-June 1985 spread on Choice beef averaged $1.092 per retail pound. This was up from $0.990 per pound in the November 1984 to February 1985 period and compared to $1.009 per pound in the same four months of 1984. Based on the conversion factor of 2.4 pounds of live animal per pound of retail beef, the wider farm-to-retail spread would explain around $3.50 per cwt. of the year to year decline in average Choice steer prices during March-June and a wider spread would account for around $4.25 per cwt. of the lower average price in March-June, compared with the previous four months.

Fed cattle prices dropped sharply during July, as noted previously. At the end of the month, Choice slaughter steers at Omaha were down to a $49-$50 per cwt. range, compared to $55 to $56 per cwt. a month earlier. In the absence of retail price and beef price spread data for July, my guess is that farm-to-retail spread widened further--possibly to record levels. The widest spread that has been reported was $1.135 per pound in September of 1982.

Senator ABDNOR. Thank you very much, Mr. Futrell.

I would like to take a few moments now to ask all of you in the panel a few questions. First let me say I am extremely happy to have your statistics and figures for our record.

I have got to admit right at the very outset that we do not have anyone here from the marketing end of beef and, in all fairness, we probably should, but this is just the starting point. I am trying to find out what questions I should be asking of witnesses in the future hearings. In addition, I would appreciate any suggestions you might have about these hearings.

This is a big subject, and I know when I bring other witnesses I want to be asking the right questions.

I am sorry I interrupted you, Mr. Wilson, but some of the statements bothered me a little bit. I just wonder how much you think this spread is of concern. Does it seem to be of any great concern in the Department of Agriculture or is this a normal way of operation?

Mr. WILSON. Certainly, Mr. Chairman, we are concerned about any problems that would inhibit consumption of beef. To the extent that we have a spread that appears to be historically wide, that would keep prices at a retail level that inhibit consumption, so we are concerned in that sense.

Senator ABDNOR. Well, do you think it is unusually so today or just perfectly normal?

Mr. WILSON. We have had cases in the past 3 years where we have seen this type of spread recorded, and subsequently after a suitable time lag, the spread then did decline back to a more normal level. So we certainly hope that is going to happen again this time.

Senator ABDNOR. Well, yes, we have this experience, but no one knows if it was called for in past years. Maybe we have never delved into this subject. I know this: The cattle industry can no longer afford this sort of thing; that is all there is to it. Times have changed.

Do you really believe, as Ms. Smith mentioned, that the cattle feeder is losing up to $150 or $170? Do you think that is a true statement?

Mr. WILSON. I could not tell you for sure, but my sense is that Ms. Smith's statement would be correct that the cattle feeders are losing money today. I could get those cost figures and tell you for sure.

Senator ABDNOR. Well, it would certainly behoove us to make absolutely certain that this practice of pricing, however it comes about, is done as fairly as possible. Again, as I said from the very outset, it could well be.

I guess I would ask any of you this question. How long does it take for a $10 drop in cattle prices that would occur—well, let us take a smaller amount; let us say over a week's time. What is the most cattle ever dropped in a week's time, Mr. Strain?

Mr. STRAIN. Well, I could not tell you.

Senator ABDNOR. I mean, is it unusual to see it go down——

Mr. STRAIN. I think that the recent price drop here in the last couple of weeks could possibly be one of the most severe that has ever occurred.

Senator ABDNOR. How much would that be?

Mr. STRAIN. I would say in the last 3 weeks, we have seen close to $10 a hundred taken off the live product. Mr. Futrell mentioned some figures here that are a little more accurate than mine.

Senator ABDNOR. What would you say?

Mr. FUTRELL. Over this most recent period, I would think it was probably in the neighborhood of $6 because we were probably up in the higher fifties; now, we are down to $49 to $50. So it has been at least $6 or $7 over that period; perhaps not quite $10, but very, very sharp.

I would just add, if I could, a comment. We developed some monthly estimates of cost and returns in cattle feeding. They are estimates, but our June figure indicated at that time a loss of about $75 a head.

Certainly, with another $6 or so per hundredweight down now, the loss could certainly be in the range that Jo Ann Smith mentioned, or higher.

Mr. STRAIN. It nearly doubled in the last couple of weeks—the loss.

Senator ABDNOR. Well, Mr. Futrell, in your judgment, are they justified in not changing their prices or lowering them accordingly to the market? How long a lag do you think needs to be there before this is reflected in the price across the counter?

Mr. FUTRELL. Well, I cannot tell you, Senator, perhaps what it should be. We have done a little research that indicates that a normal lag in retail price adjustment, for whatever reason, is about 3 weeks before that normal situation would be reflected at the retail level.

Senator ABDNOR. Does it often show up in reverse that when the prices suddenly go up, it takes 3 weeks before you notice any increase at the counter?

Mr. FUTRELL. I think you would find the same kinds of lags on an up market as on a declining market.

Senator ABDNOR. Do you have any thoughts on that?

Ms. SMITH. I could get accurate figures on that—exact figures—for you.

Senator ABDNOR. I would like to have them.

Mr. STRAIN. I think if you research the history of price decreases and price increases, you are going to find that decreases happen much more rapidly than increases. I think any one of these gentlemen who are chartists and statisticians will be able to substantiate what I am saying.

Senator ABDNOR. Well, would you care to comment on that, Mr. Wilson? Is there any difference in the time lag between an up market and a down market?

Mr. WILSON. I do not have any hard research to base this on, but I would suspect that on a down market, you would have somewhat greater stickiness at the retail level. That is a hunch from having worked with the packers for a few years.

Senator ABDNOR. Anything you care to add to that? I interrupted you Mr. Futrell.

Mr. FUTRELL. Senator, I do not have specific information. My impression from looking at this over a period of years is that there is certainly a lag in adjustment both ways, both up and down. Whether there is slightly more or less on a down market, I could not say.

One thing I would like to add, though, is that in the March–June period, margins were persistently at around the $1.09 level. Clearly, the July margins are going to be that wide or higher, I would guess, which would represent about a 5-month period of really abnormally wide margins.

I think if you look historically back at earlier periods when margins were wide, they typically have not stayed wide this long. They have been there maybe a month or two or three, at the most, and then have begun to drop. I think that is one thing that is a bit different about this particular period.

Senator ABDNOR. This is probably not a question I should be asking, yet I would like to know your thoughts on this matter. If you were going to conduct a study, how would you approach it, Mr. Futrell?

Mr. FUTRELL. Well, I really am not prepared to give you a very good answer on that, Senator.

Senator ABDNOR. Well, think about it.

Mr. FUTRELL. But I think that you would have to do two things. One, I think there would need to be some fairly comprehensive study in terms of the costs involved in the marketing and distribution system for beef to really establish what might be reasonable levels of margin or spread. I think that would be one thing.

I think an additional way to approach that might be to look at it on a case study basis; look at actual case situations to the extent you could; apply appropriate time lags between the pricing of the different products and see what kind of spread, what kind of adjustment, how long it did take to adjust prices, kind of on a case study basis, perhaps.

Senator ABDNOR. I appreciate that. I may follow this up at a later time. As I said, I do not want this to be a witch hunt. Maybe there is nothing wrong at all, but it would settle a lot of questions in a lot of people's minds if we had some well-founded information and research on it.

I think a lot of ranchers' minds would rest easier if they actually were convinced that everything was perfectly normal. If there are built-in costs that cannot be avoided, that is fine. I mean, we do not like it, but at least we cannot be pointing accusing fingers here and there, and I think it would be nice to know.

Mr. Wilson, have you got any thoughts on that?

Mr. WILSON. I would have to concur with what Mr. Futrell indicated there. I think, quite clearly, to do a comprehensive study you would need to know something about the costs that pertain to the entire system.

In addition, it might be worth looking at just what the lags are involved. I suspect those lags are quite variable for different types of markets, for up markets versus down markets.

Senator ABDNOR. Do you think the cattle groups would be willing to participate and help us arrive at some of this information, Ms. Smith, or are you doing some of this already in your industry?

Ms. SMITH. It is a concern of all cattle producers, and I think that here again we certainly owe it to the producers for an accurate assessment of the real situation, and the inability at this particular point in time to really say that this is the reason why there is such a spread is very difficult to answer. I think that justification for an answer is certainly needed.

Senator ABDNOR. And you see no reason why your organization would not help us?

Ms. SMITH. We would be happy to work any way we can with you.

Senator ABDNOR. How about you, Mr. Strain? I mean, I know you have a lot of thoughts on this.

Mr. STRAIN. Well, Senator, I have three things that trouble me that have come out in this hearing. No. 1, there has been consistent mention from various witnesses that retailers do not like to tamper with price, and the article that I quoted there, I think, is a good example of that.

The anticipation of tighter supply seems to imply a higher price later on, and these people appear to be willing to accept some losses and offset those with subsequent gains. I do not know who is going to referee that, but we have to assume that these are decent people and that they are not out to price gouge and that sort of thing. That is our assumption.

But there is a great weakness in this argument as far as I am concerned. Retailers have the Chicago Mercantile Exchange to go to secure supplies. I think that greatly weakens their argument because, in my statement, I mentioned that they can go to that market 5 days a week and there are quotations daily and livestock traded daily on that exchange so that they can secure their future supplies from that source.

I would like to know why those people do not use that. If they could and if they do, that takes away the argument for not changing price because they can guarantee price out in the distance. I think that is very important.

Another thing that bothers me is the oversupply comments that have surfaced here repeatedly. You know, we know, and we can prove conclusively that we have more grain that we need in this country at the present time because there are graneries all over the United States that are chock full of corn, of wheat, and of other grains, and so forth.

But I do not know of any red meat—beef, pork, or poultry—that has had to be hauled to the dump because somebody did not use it. Now, that is oversupply. All of this product gets used. That is important, very important, as far as I am concerned, because no one has satisfactorily explained to me that there is oversupply.

Another thing is the reluctance to change this price. Now, I am not an educated man, but I do feel that I am average for the typical American citizen. I understand that if there is a freeze in Ms. Smith's State, Florida, where the oranges are grown, I can reasonably expect to pay more for my orange juice or my oranges.

This does not startle me when I go to the supermarket or my wife goes to the supermarket and we have to pay more for those things. If there is some growing problem in the Salinas Valley of California dealing with lettuce and carrots, and so forth, I expect to pay more for those products when I go to buy them.

It seems to me when it is implied that the consumer will not accept these price fluctuations in beef, you are implying that the consumer is too ignorant or ill-informed to understand that these things can fluctuate. I find that hard to accept.

I think the American consumer is a smart person, a well-informed person, and I just do not like, and I do not think a lot of other people in the production end of the business like this argument that has been put forth to us so often by the retailers that they do not like to tamper with price, and a just price, frequently.

I just do not buy that argument. I hope that that gets talked about a little later on. That takes care of what I have to say.

Senator ABDNOR. Thank you; I want you to know I appreciate that and I am grateful that we are having this all recorded so we have a written record of what you are saying, Mr. Strain.

Mr. Wilson, could you get us a study on this subject from your agency and Department?

Mr. WILSON. You are making a request for a study?

Senator ABDNOR. Yes; if the subcommittee were to make this request——

Mr. WILSON. Yes, sir, we can do that. I think we would need to get together with you and talk about what——

Senator ABDNOR. I do not have a lot of time on I do not know how long you think it would take, but I would like to talk in terms of weeks and not months here in doing this. There must be figures; there must be facts.

Mr. WILSON. If we do a study, we would like to do a good study, Senator, that we could be confident in.

Senator ABDNOR. We will visit with you when we get ready to make our request here. It has got to be done in weeks or I think we might just as well forget it. I mean, if we are going to start talking about months, then I guess we are back where we were before.

Everyone has their own ideas on beef, but out in South Dakota, my field director, who has been a farmer himself and is still involved with it, was talking to groups of people in a locker plant out there in a little town. As a matter of fact, the town barely has 100 people, I am sure, but he does a lot of business.

A gentleman told him—are these figures halfway accurate that out of a 1,000-pound steer, there would be an average dress-out of 600 pounds?

Mr. WILSON. That would be about right.

Senator ABDNOR. That is the hanging weight. Out of that 600 pounds hanging weight, you would get about 360 to 400 pounds of processed meat. Are we getting any closer on that, now, out of that 600 pounds?

This comes just from a small business place. If that steer was Choice, it would be near 400 pounds, this gentleman said, and if it is only a good grading steer, you would probably get near to 360 pounds out of it.

On a cost basis, it would average about $1.69. T-bones would be $3.29. As a matter of fact, he claims there would be 31 to 33 pounds of T-bones in that animal that this guy would butcher, and they would be worth $3.29. Sirloin would be, again, about that much, at $3.09.

Different kinds of steak would be $2.09, and ground beef would be $1.89. Is that what it costs to get it processed? Is that what that animal would be worth if you took it into a locker plant and had one guy do the whole thing?

It would be less, I suppose, than you could sell it in the market, but this locker would be $1.69 a pound. The High V, which is a market out in South Dakota, was selling that for $1.79. Albertson's was selling it for from $1.80 up to $2.68.

These are not the best of figures, but is that the way you go about getting some figures and facts sometimes, trying to get to the bottom of this? If locker plants sell meat, they probably have got the cheapest labor involved of any place along the line, do they not, if you went where they did their own butchering and selling of meat?

Mr. STRAIN. Senator, I believe you will not have any difficulty finding extremely good, authoritative information from a variety of sources that will give you a very clear picture.

There are all kinds of studies available, and statistics, and so forth, available inthis area. I would say that what the man is telling you is probably pretty fairly accurate. He is probably a little like all the rest of us; he may have slanted things a little bit in his favor. That is, I guess, human nature.

Senator ABDNOR. We were talking a minute ago about the checkoff, where we first met Ms. Smith. I remember that year in the Congress. I was in the House. The cattle groups came in and fought among themselves.

In the event pricing was fair and equitable all the way through, then we have got to do something about rallying around the cause. You mentioned the nutrition question that is thrown up all the time that is drastically hurting the red meat business and the consumption of the product.

I remember one time that some nutrition program that was headed up here in Congress had quite an article; I happened to use it in my campaign because I thought it was a serious charge without any foundation, and it hurt the livestock industry seriously.

Now, you have got to have something like a checkoff, but if the people in the cattle business are going to fight it and are not going to be willing to support this, it is a discouraging thing for Members of Congress.

Ms. SMITH. I agree with you, Senator. I think one of the things that we have to keep in perspective here is that we probably were 10 years ahead of our time. Unfortunately, the first time we tried a checkoff, some people saw the competition that we would be having from competitive meat products and poultry, et cetera.

At that particular time, the producer was not as concerned because the cattle industry had not had the problems that we have had in these last 10 years. I think the attitude within the country today is much different than it was with the real, true cattle producer.

Now, the problem we have today is the fact that we have not kept up with our competition to the degree that we have not adequately addressed lifestyle, and consumer demands, and convenience.

We are a changing society. We no longer cook pot roast and things that were used to the degree that they even were 10 years ago.

The second factor is that we need to address the positives of beef and communicate that to the consumer because, as I indicated in my statement, we have been accused of having a fatter product than we have and higher in cholesterol. There is a lot of misinterpretation and misunderstanding.

I think you will find the producer today a great deal more willing to indulge in a self-help program than he was 5 or 10 years ago. He did not have 49-cent cattle 10 years ago.

Senator ABDNOR. Well, I certainly hope so.

Mr. Strain, would you care to add to that? I mean, do you think the cattle industry and the producers are now ready to get out and tell their story and do a better job and, if necessary, do some of their own research?

Mr. STRAIN. I think there is a broad difference of opinion within the industry on this subject. As I understand this hearing, it is more directed toward the immediate situation.

Senator ABDNOR. I see.

Mr. STRAIN. I think one thing you will find within the cattle business is pretty much complete unanimity about the $10 to $13.5 million that disappears daily that I mentioned in my testimony.

Senator ABDNOR. Yes.

Mr. STRAIN. You will not have any trouble getting all cattle people, regardless of how they may feel about their promotion and the research issue, involved in this issue we are talking about here today.

I think that the other thing has to be worked out among cattle people themselves. They are somewhat of an unruly group; I would have to concede that.

Senator ABDNOR. I realize my purpose of this meeting was not to go into that subject, but it was brought up and it is an issue. As long as I had you people here, I wanted to pick your minds just a bit on the subject because, you know, I saw it in the wheat checkoff and different things.

I am not out trying to promote checkoffs, but I do know about the kind of adverse advertising and information that is coming out. You have got to counteract it if you are going to keep people eating meat. I hear it all the time around this place.

They have cholesterol-free meals on the menu down here in the Senate Capitol. I never see beef included in them. I will tell you that—when they have cholesterol-free lunches and meals the perception is that beef is heavy in cholesterol.

All I am saying is it is going to be an issue coming up. I am in the closing hours here. I just had to throw that out and ask it because it is one of the things we have to deal with.

I know that Coca-Cola and the different companies spend an awful lot of their money in advertising and research. Coke maybe did too much research and came up with a new product that did not work, but they tried it. Go ahead.

Mr. STRAIN. Senator, I would like to just add one thing. I feel that there is quite a little unanimity within the cattle business about doing a better job promoting their product.

I am sorry to say that within the business there are segments that would prefer that the other guy did it all. I think that is the problem that we have to reckon with, and I think that that thing is going to get resolved, and resolved shortly, so that you people who are involved at this end have a little clearer direction and sense of where we are trying to take ourselves.

We may need pointing from time to time. We would appreciate a little guidance.

Senator ABDNOR. I appreciate that. We are going to hopefully be able to come to you people for thoughts and ideas, and maybe some guidance, because this is somewhat new, at least, to me; I do not know about my staff, but to the Department of Agriculture and the different groups. Hopefully, we can come up with some answers.

Yes, Mr. Futrell.

Mr. FUTRELL. Senator, could I make one brief further comment?

Senator ABDNOR. Yes.

Mr. FUTRELL. In my prepared statement, I rely very heavily on data from the Economic Research Service. Certainly, retail price data comes at least in part from the Bureau of Labor Statistics.

I think we need to recognize that it is a very difficult task, I am sure, to get fully representative and accurate retail price information and margin data in a system that is this complex.

There are problems perhaps with pricing because of timelags, and so on. But the approach that I take and the view that I have is that there may be some argument about whether the beef price spread is $1.09, or 99 cents, or $1.15 right now, but the data is generated, I think, the same way every month over a period of time.

So we view that what is significant about the spread data is the change; not the level, but the change. We assume that those changes are reasonably accurate. I just wanted to make that additional comment.

Senator ABDNOR. Thank you for making that point. Again, Mr. Futrell, I hope you do not mind if we call on you from time to time because you could be a great help to us.

Right now, of course, we are having a heck of a time with an issue in this Congress, as far as I am concerned, at the moment with this farm bill we are working on. I know how the cattle industry feels. They think we have fouled up enough in the grain business and we had better stay out of the cattle business.

But they do get tied together and brought to our attention through these set-asides and through diversions that cause concern to the cattle industry. I will say this: Farm groups could do a better job of trying to work together to help us with some of these answers.

We cannot seem to come to any—I say "we"; I am not on the Agriculture Committee. I am on the Appropriations Committee, Subcommittee on Agriculture, and I have this end of it on the Joint Economic Committee.

We just need to do a better job working together. I do not know how many different votes have been taken in that Agriculture Committee trying to get a bill out and they cannot get a consensus, it seems, on any one thing.

I am going to go home here in a couple of days. I would like to keep us in session right on through August until we did get together, but it does not look like that is going to happen. They are going to take up the farm bill today, but it is certainly going to put the grain farmers of my country at a great disadvantage to be expected to go in at the end of August and have to start planting winter wheat without having the slightest idea of what kind of program they are going to have.

It does not seem like a very fair situation, and I do not know if it is going to be safe to go home or not with that kind of a situation. Anyway, I am getting off the subject and it is almost 12 o'clock. I do want to say that we are really grateful to everyone who came.

Some of you have come from a long way off, but in closing I just have to say I wonder how much more depressed the agricultural situation has to get before our Nation, including the Government, wakes up.

We seem to care much more about the future of the whooping crane than we do the family farmer and the rancher. I get all kinds of great concern around here about what we are doing. We have got to be careful about how we protect our sheep because of the needs of wildlife.

We need a broad-based national commitment to agriculture and rural America, and our neighbors residing on farms and in rural towns are exhausted, I know. They have given all they can possibly give.

I have been holding hearings out of this subcommittee for the last 7 months on what are we going to do to revitalize rural America because these little rural communities are having a hard time surviving and they need and deserve our full support. That support is an investment, not a subsidy.

Future generations of Americans and other nations will stand in judgment of the decisions of our generation relative to food production. Today, we have begun a process—a process I hope will cast as much heat as light—and this is but the tip of the iceberg.

If I have to drain the ocean and investigate the rest of it, I think I am going to try. That is why I keep asking questions. I am not going to give on this. I do not have the slightest idea what kind of answers we will come up with, but I want some answers that are factual enough that people will believe and understand.

Early next month, I am going to be holding a hearing on this subject in South Dakota, and it is my intent to draw on the livestock interests from all of the surrounding States. We are going to have a barbecue and those ranchers and I are going to be roasting more than just beef, I hope, when we have this.

James, I hope you are back there in South Dakota when we are and I hope you come to our meeting. I am sure I will have a lot of your group there. But, again, the purpose is to get the facts and get ourselves going in a direction that will lead to some answers and hopefully better conditions for the cattle industry.

I thank you all. I guess I have talked long enough to bring us right up to 12 noon. Thank you all very much.

[Whereupon, at 12 noon, the subcommittee recessed, to reconvene at 10 a.m., Wednesday, September 4, 1985.]

THE GROWING SPREAD BETWEEN RETAIL BEEF AND LIVE CATTLE PRICES

WEDNESDAY, SEPTEMBER 4, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to recess, at 10 a.m., at the Bales Continental Commission, Huron, SD, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senator Abdnor.

Also present: Robert J. Tosterud, deputy director.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation of the Joint Economic Committee will come to order. I want to welcome everyone to our hearing today. I'm pleased to see a number of you people here.

I want to give a special thanks to the Bales Continental Commission here for doing so many things to make this possible. We appreciate their great and keen interest in this, the help they have given us and the advertising and the completeness of their facilities. The part they have played is simply outstanding.

I also want to announce that there is going to be a barbecue here during the noon break sponsored by the Beadle County Pork Producers and South Dakota Beef Council. I hope you will appreciate their generosity. During the noon hour we will have a chance to exchange views with each other and discuss what was presented to us this morning.

I want to thank all of our witnesses who are here today, and some have come a long way. I know that you have left behind obligations and chores which, when you return home, will be even more burdensome because of your absence. So we can only hope your investment in time and effort today will contribute to a better future for the Nation's livestock industry.

People tend to forget that livestock is better than one-half of all American agriculture. As you are aware, this is our second hearing on the issue of the spread between livestock and retail meat prices. The first hearing held in Washington a little over a month ago provided an overview on this controversial subject. The testimony presented at that hearing convinced me that we had only touched the tip of the iceberg. I pledged at that time that if it was necessary to drain the whole ocean to look at the rest of it, no matter how ugly or controversial the sight, I would do it.

Since the Washington hearing I've been told a dozen times that ranchers have had their say, and that I should now give equal time to proponents of other causes, particularly wholesalers, packers, retailers, and labor. Well, I promise these interests will have their day before this subcommittee. And I, for one, eagerly look forward to that day.

But when I heard from Jim Strain of American Cowmen's Association and Jo Ann Smith of the National Cattlemen's Association that the Nation's cattle industry as a whole, including both feeders and producers of feeder cattle, had incurred out-of-pocket losses in excess of $1 billion just during the first 6 months of this year, despite no significant decline in the retail beef prices, it was hard to believe. As a farmer and a consumer, I was simply appalled by those figures.

It became apparent, in my mind, anyway, there is something peculiar within the meat processing marketing system which says to the American rancher that "Heads, you win; tails, you lose." I guess there have been enough ranchers simply losing their tails because of this, as yet, unidentified peculiarity. By any other name—any other name, a person or segment of industry that lives on others without making any useful, fitting return is a parasite. There are thousands of firms and millions of jobs which "live on" the American livestock producers.

Ranchers aren't asking anybody to take a cut in wages or to lower profit margins. All they are asking is that when livestock prices fall to the maximum extent possible these lower costs be passed on to the consumer by lowering retail prices, thus stimulating the purchase of meat and reducing excess beef and pork supplies. Substantially this is the only avenue to higher livestock prices and financially healthier livestock industry.

Clearly if there is no comparable retail meat price response to lower livestock prices we may as well see America without a livestock industry.

So again I want to welcome everyone to the hearing this morning, those in the audience and those who will be testifying. It's important that we all work together to try to solve this problem.

If I could just say one thing more. In Washington, while discussing the farm issues and trying to come out with a new farm bill, we found it extremely difficult to put together a good package for agriculture for the next 4 years. We are constantly bickering between organizations what to do. And I say that having been a farmer from Lyman County, to be down there in the small minority we are in and fighting among ourselves and trying to sell members in the cities and larger areas of this country. Perhaps, by working together, coming to meetings like this and coming up with one and ultimately uncovering the kind of testimony we need, we will go in there with the ammunition necessary to come up with a decent solution for the problems facing agriculture.

Having said that, we are going to kick off with our first witness who has come all the way from Washington, DC, from the Department of Agriculture, Ken Clayton and Terry Crawford. We welcome you to the subcommittee and are looking forward to hearing your speech.

STATEMENT OF KENNETH C. CLAYTON, DIRECTOR, NATIONAL ECONOMIC ANALYSIS DIVISION, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY TERRY CRAWFORD, ACTING CHIEF OF ANALYSIS, ON BEHALF OF EWEN M. WILSON, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS

Mr. CLAYTON. Thank you, Senator. I am Kenneth Clayton, Director of the National Economic Analysis Division within the Economic Research Service of the U.S. Department of Agriculture. With me is Terry Crawford, who is our acting chief of the analysis within Economic Research.

As you know, I'm sitting in today for Ewen Wilson, who is the Deputy Assistant Secretary for Economics with the U.S. Department of Agriculture. Mr. Wilson, of course, has been representing the Department and working with Members of the U.S. House of Representatives in developing the 1985 farm bill. Since the House, as it reconvenes this week, it was necessary for Mr. Wilson to remain in Washington.

He does send his regrets for being unable to attend today's hearing, but did want me to express his interest and willingness in working with the Joint Economic Committee on matters of mutual concern with respect to agriculture.

Mr. Chairman, I do appreciate the opportunity to report to you today on the meat price spreads calculated by the Department.

Price spreads, as you have already indicated, are the difference between what the producer receives and what the consumer pays for a product. And this hearing has been called to review the current meat price spread situation and to examine whether price spreads are abnormally large.

I think in examining meat price spreads, four issues perhaps need to be raised and considered.

First, what is the impact of lags in processing, distribution and retailing on those price spreads?

Second, how competitive are the firms involved in packing, distribution, and retailing?

Third, what has happened to the cost structure of those firms?

And, finally, what level of profits is being made by these firms?

Perhaps before addressing these issues it may be helpful to briefly review the current situation and outlook for price spreads so we have a common basis for discussion today.

Let me start with the meat industry situation.

Abundant meat and poultry supplies in 1985 have, of course, resulted in lower producer prices. Per capita meat supplies are now estimated at something over 211 pounds, which is an alltime record. Continued financial stress, including lower asset values, is keeping meat production levels high as producers continue to market rather than retain young females for the cattle- and hog-breeding herds. During the last 6 months heavier market weights and a backlog of marketings have placed additional downward pressure on prices. Weights remain heavy, particularly for fed cattle in August.

While total meat and poultry consumption has remained high, red meat consumption has decreased over the past 10 years. This change in consumption of red meats has occurred in large measure because of the relatively lower prices of other meats, such as chicken and other poultry. It reflects a change in the demand for red meat and has an effect on the current price spread situation.

Turning to the spreads themself, a price spread, as we noted, is the difference in value between two levels in the marketing channel for a specific quantity and quality of product. Prices for the product at each stage are computed as national averages from available data; 1 pound of a retail cut is selected as the base and values are derived using conversion factors for an equivalent amount of product at other levels. These conversion factors represent the weight loss during slaughtering, processing, and retail cutting.

The farm-to-retail price spread for beef has averaged $1 a retail pound since 1981. This year, however, the price spread has increased and reached a record $1.17 in July. The previous high was $1.14 in September 1982. Since March of this year, when the farm price of cattle dropped, the price spread has been over $1.09 a retail pound. A stabilizing farm price in August coupled with a decline in retail prices could result in a lower farm-to-retail price spread for beef in August.

This, obviously, is a somewhat iffy proposition at this point. But if those conditions do come together we may see some squeezing in the margin.

Pork spreads have averaged a little less than 90 cents a pound in 1985. This compares with a price spread of over $1.01 a pound in November 1982, which was a record level. While pork spreads have exceeded year earlier levels thus far in 1985, they are not excessively high by historical standards, having averaged about 86 cents for the past 20 quarters. The July spread was approximately 87 cents.

Broiler wholesale to retail spreads have risen slowly in recent years, increasing somewhere from 15 cents up to about the 20-cent level. They have averaged around 20 cents in 1985.

The outlook for price spreads for 1985 as a whole, farm-to-retail beef price spreads are expected to be up about 5 to 7 percent, reversing the decline of the 2 previous years. The increase in price spreads from 1982 to 1985 should be about 4 percent, well below the general inflation rate for that period. Spreads in the first half of 1985 averaged $1.06 a pound and are expected to average near that level in the second half. Beef spreads are expected to narrow in late summer and fall from the high levels of July and August as steer prices rally from the depressed low $50 for a hundredweight registered this summer. Slaughter weights are declining and the feedlot backlog that developed this spring seems to be working itself down, and we expect that as we move into fall that that backlog will be worked off. The end of the feedlot backlog and a moderate decline in beef production, along with a drop in pork production, is expected to strengthen steer prices perhaps into the low $60's for hundredweight range this fall.

In 1986 we project that with moderately lower production expected steer prices are expected to return to near 1984 levels. Beef price spreads in 1986 are expected to average somewhere from 1 to 3 percent lower than they have been in 1985.

Farm-to-retail pork price spreads in 1985 are expected to average 7 to 8 percent above 1984, but should be below the 93 cents a pound reported for 1983. In 1984, spreads fell 9 percent from 1 year earlier. In the second half of 1985 spreads should average 1 to 3 percent above those of the first half as hog prices average in the low to mid $40's hundredweight. Pork price spreads usually widen in late summer and into the fall as hog prices drop seasonally. This year, because of a higher than expected rate of slaughter in July and August hog prices dropped earlier than usual. In early July hog prices were about $50 a hundredweight. By early August they were near $43 a hundredweight.

Pork price spreads are expected to increase only slightly in 1986 over 1985. Lower expected production should be accompanied by a rise in hog prices. Hog prices are expected to begin increasing soon after slaughter hits its seasonal peak in November and continue into 1986, registering significant year-over-year price increases especially into second half 1986.

As we consider the issue of the price spread and whether or not it's abnormally large it would seem that there are four areas, as I noted at the outset, which perhaps require consideration in trying to understand what is happening with the price spreads and making some determination as to whether or not they are abnormally large.

Those four issues identified were to what extent do we have a lag price effect in the transmission of a farm price to a retail price; what is the nature of the competition within the industry which is marketing our livestock products; what do we know about the cost structure of that industry—that is, to the extent that margins or price spreads increase, to what extent is the cost based; and finally, what do we know about the level of industry profits. Are abnormally large profits being reaped by those who are in the marketing system?

Let me deal first with the lag-price effects. Retail meat price changes typically lag livestock price changes by several weeks. This is due partly to the physical time that it takes for the animal sold at the farm level to reach the consumer. Presently concurrent prices or values at each market level are used to determine price spreads for beef and pork. Research has shown that price changes at the farm level are transmitted to the carcass level with a very short lag, usually 1 week or less. However, the change in price at the farm level takes longer to reach the retail level, about 2 to 3 weeks for beef and about 3 to 4 weeks or longer for pork, depending on the amount of processing involved.

Over a course of several years a step-like pattern of increases in price spreads for beef has emerged, as you can see from the chart at the front of the room. The chart on the far right, which charts out the beef price spread movement for a time of 1970 to 1985, the carcass-retail steps are quite apparent. No such steps have been identified for the farm-to-carcass spread. Step increases in the beef carcass-to-retail spread have occurred in January 1972, August

1973, September 1975, May 1978, and January 1979. It is unclear at this point whether March 1985 is a new step or whether it's a temporary high in the current step that we have been on since January 1979, and I guess that perhaps is part of the issue in this hearing that you are having.

A similar pattern exists for pork, as you can see from the other charts. Fewer steps have been identified for the farm-to-wholesale spread for pork than for the wholesale-to-retail spread. Three levels have been identified for the farm-to-wholesale spread, the middle chart. The farm-to-wholesale spread seems to have held rather constant since mid-1975 despite inflationary pressures on input costs. As production of pork increased from a low level in 1975 to a high level in 1980 fixed costs per unit were reduced and this helped maintain farm-to-wholesale spreads at the 1975 level. Since the early 1980's, structural changes have occurred as inefficient packing plants closed and actions were taken to lower labor costs. This probably has contributed to continued stability in the farm-to-wholesale spreads.

For the pork wholesale-to-retail spread, the chart to the far left, step increases have occurred in March 1970, September 1973, September 1975, January 1978, January 1979, and September 1981. Since 1981, the wholesale-to-retail price spread for pork has fluctuated around the same step.

Based on examination of these price spreads it appears that the step increases occur when farm prices stabilize or decline after a period of rising prices. The first and likely explanation is that retailers' profits are squeezed while they try to hold retail prices down, so that when farm prices stabilize or decline there is an opportunity to widen price spreads without increasing retail prices. This enables retailers to recoup normal profits and catch up with inflation in their costs since the last step increase.

I might just note that some preliminary research that we have just recently become aware of suggests that if one looks over a fairly long period, 15 to 20 years, and looks at trying to explain the changes in the price spreads that something on the order of 80 percent of that change appears to be related to changes in the marketing costs, and that more specifically, to changes in wage rates and to changes in general inflation. It appears that 10 percent or so of the change has been due to a softening demand, which occurs periodically. And finally, there does seem to have been some decline in productivity at the retail level, which we can discuss further.

A related issue, I think, in looking at these, this question of the lags in adjustment between farm price change and retail change is whether the lag in the retail response is the same during periods of increasing farm prices as during periods of decreasing farm prices. The responses appear similar, except when there is a shift to a higher step as firms incorporate prior inflationary increases into their margins.

Farm-to-retail price spreads also exhibit seasonal patterns of increases and decreases linked to seasonal changes in production and price. Beef price spreads are the highest in the third and fourth quarters of the year when production is the highest. Steer prices reach their seasonal high in the second quarter, then decline through the third quarter and reach a seasonal low in the fourth quarter. So that in essence as one looks at that spread the bottom portion tends to sag a bit as prices declined with greater production.

The farm-to-retail pork spreads are the largest in the fourth quarter and lowest in the second and third quarter, as pork production, of course, tends to be lowest in the third quarter and largest in the fourth quarter.

A second issue, I think, in looking at this question of price and trying to understand what's going on there is the basic question of industry competition. Is there incentive to pass along price changes at the farm level to the retail level?

The meat packing and food retailing industries, I think, are generally felt to be highly competitive. Meat packers, of course, faced major competitive adjustments during the decade of the 1970's. Food retailers have felt similar pressures, although perhaps to a lesser extent.

The pork packing and processing system has undergone major changes in operating practices, labor costs, and ownership in response to excess industry capacity and narrow profit margins. Pork production reached record levels in 1980 to 1981. Since that time declining output has resulted in excess capacity. Major differences in costs among packers have led to bankruptcy filings, closed plants, renegotiated labor agreements, and takeovers by competitors.

Major changes occurred in the beef packing industry in the 1970's. Beef production peaked in 1976. This led to an adjustment in the beef packing industry as it followed the ensuing decline in beef production. The beef slaughter industry is now typified by large-scale plants selling boxed beef rather than carcasses. Some of the largest of these opened after 1980.

Food retailers have, I think, generally faced keen competition. Although the market share of the top food retailers has remained essentially the same over the past decade, the ranking of individual firms has changed. In several major markets new firms have entered or old firms have withdrawn. Moreover, the presence of a large number of smaller retailers in many markets tends to have a competitive influence even if concentration is relatively high. The emergence of new store or merchandising formats, such as warehouse and superwarehouse foodstores, operating on lower margins has sharpened price and merchandising competition.

The third kind of an issue that we suggested ought to be considered is the cost structure of the industries involved in marketing livestock products.

Pressure to increase margins can be related to a rising cost structure faced by food marketing firms. Costs of inputs increase at rates reflecting demand and supply of the inputs as well as the rate of inflation. If one is in the market to buy packaging materials and so forth, there is a market which exists for those materials, and firms involved in the food market have to compete in those markets as well as the final product markets. Changes in petroleum prices, for instance, reflect the sharply lower supplies in the late 1970's and the lower demand and increased supply in the 1980's.

Labor represents about half of all marketing costs. Wage rates increased across food marketing through 1984 with the exception of the meatpacking industry where they have been decreasing. Meat packing wages dropped in both 1983 and 1984, and employee wages per hour in sausages and other prepared meats dropped in 1984. Data for the most recent months, however, show an increase in meat packing wages.

So in fact there may be some increase pressure in terms of cost in the recent months in terms of meat packing.

The food store wage rate decreased by almost 3 percent between May 1985 and 1 year earlier. While data series on retail meatcutters' wages are not available, new accounts of recent wage settlements would indicate that retail meatcutters' wages have decreased along with those of other retail store workers.

The total labor costs for meatpackers increased by just over 2 percent between 1980 and 1983, another tremendously large increase in terms of labor. As a percent of sales, labor costs have held, however, at about 10 percent over this same period of time. For food chain stores total payroll as a percent of sales increased slightly from 12.4 to 13.1 percent between 1980 and 1984.

The total labor cost of food marketing firms—looking beyond wage rates—obviously depended upon not only wage rates but productivity. Productivity measured as the ratio of meat output to the labor input in the meatpacking industry increased fairly rapidly until about 1980 when productivity per employee-hour leveled off. Beef packing productivity increased prior to 1980 as a shift was made to larger boxed beef plants. A continuation of decreasing wages and increasing productivity would typically result in less pressure in terms of the cost structure of those firms dealing in the meatpacking business.

FOOD RETAILING

Food retailing and food retail productivity seems to be down about 10 percent since the early 1970's. It would appear that the variety of increased services that supermarkets have begun providing, things like bakery departments, delis, pharmacies, check cashing and other kinds of things have had some effect in terms of the labor productivity of those food retailers. That is, those folks don't necessarily help push products through. They are just providing a larger bunch of services. Equate that back to the amount of products moving through a retail store, you in fact see that your labor input per unit has perhaps gone up.

I think it's been unclear what the net effect, then, of what we have seen in the papers, at least in terms of—and also our data—reduced wages in retailing, how that will balance out with reduced productivity that we have seen. If, in fact, one offsets the other, then there ought not be any change. If one outweighs the other, then obviously it could affect the cost structure of that portion of the industry, related, obviously, to the cost structure. And basically the bottom line issue in terms of those involved in marketing livestock products is in fact the profit situation. Price spreads alone do not provide a measure of profits since costs must also be taken into account. The American Meat Institute publishes a financial review of the meatpacking industry each year. Data for the most recent 5 years available, which is a year or two behind, typically, show an extremely narrow profit margin for beef and pork packers. Data for 1984 are not available, nor 1985, but it is estimated that cattle packer profits were down even further, although pork profits were up moderately from their low 1983 level.

Profits of retail firms are available from an annual survey that Cornell University does, publishes under the title "Operating Results of Food Chains, 1983–84." These data are also lagged behind where we are at a point in time, but the series itself which they provide does give some indication about the profit situation in supermarkets. The series, however, is for overall firm profits, not profits of the meat department or profits for beef, pork or poultry divisions within the meat department. This does indicate that earnings have remained in a narrow range with net earnings after taxes averaging just under 1 percent of total sales. Expenses as a percent of sales have risen from just under 21 percent during 1979 to over 23 percent in 1983. As I indicated, these data do not reveal anything about profit of meat departments compared to other departments in the retail store. Nor do they say anything about pricing strategies by individual retailers in response to changes in wholesale meat costs. The narrow overall profit margin does, however, seem to suggest that competition at the retail level does remain keen.

Let me summarize then by saying that the price spread increases of the past few months appear to be the result of unexpectedly large meat supplies stemming from marketing backlogs of heavyweight cattle and plentiful pork and poultry supplies. Lags in retail price adjustments have contributed to wider price spreads and a record beef price spread. The increase in price spreads would appear from the kinds of data that we are able to pull together to have exceeded short-term cost increases. However, when viewed on a longer term basis, overall spreads do not appear unreasonable and have increased at a rate slower than the general rate of inflation.

I think it is still too early to judge whether the large prevailing price spread for beef is a transitory phenomenon or whether in fact it's a permanent step increase much like we see on the charts over here. I might also add that the Department of Agriculture is watching the situation very closely and is very concerned that neither farmers nor consumers be taken unfair advantage of in the adjustment of prices within the food marketing system from farmer to retailer.

I thank you, Mr. Chairman. That does conclude my statement. I'll be pleased to try to answer any questions which you may have.

[The prepared statement of Mr. Wilson follows:]

PREPARED STATEMENT OF EWEN M. WILSON

Mr. Chairman and members of the Subcommittee, I am Ewen Wilson, Deputy Assistant Secretary for Economics at the U.S. Department of Agriculture. I appreciate the opportunity to report to you today on the meat price spreads calculated by the Department.

Price spreads are the difference between what the producer receives and what the consumer pays for a product. This hearing has been called to review the current meat price spread situation and to examine whether price spreads are abnormally large.

In examining meat price spreads, four issues need to be raised:

- What is the impact of lags in processing, distribution, and retailing on price spreads?
- How competitive are the firms involved in packing, distribution, and retailing?
- What has happened to the cost structure of these firms?
- What level of profits is being made by these firms?

Before addressing these issues it may be helpful to review the current situation and outlook for price spreads.

CURRENT SITUATION

Industry Situation

Abundant meat and poultry supplies in 1985 have resulted in lower producer prices. Per capita meat supplies are now estimated at 211 pounds, an all-time record. Continued financial stress, including lower asset values, is keeping meat production levels high as producers continue to market rather than retain young females for the cattle and hog breeding herds. During the last 6 months, heavier market weights and a backlog of marketings have placed additional downward pressure on prices. Weights remain heavy, particularly for fed cattle in August.

While total meat and poultry consumption has remained high, red meat consumption has decreased over the past 10 years. This change in consumption of red meats has occurred in large measure because of the relatively lower prices of other meats, such as chicken and other poultry. It reflects a change in the demand for red meat and has an effect on the current price spread situation.

Prices and Price Spreads

A price spread is the difference in value between two levels in the marketing channel for a specific quantity and quality of product. Prices for the product at each stage are computed as national averages from available data. One pound of a retail cut is selected as the base and values are derived using conversion factors for an equivalent amount of product at other levels. These conversion factors represent the weight loss during slaughtering, processing, and retail cutting.

The farm-to-retail price spread for beef has averaged about $1.00 a retail pound since 1981. This year, however, the price spread has increased and reached a record $1.17 in July. The previous high was $1.14 in September 1982. Since March 1985, when the farm price of cattle dropped, the price spread has been over $1.09 a retail pound. A stabilizing farm price in August coupled with a decline in retail prices could result in a lower farm-to-retail price spread for beef in August.

Pork spreads have averaged a little less then 90 cents a pound in 1985 (table 2). This compares with a price spread of over $1.01 a pound in November 1982, a record level. While pork spreads have exceeded year earlier levels thus far in 1985, they are not excessively high by historical standards, having averaged about 86 cents for the past 20 quarters. The July spread was approximately 87 cents.

Broiler wholesale to retail spreads (table 3) have risen slowly in recent years, increasing from around 15 cents up to the 20 cent level (except for 1983). They have averaged about 20 cents in 1985.

Outlook for Price Spreads

For 1985 as a whole, farm-to-retail beef price spreads are expected to be up 5-7 percent, reversing the decline of the 2 previous years. The increase in price spreads from 1982-1985 should be about 4 percent, well below the general inflation rate for the period. Spreads in the first half of 1985 averaged $1.06 a pound and are expected to average near that level in the second half. Beef spreads are expected to narrow in late summer and fall from the high levels of July and August as steer prices rally from the depressed low $50's a cwt registered this summer. Slaughter weights are declining and the feedlot backlog that developed this spring should be worked down by early October. The end of the feedlot backlog and a moderate decline in beef production, along with a drop in pork production, is expected to strengthen steer prices into the low $60's a cwt this fall.

In 1986, with moderately lower production expected, steer prices are expected to return to near 1984 levels. Beef price spreads in 1986 are expected to average 1-3 percent lower than in 1985.

Farm-to-retail pork price spreads in 1985 are expected to average 7-8 percent above 1984, but should be below the 93 cents a pound reported for 1983. In 1984, spreads fell 9 percent from a year earlier. In the second half of 1985, spreads should average 1-3 percent above those of the first half as hog prices average in the low-to-mid $40's a cwt. Pork price spreads usually widen in late summer and into the fall as hog prices drop seasonally. This year, because of a higher-than-expected rate of slaughter in July and August, hog prices dropped earlier than usual. In early July, hog prices were about $50 a cwt; by early August they were near $43 a cwt.

Pork price spreads are expected to increase only slightly in 1986 over 1985. Lower expected production should be accompanied by a rise in hog prices. Hog prices are expected to begin increasing soon after slaughter hits its seasonal peak in November and continue into 1986, registering significant year-over-year price increases especially in second-half 1986.

PRICE SPREADS ISSUES

As noted earlier, four major issues arise when considering whether meat price spreads are abnormally large: (1) lagged price effects; (2) competition in the industry; (3) cost structure; and (4) the level of industry profits.

Lagged Price Effects

Retail meat price changes typically lag livestock price changes by several weeks. This is due partly to the physical time that it takes for the animal sold at the farm level to reach the consumer. Presently, concurrent prices or values at each market level are used to determine price spreads for beef and pork. Research has shown that price changes at the farm level are transmitted to the carcass level with a very short lag—usually a week or less. However, the change in price at the farm level takes longer to reach the retail level—about 2-3 weeks for beef, and about 3-4 weeks or longer for pork, depending on the amount of processing involved.

Over a period of several years a step-like pattern of increases in price spreads for beef has emerged (figure 1). These steps are quite apparent for the carcass-retail component of the beef price spread. No such steps have been identified for the farm-carcass spread. Step increases in the beef carcass-retail spread have occurred in January 1972, August 1973, September 1975, May 1978, and January 1979. It is unclear at this point whether March 1985 is a new step or a temporary high in the current progression.

A similar pattern exists for pork (figures 2 and 3). Fewer steps have been identified for the farm-wholesale spread for pork than for the wholesale-retail spread. Three levels have been identified for the farm-wholesale spread. The farm-wholesale spread appears to have held relatively constant since mid-1975 despite inflationary pressures on input costs. As production of pork increased from a low level in 1975 to a high level in 1980, fixed costs per unit were reduced and this helped maintain farm-wholesale spreads at the 1975 level. Since the early 1980's, structural changes have occurred as inefficient packing plants closed and actions were taken to lower labor costs. This probably has contributed to continued stability in spreads.

For the pork wholesale-retail spread, step increases have occurred in March 1970, September 1973, September 1975, January 1978, January 1979, and September 1981. Since 1981 the wholesale-retail price spread for pork has fluctuated around the same step.

Based on examination of price spreads, it appears that step increases occur when farm prices stabilize or decline after a period of rising prices. A likely explanation is that retailers' profits are squeezed while they try to hold retail prices down, so that when farm prices stabilize or decline there is an opportunity to widen price spreads without increasing retail prices. This enables retailers to recoup normal profits and catch up with inflation in their costs since the last step increase.

A related issue is whether the lag in the retail response is the same during periods of increasing farm prices as during periods of decreasing farm prices. The responses appear similar, except when there is a shift to a higher step as firms incorporate prior inflationary increases into their margins.

Farm-to-retail price spreads also exhibit seasonal patterns of increases and decreases linked to seasonal changes in production and price. Beef price spreads are the highest in the third and fourth quarters of the year when production is the highest. Steer prices reach their seasonal high in the second quarter, then decline through the third quarter and reach a seasonal low in the fourth quarter. Farm-to-retail pork spreads are the largest in the fourth quarter and lowest in the second and third quarters. Pork production is the lowest in the third quarter and largest in the fourth quarter.

Industry Competition

The meat packing and food retailing industries are generally felt to be highly competitive. Meat packers faced major competitive adjustments during the decade of the 1970's; food retailers have felt similar pressures, although perhaps to a lesser extent.

The pork packing and processing system has undergone major changes in operating practices, labor costs, and ownership in response to excess industry capacity and narrow profit margins. Pork production reached record levels in 1980/81. Since that time, declining output has resulted in excess capacity. Major differences in costs among packers have led to bankruptcy filings, closed plants, renegotiated labor agreements, and takeovers by competitors.

Major changes occurred in the beef packing industry in the 1970's. Beef production peaked in 1976. This led to an adjustment in the beef packing industry as it followed the ensuing decline in beef production. The beef slaughter industry is now typified by large scale plants selling boxed beef rather than carcasses. Some of the largest of these opened after 1980.

Food retailers have generally faced keen competition. Although the market share of the top food retailers has remained essentially unchanged over the past decade (table 6), the ranking of individual firms has changed. In several major markets new firms have entered or old firms have withdrawn. Moreover, the presence of a large number of smaller retailers in many markets tends to have a competitive influence even if concentration is relatively high. The emergence of new store or merchandising formats, such as warehouse and super-warehouse foodstores, operating on lower margins, has sharpened price and merchandising competition.

Cost Structure

Pressure to increase margins can be related to a rising cost structure faced by food marketing firms. Cost indices for specified inputs in food marketing are shown in table 8. Costs of inputs increase at rates reflecting demand and supply for inputs and the rate of inflation. Changes in petroleum prices, for instance, reflect the sharply lower supplies in the late 1970's and the lower demand and increased supply in the 1980's.

Labor represents around half of all marketing costs. Wage rates increased across food marketing through 1984; with the exception of the meat packing industry where they have been decreasing. A more detailed breakout of hourly earnings of several food industry employee groups is shown in table 9. Note that meat packing wages dropped in both 1983 and 1984, and employee wages per hour in sausages and other prepared meats dropped in 1984. Data for the most recent months, however, show an increase in meat packing wages.

A further look at the labor input is provided in table 10 where monthly wage rates are listed for meat packing and processing plants and retail stores. Note that the food store wage rate decreased by almost 3 percent between May 1985 and a year earlier. While data series on retail meat cutters' wages are not available, news accounts of recent wage settlements would indicate that retail meat cutters' wages have decreased along with other retail store workers.

The total labor cost of food marketing firms is determined by both wage rates and labor productivity. Productivity measured as the ratio of meat output to the labor input in the meat packing industry increased fairly rapidly until about 1980 when productivity per employee hour leveled off. Beef packing productivity increased prior to 1980 as a shift was made to larger boxed beef plants. A continuation of decreasing wages and increasing productivity would typically result in lower costs per unit of output.

Total labor costs for meat packers increased by just over 2 percent between 1980 and 1983. As a percent of sales, labor costs have held at about 10 percent over this same period. For food-chain stores, total payroll as a percent of sales increased slightly from 12.4 to 13.1 percent between 1980 and 1984.

Profits of Marketing Firms

Price spreads alone do not provide a measure of profits since costs must also be taken into account. The American Meat Institute publishes a financial review of the meat packing industry each year. Data from the most recent 5 years available, presented in table 11, show an extremely narrow profit margin for beef and pork packers. Data for 1984 are not available, but it is estimated that cattle packer profits were down even further and pork profits were up moderately from their low 1983 level.

Profits of retail firms are available from Cornell University's Operating Results of Food Chains, 1983-84. This series, however, is for overall firm profits, not profits of the meat department or profits for beef, pork, or poultry divisions of the meat department. The report indicates that earnings have remained in a narrow range with net earnings after taxes averaging just under one percent of total sales. Expenses as a percent of sales have risen from just under 21 percent during 1979 to over 23 percent in 1983. These data do not reveal anything about the profits of meat departments, compared to other departments in the retail store. Nor do they say anything about pricing strategies by individual retailers in response to changes in wholesale meat costs. The narrow overall profit margin suggests, however, that competition at the retail level remains keen.

SUMMARY

The price spread increases of the past few months appear to be the result of unexpectedly large meat supplies stemming from marketing backlogs of heavyweight cattle and plentiful pork and poultry supplies. Lags in retail price adjustments have contributed to wider price spreads and a record beef price spread. The increase in price spreads appears to have exceeded short term cost increases. However, when viewed on a longer term basis, overall spreads have not been unreasonable and have increased at a rate slower than the general inflation rate. It is still too early to judge whether the large prevailing price spread for beef is a transitory phenomenon or a permanent step increase.

Thank you, Mr. Chairman, that concludes my statement. I shall be pleased to answer any questions.

Table 1.--Beef, Choice yield grade 3: Retail, carcass, and farm values; farm-retail spread, and farmers' share, 1975-85 1/

Year	Retail price 2/	Gross carcass value 3/	Carcass by-product allowance 4/	Net carcass value 5/	Gross farm value 6/	Farm by-product allowance 7/	Net farm value 8/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm-carcass	Farmers' share 9/	8 market steer prices
	Cents/lb.										Percent	Dollars/cwt.
1975:												
I	137.2	90.5	1.6	89.0	87.5	7.2	80.0	57.2	48.2	9.0	58	36.53
II	155.3	118.5	2.1	116.4	117.6	9.8	107.8	47.5	38.9	8.6	6	49.10
III	166.0	120.6	2.2	118.4	118.1	10.7	107.5	58.5	47.6	10.9	65	49.31
IV	160.9	111.3	2.0	109.3	111.0	10.5	100.5	60.4	51.6	8.8	62	46.35
1976:												
I	151.3	94.3	1.7	92.7	93.4	9.4	84.0	67.3	58.6	8.7	56	38.92
II	150.8	97.6	1.7	95.8	100.5	11.5	89.0	61.8	55.0	6.8	59	41.88
III	145.3	88.0	1.6	86.4	89.9	10.4	79.5	65.8	58.9	6.9	55	37.46
IV	145.4	92.6	1.7	90.9	94.0	10.2	83.8	61.6	54.5	7.1	58	39.17
1977:												
I	144.6	89.9	1.7	88.2	91.2	11.5	79.7	64.9	56.4	8.5	55	38.00
II	146.4	95.5	1.9	93.6	98.6	12.5	87.0	59.4	52.8	6.6	59	41.08
III	149.0	96.1	2.1	93.9	97.3	11.6	85.7	63.3	55.1	8.2	58	40.54
IV	153.4	101.3	1.9	99.4	102.3	11.7	90.5	62.9	54.0	8.9	59	42.62
1978:												
I	162.7	108.5	2.0	106.4	110.4	12.6	97.8	64.9	56.3	8.6	60	46.00
II	185.7	129.1	2.2	126.9	133.8	14.2	119.6	66.1	58.8	7.3	64	55.75
III	189.4	124.3	2.4	121.9	129.3	16.2	113.1	76.3	67.5	8.8	60	53.88
IV	189.7	124.5	2.4	122.1	131.0	17.2	113.8	75.9	67.6	8.3	60	54.58
1979:												
I	215.4	148.8	2.7	146.1	158.4	21.1	137.3	78.1	69.3	8.8	64	66.00
II	235.5	160.8	3.1	157.7	175.3	27.0	148.3	87.2	77.8	9.4	63	73.04
III	226.6	149.3	2.7	146.6	158.7	22.3	136.4	90.1	79.9	10.2	59	66.12
IV	227.7	154.4	2.6	151.8	160.9	17.9	141.0	86.7	75.9	10.8	62	67.04
1980:												
I	235.2	155.8	2.2	153.6	160.4	17.2	143.2	92.0	81.6	10.4	61	66.83
II	231.4	154.4	2.1	152.3	156.5	14.2	142.3	89.1	79.1	10.0	62	65.21
III	241.6	165.4	2.5	162.9	171.1	18.2	152.9	88.7	78.7	10.0	63	71.29
IV	242.3	155.1	2.3	152.8	159.5	18.1	141.4	100.9	89.5	11.4	58	66.46
1981:												
I	237.5	147.5	2.0	145.4	150.1	16.0	134.1	103.4	92.1	11.3	56	62.54
II 10/	234.7	155.5	2.1	153.4	160.8	16.6	144.2	90.5	81.3	9.2	61	67.00
III	243.1	158.3	2.3	156.0	160.8	16.3	144.5	98.6	87.1	11.5	59	67.00
IV	239.5	144.5	2.1	142.4	146.4	15.2	131.1	108.4	97.1	11.3	55	61.00
1982:												
I	237.3	151.9	2.0	149.0	153.5	14.7	138.8	98.5	87.4	11.1	59	63.96
II	247.2	168.0	2.5	165.5	171.2	15.9	155.3	91.9	81.7	10.2	63	71.33
III	248.3	150.7	2.1	148.6	154.5	15.4	139.1	109.1	99.7	9.5	56	64.38
IV	237.2	140.6	1.8	138.8	142.7	13.9	128.9	108.3	98.4	9.9	54	59.46

Continued--

Table 1.--Beef, Choice yield grade 3: Retail, carcass, and farm values; farm-retail spread, and farmers' share, 1975-85 1/ (Cont.)

Year	Retail price 2/	Gross carcass value 3/	Carcass by-product allow-ance 4/	Net carcass value 5/	Gross farm value 6/	Farm by-product allow-ance 7/	Net farm value 8/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm-carcass	Farmers' share 9/	8 market steer prices
	Cents/lb.										Percent	Dollars/cwt.
1983:												
I	237.9	146.7	1.7	144.9	149.9	13.5	136.4	101.5	93.0	8.6	58	62.46
II	245.1	158.0	2.0	156.1	162.9	15.5	147.4	97.7	89.0	8.7	60	67.88
III	238.4	142.8	2.1	140.7	147.0	16.5	130.5	107.9	97.7	10.2	55	61.25
IV	231.1	142.0	2.0	140.0	147.4	16.8	130.7	100.4	91.1	9.3	57	61.42
1984:												
I	242.6	157.2	2.8	154.3	164.5	18.5	146.0	96.6	88.3	8.3	60	68.54
II	242.1	151.2	3.1	148.1	159.8	19.8	140.0	102.1	94.0	8.1	58	66.58
III	236.2	146.7	2.8	143.9	155.2	18.7	136.5	99.7	92.3	7.4	58	64.67
IV	237.3	147.1	2.9	144.2	154.9	17.4	137.5	99.8	93.1	6.7	58	64.54
1984:												
Jan.	239.3	158.7	2.8	155.9	164.1	18.0	146.1	93.2	83.4	9.8	61	68.36
Feb.	243.9	154.8	2.7	152.1	162.8	18.3	144.5	99.4	91.8	7.6	59	67.83
Mar.	244.6	158.0	3.0	155.0	166.7	19.2	147.5	97.1	89.6	7.5	60	69.45
Apr.	244.8	155.8	2.9	152.9	164.9	19.4	145.5	99.3	91.9	7.4	59	68.72
May	241.5	150.7	3.8	146.9	158.6	20.8	137.8	104.1	95.0	9.1	57	66.09
June	239.7	147.1	2.7	144.4	155.9	19.2	136.7	103.0	95.3	7.7	57	64.94
July	236.3	151.3	2.8	148.5	159.3	18.4	140.9	95.4	87.8	7.6	60	66.37
Aug.	237.1	146.6	2.6	144.0	155.8	18.8	137.0	100.1	93.1	7.0	58	64.92
Sept.	235.2	142.2	2.9	139.3	150.4	18.8	131.6	103.6	95.9	7.7	56	62.70
Oct.	234.9	139.6	3.0	136.6	148.3	18.1	130.2	104.7	98.3	6.4	55	61.79
Nov.	236.6	149.6	3.1	146.5	157.1	17.3	139.8	96.8	90.1	6.7	59	65.46
Dec.	240.3	152.2	2.7	149.5	159.4	16.9	142.5	97.8	90.8	7.0	59	66.42
1985:												
Jan.	239.7	149.6	2.6	147.0	155.9	16.1	139.8	99.9	92.7	7.2	58	64.95
Feb.	238.7	146.7	2.4	144.3	152.8	15.6	137.2	101.5	94.4	7.1	57	63.65
Mar.	238.6	139.2	2.2	137.0	144.6	14.9	129.7	108.9	101.6	7.3	54	60.26
I	239.0	145.2	2.4	142.8	151.1	15.5	135.6	103.4	96.2	7.2	57	62.95
April	236.8	135.0	2.1	132.9	142.8	15.8	127.0	109.8	103.9	5.9	54	59.52
May	234.4	134.8	1.8	133.0	140.6	15.2	125.4	109.0	101.4	7.6	53	58.57
June	232.0	132.9	1.7	131.2	137.1	14.2	122.9	109.1	100.8	8.3	53	57.11
II	234.4	134.2	1.8	132.4	140.2	15.1	125.1	109.3	102.0	7.3	53	58.40
July	230.6	124.0	1.4	122.6	128.3	14.3	114.0	116.6	108.0	8.6	49	53.44

1/ Revised series. 2/ Estimated weighted-average price of retail cuts from Choice yield grade 3 carcass. 3/ Value of carcass-quantity equivalent to 1 pound of retail cuts. A wholesale-carcass equivalent of 1.464 pounds was used prior to 1970. It was increased gradually t 1.476 pounds in 1976 and later years. 4/ Portion of gross carcass value attributed to fat and bone trim. 5/ Gross carcass value minus carcass byproduct allowance. 6/ Market value to producer for quantity of live-animal equivalent to 1 pound of retail cuts. The farm-product equivalent of 2.36 pounds was used prior to 1970; it was increased gradually to 2.40 pounds in 1976 and later years. 7/ Portion of gross farm value attributed to edible and inedible byproducts. 8/ Gross farm value minus farm byproduct allowance. 9/ Percent net farm value is of retail price. 10/ ERS data through May 1981, BLS series since June.

SOURCE: Economic Research Service.

Table 2.--Pork: Retail, wholesale, and farm values; farm retail spread, and farmers' share, 1975-85 1/

Year	Retail price 2/	Wholesale value 3/	Gross farm value 4/	Byproduct allowance 5/	Net farm value 6/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm whole-sale	Farmers' share 7/	Barrows and gilts 7-market liveweight price
	Cents/lb.								Percent	Dollars/cwt.
1975:										
I	114.1	95.2	69.3	5.5	63.7	50.4	18.9	31.5	56	39.35
II	122.7	107.5	81.1	6.3	74.8	47.9	15.2	32.7	61	46.11
III	137.1	104.5	75.9	5.0	70.9	66.2	32.6	33.6	52	58.80
IV	119.6	91.5	59.2	3.7	55.5	64.1	28.1	36.0	46	52.20
1976:										
I	141.2	112.1	83.0	5.4	77.6	63.6	29.1	34.5	55	47.99
II	138.2	112.9	85.1	5.3	79.8	58.4	25.3	33.1	58	49.19
III	137.1	104.5	75.9	5.0	70.9	66.2	32.6	33.6	52	43.88
IV	119.6	91.5	59.2	3.7	55.5	64.1	28.1	36.0	46	34.25
1977:										
I	120.5	95.0	66.4	4.5	61.9	58.6	25.5	33.1	51	39.08
II	121.7	96.6	69.4	4.8	64.6	57.1	25.1	32.0	53	40.87
III	131.0	100.9	74.5	4.8	69.7	61.3	30.1	31.2	53	43.85
IV	128.2	103.3	70.4	4.4	66.0	62.2	24.9	37.3	52	41.38
1978:										
I	137.0	104.8	80.7	5.6	75.1	61.9	32.2	29.7	55	47.44
II	142.4	105.6	81.3	5.8	75.5	66.9	36.8	30.1	53	47.84
III	144.7	107.6	82.4	6.0	76.4	68.3	37.1	31.2	53	48.52
IV	150.1	112.7	85.3	6.1	79.2	70.9	37.4	33.5	53	50.05
1979:										
I	156.1	113.8	88.2	6.9	81.3	74.8	42.3	32.5	52	51.98
II	148.2	100.1	73.1	5.7	67.4	80.8	48.1	32.7	45	43.04
III	138.0	93.4	65.6	5.1	60.5	77.5	44.6	32.9	44	38.52
IV	134.3	94.1	62.0	4.7	57.3	77.0	40.2	36.8	43	36.40
1980:										
I	133.9	90.9	61.8	4.6	57.2	76.7	43.0	33.7	43	36.31
II	125.3	82.3	53.1	3.8	49.3	76.0	43.0	33.0	39	31.18
III	144.2	107.7	78.6	5.7	72.9	71.3	36.5	34.8	51	46.23
IV	154.3	111.2	79.1	5.8	73.3	81.0	43.1	37.9	48	46..44
1981:										
I	148.7	103.4	70.0	4.8	65.2	83.5	45.3	38.2	44	41.13
II 8/	144.7	104.1	73.9	5.0	68.9	75.8	40.6	35.2	48	43.63
III	157.5	113.6	85.8	5.9	79.9	77.6	43.9	33.7	51	50.42
IV	158.7	105.6	72.4	5.0	67.4	91.3	53.1	38.2	42	42.63

Continued--

Table 2.--Pork: Retail, wholesale, and farm values; farm retail spread, and farmers' share, 1975-85 1/ (Cont.)

Year	Retail price 2/	Wholesale value 3/	Gross farm value 4/	Byproduct allowance 5/	Net farm value 6/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm whole-sale	Farmers' share 7/	Barrows and gilts 7-market liveweight price
	Cents/lb.								Percent	Dollars/cwt.
1982:										
I	160.1	108.7	82.0	5.6	76.4	83.7	51.4	32.4	48	48.17
II	169.3	120.4	96.1	6.6	89.5	79.9	48.9	30.9	53	56.46
III	185.0	132.7	105.4	7.0	98.4	86.6	52.3	34.3	53	61.99
IV	187.1	125.4	93.7	5.9	87.8	99.3	61.7	37.4	47	55.12
1983:										
I	183.0	119.3	93.8	5.7	88.1	94.9	63.6	31.3	48	55.00
II	171.1	106.9	79.6	4.9	74.7	96.4	64.2	32.2	44	46.74
III	165.4	105.6	79.6	5.0	74.7	90.7	59.8	30.9	45	46.90
IV	159.8	103.8	72.8	4.3	68.5	91.3	56.0	35.3	43	42.18
1984:										
I	161.5	108.6	81.3	5.6	75.7	85.8	52.9	33.0	47	47.82
II	159.4	109.5	83.3	6.1	77.2	82.2	49.9	32.3	49	49.02
III	164.0	115.2	87.2	6.0	81.2	82.8	48.8	34.0	50	51.29
IV	163.3	106.9	81.2	5.8	75.4	87.9	56.4	31.5	46	47.77
1984										
Jan.	162.2	112.9	84.8	5.5	79.3	82.9	49.3	33.6	49	49.86
Feb.	162.9	109.2	79.0	5.4	73.6	89.3	53.7	35.6	45	46.50
Mar.	159.4	103.8	80.1	6.0	74.1	85.3	55.6	29.7	46	47.10
Apr.	159.8	107.1	82.1	6.1	76.0	83.8	52.7	31.1	48	48.32
May	158.6	110.6	81.7	6.1	75.6	83.0	48.0	35.0	48	48.08
June	159.9	110.8	86.1	6.1	80.0	79.9	49.1	30.8	50	50.66
July	162.2	117.9	92.1	6.2	85.9	76.3	44.3	32.0	53	54.16
Aug.	166.1	115.9	88.9	6.3	82.6	83.5	50.2	33.3	50	52.28
Sept.	163.6	111.7	80.6	5.6	75.0	88.6	51.9	36.7	46	47.42
Oct.	163.9	101.3	75.8	5.7	70.1	93.8	62.6	31.2	43	44.62
Nov.	162.4	106.8	82.5	5.9	76.6	85.8	55.6	30.2	47	48.55
Dec.	163.5	112.7	85.3	5.7	79.6	83.9	50.8	33.1	49	50.15
1985										
Jan.	166.0	110.0	83.5	5.5	78.0	88.0	56.0	32.0	47	49.14
Feb.	165.6	106.9	83.1	5.6	77.5	88.1	58.7	29.4	47	48.89
Mar.	164.7	102.0	74.6	5.0	69.6	95.1	62.7	32.4	42	43.88
I	165.4	106.3	80.4	5.4	75.0	90.4	59.1	31.3	45	47.30
Apr.	159.3	97.0	70.5	4.7	65.8	93.5	62.1	31.4	41	41.46
May	158.7	99.6	72.2	4.4	67.8	90.9	59.1	31.8	43	42.50
June	157.9	106.3	77.9	4.3	73.6	84.3	51.6	32.7	47	45.85
II	158.6	101.0	73.5	4.5	69.1	89.5	57.6	31.9	44	43.27
July	161.7	99.9	79.3	4.7	74.6	87.1	61.8	25.3	46	46.65

1/ Revised series. 2/ Estimated weighted-average price of retail cuts from pork carcass. 3/ Value of wholesale-quantity equivalent to 1 pound of retail cuts. A wholesale-carcass equivalent of 1.06 pounds is used for all years. 4/ Market values to producer for quantity of live-animal equivalent to 1 pound of retail cuts. The farm-product equivalent of 2.12 pounds was used prior to 1959; it was decreased gradually to 1.70 pounds in 1977 and later. 5/ Portion of gross farm value attributable to edible and inedible byproducts. 6/ Gross farm value minus byproduct allowance. 7/ Percent net farm value is of retail price. 8/ ERS data through May 1981, BLS series since June.

SOURCE: Economic Research Service.

Table 3.—Broilers: Retail, wholesale, and prices spreads, 1975–85

Year	Retail value	Wholesale value	Wholesale-retail spread
		Cents/lb.	
1975	64.3	49.4	14.9
1976	61.1	45.5	15.6
1977	61.9	45.3	16.5
1978	66.5	49.3	17.2
1979	67.7	50.0	17.7
1980	71.9	53.5	18.5
1981	73.7	53.8	19.9
1982	71.6	51.5	20.1
1983	72.8	56.0	16.7
1984	81.4	61.5	20.0
1984			
I	85.5	67.5	18.0
II	82.9	62.1	20.8
III	80.7	60.3	20.4
IV	76.6	56.0	21.3
1985			
I	77.1	56.4	20.7
II	75.7	55.6	20.1
1984			
Jan.	84.1	67.6	16.5
Feb.	87.1	67.9	19.2
Mar.	85.2	66.9	18.3
Apr.	84.8	62.4	22.4
May	81.6	62.2	19.4
June	82.2	61.7	20.5
July	83.5	63.3	20.2
Aug.	79.1	58.0	21.1
Sept.	79.5	59.6	19.9
Oct.	76.6	55.4	21.2
Nov.	77.7	57.5	20.2
Dec.	75.6	55.1	20.5
1985			
Jan.	77.3	57.1	20.2
Feb.	77.2	57.2	20.1
Mar.	76.9	55.0	21.9
Apr.	76.4	52.7	23.7
May	74.5	55.9	18.7
June	76.1	58.3	17.8
July	75.3	57.2	18.1

Table 4.—Comparison of changes in carcass and boxed beef wholesale price series, 1984-85

Year and month	Net farm value	Gross carcass value percent change from previous month	Boxed beef 1/ in percent change from previous month	Retail price
	Cents/pound	Percent		Cents/pound
1984				
Jan.	146.1	+5	+6	239.3
Feb.	144.5	-2	-2	243.9
Mar.	147.5	+2	+1	244.6
Apr.	145.5	-1	-1	244.8
May	137.8	-3	-1	241.9
June	136.7	-2	-3	239.7
July	140.9	+3	+2	236.3
Aug.	137.0	-3	-3	237.1
Sept.	131.6	-3	-3	235.2
Oct.	130.2	-2	-2	234.9
Nov.	139.8	+7	+5	236.6
Dec.	142.5	+2	+4	240.3
1985				
Jan.	139.8	-2	-3	239.7
Feb.	137.2	-2	-3	238.7
Mar.	129.7	-5	-4	238.6
Apr.	127.0	-3	-2	236.8
May	125.4	0	+1	234.4
June	122.9	-1	-2	232.0
July	114.0	-7	-4	230.6

1/ Series was revised Jan. 1, 1985 about $3.25 up. So 1984 data was increased by $3.25 before the percent changes were computed.

Table 5--Selected data on characteristics of the U.S. meatpacking industry, by type of livestock, plants reporting to P&SA

Year	Volume	Firms	Single plant outlets	Multi-plant outlets	Total outlets	Proportion of volume by -- Top 4 firms	Top 20 firms	Top 4 plants	Top 20 plants
	Mil. head	----- Number			-----	----- Percent			-----
Cattle:									
1972	32.5	831	791	144	935	25	52	7	24
1973	31.4	799	761	141	902	24	51	7	25
1974	32.3	767	730	126	856	24	51	7	25
1975	35.5	755	718	124	842	22	50	7	23
1976	37.7	778	740	118	858	22	47	7	24
1977	38.6	731	694	120	814	22	48	8	26
1978	37.3	727	685	123	808	24	49	8	28
1979	32.0	691	651	112	763	29	54	11	32
1980	30.8	672	627	116	743	31	57	12	34
1981	32.1	599	559	97	656	34	61	12	37
1982	32.4	580	536	96	632	35	62	12	39
Steers and heifers:									
1972	26.1	710	671	136	807	29	60	9	30
1973	25.2	698	661	134	795	29	60	9	31
1974	25.4	670	635	117	752	29	59	9	31
1975	25.6	656	620	115	735	28	59	10	31
1976	27.0	666	629	107	736	29	58	10	33
1977	29.0	618	582	110	692	29	61	11	34
1978	28.4	617	578	105	683	32	62	11	36
1979	25.6	582	544	100	644	37	67	14	40
1980	24.5	565	523	103	626	39	70	15	43
1981	25.5	489	457	82	539	43	75	15	46
1982	25.5	471	436	77	513	45	76	15	49
Cows and bulls:									
1972	6.4	714	682	109	791	12	36	9	29
1973	6.2	679	650	95	745	11	35	9	29
1974	6.9	650	621	87	708	14	39	10	31
1975	9.9	644	610	96	706	13	39	8	28
1976	10.7	649	614	97	711	12	36	7	26
1977	9.5	620	588	94	682	11	34	8	29
1978	8.9	628	592	83	675	10	35	9	29
1979	6.4	595	564	72	636	10	36	10	32
1980	6.3	583	548	74	622	10	38	10	35
1981	6.6	521	488	63	551	10	39	10	37
1982	6.9	505	467	64	531	10	37	10	37

Continued --

Table 5--Selected data on characteristics of the U.S. meatpacking industry, by type of livestock, plants reporting to P&SA--continued

Year	Volume	Firms	Single plant outlets	Multi-plant outlets	Total outlets	Proportion of volume by -- Top 4 firms	Top 20 firms	Top 4 plants	Top 20 plants
	Mil. head	----- Number -----				---- Percent ----			
Hogs:									
1972	83.8	530	500	97	597	32	66	8	32
1973	76.2	495	465	99	564	33	68	9	34
1974	77.6	479	450	93	543	34	70	9	34
1975	68.8	440	411	91	502	33	68	10	34
1976	68.8	438	410	87	497	35	71	10	36
1977	74.9	410	383	86	469	34	72	9	35
1978	74.8	408	376	91	467	36	74	9	36
1979	82.2	425	394	91	485	36	75	10	37
1980	92.9	448	413	96	509	35	74	10	37
1981	85.9	421	387	98	485	35	74	10	37
1982	82.1	405	368	98	466	36	74	12	39
Calves:									
1972	3.0	380	364	22	386	23	60	22	58
1973	2.3	342	330	16	346	23	65	23	63
1974	2.6	342	328	20	348	27	66	27	65
1975	4.5	359	342	23	365	28	64	28	62
1976	4.9	361	344	20	364	28	61	28	60
1977	4.7	342	326	22	348	29	66	29	63
1978	3.8	315	298	25	323	31	65	31	63
1979	2.6	283	271	26	297	33	70	33	68
1980	2.2	273	257	39	296	36	72	34	68
1981	2.3	262	249	32	281	35	72	32	68
1982	2.5	259	238	56	294	33	71	31	66
Sheep and lambs:									
1972	10.0	215	205	25	230	57	95	24	80
1973	8.9	213	203	23	226	56	95	25	81
1974	8.9	195	184	22	206	56	93	24	81
1975	7.8	193	185	21	206	57	94	26	83
1976	6.8	193	184	19	203	53	94	32	88
1977	6.1	182	173	16	189	55	95	36	91
1978	5.1	174	167	15	182	59	96	44	94
1979	4.9	182	173	17	190	66	98	42	95
1980	5.5	190	180	15	195	57	98	45	97
1981	5.4	183	171	16	187	58	98	47	97
1982	5.7	184	173	14	187	49	98	46	97

Source: Unpublished data, USDA, P&SA.

Table 6.--Market share of 20 leading grocery chains 1/

Rank of chains	Share of total grocery store sales in--			
	1972	1977	1980	1982
		Percent		
4 largest	17.5	17.4	17.1	17.8
8 largest	24.4	24.4	25.6	25.1
20 largest	34.8	34.5	36.6	35.6

1/ Data for 1972-77 are from the Census of Business 1980-82 are by Carles R. Handy, National Economics Division, Economic Research Service, U.S. Department of Agriculture.

Table 7.--Choice beef, pork and poultry Farm value, marketing costs by function, and retail price

Item	1980	1981	1982	1983	1984	1985
	Cents per retail pound					
Beef						
Farm value	145.0	138.5	140.5	136.2	140.0	128.0
Slaughtering	6.8	7.0	6.8	5.4	3.8	
Intercity transportation	3.7	3.8	3.8	3.8	3.8	
Warehousing and store delivery	14.8	14.9	15.2	14.9	15.0	
Breaking carcass	9.4	10.4	11.0	11.4	11.8	
Cutting and merchandising	57.9	64.1	65.6	66.4	65.2	
Retail price	237.6	238.7	242.5	238.1	239.6	235.8
Pork						
Farm value	63.2	70.3	88.0	76.5	77.4	72.4
Slaughtering and processing	31.5	32.9	30.3	28.9	29.1	
Intercity transportation	3.4	3.5	3.5	3.5	3.6	
Warehousing and store delivery	8.9	9.5	11.0	10.6	10.2	
Cutting and merchandising	32.5	36.2	42.6	50.3	41.7	
Retail price	139.5	152.4	175.4	169.8	162.0	162.0
Broilers						
Farm value	38.8	37.6	35.9	38.0	43.9	
Assembly and procurement	1.4	1.6	1.6	1.6	1.6	
Processing	9.8	10.3	10.4	10.5	10.8	
Intercity transportation	1.7	1.7	1.7	1.7	1.7	
Wholesaling	4.3	4.3	4.3	4.3	4.4	
Retailing	16.0	18.2	17.7	16.7	19.0	
Retail price	72.0	73.7	71.6	72.8	81.4	76.2

Table 8--Price changes in food marketing inputs 1/

Cost item	1979	1980	1981	1982	1983	1984 2/
			1967 = 100			
Labor 3/	265.8	292.6	321.3	342.7	356.7	367.8
Packaging materials	228.4	261.4	280.9	275.2	280.7	308.0
Paperboard boxes and containers	202.1	234.7	258.2	254.9	251.0	281.3
Metal cans	293.0	325.7	345.8	363.6	374.3	398.7
Transportation	251.3	297.9	345.9	371.0	374.5	391.7
Fuels and electricity	418.2	564.0	669.2	705.1	705.1	712.5
Electricity	270.3	320.1	367.9	406.0	417.9	440.0
Petroleum	574.6	850.8	1,056.2	1,012.4	895.9	880.2
Natural gas	544.8	733.7	826.3	990.3	1,155.6	1,162.6
Maintenance and repair	249.7	277.1	304.0	325.1	338.2	350.4
Supplies	224.3	258.8	283.8	289.1	286.5	288.3
Interest, short term	213.5	240.3	288.8	232.6	174.0	198.8
Total marketing cost index	252.2	286.2	317.5	333.8	343.0	357.9
			Annual percentage change			
Labor 3/	8.8	10.1	9.8	6.7	4.1	3.1
Packaging materials	11.6	14.4	7.5	-2.0	2.0	9.7
Paperboard boxes and containers	12.7	16.1	10.0	-1.3	-1.5	12.1
Metal cans	23.7	11.2	6.2	5.1	2.9	6.5
Transportation	14.0	18.5	16.1	7.3	.9	4.6
Fuels and electricity	26.1	34.9	18.7	5.4	0	1.0
Electricity	7.9	18.4	14.9	10.4	2.9	5.3
Petroleum	44.3	48.1	24.1	-4.1	-11.5	-1.8
Natural gas	27.1	34.7	12.6	19.8	16.6	.7
Maintenance and repair	10.0	11.0	9.7	6.9	4.0	3.6
Supplies	13.3	15.4	9.7	1.9	-.9	.6
Interest, short term	36.5	12.6	20.2	-19.5	-25.2	14.3
Total marketing cost index	11.1	13.5	10.9	5.1	2.8	4.3

1/ Data measure changes in prices for fixed quantities of labor and other inputs used in processing, wholesaling, and retailing farm foods sold through foodstores. 2/ Preliminary. 3/ Hourly earnings and benefits.

Table 9.--Average hourly earnings of production and nonsupervisory employees of food industries

Year	Meat packing	Sausages and other prepared meats	Manufacturing, food and kindred products	Wholesale trade, groceries, and related products	Foodstores	Eating and drinking places
			Dollars per hour			
1977	6.57	6.28	5.37	5.43	4.77	2.93
1978	7.09	6.73	5.80	5.92	5.23	3.22
1979	7.73	7.40	6.27	6.39	5.67	3.45
1980	8.50	8.07	6.85	6.96	6.24	3.69
1981	8.98	8.71	7.44	7.57	6.85	3.95
1982	8.98	9.04	7.92	8.25	7.22	4.09
1983	8.58	9.06	8.20	8.69	7.52	4.27
1984	8.16	8.87	8.42	9.10	7.69	4.32

Source Employment and Earnings, U.S. Department of Labor.

Table 10.—Average hourly earnings by months employees related to meat industry

Year and month	Meat packing	Sausages and other prepared meats	Foodstores
		Dollars per hour	
1984			
Jan.	8.27	8.92	7.65
Feb.	8.26	8.79	7.68
Mar.	8.28	8.83	7.69
Apr.	8.21	8.91	7.68
May	8.20	8.89	7.68
June	8.20	9.09	7.63
July	8.15	9.03	7.65
Aug.	8.16	9.02	7.64
Sept.	8.23	8.85	7.73
Oct.	8.05	8.72	7.71
Nov.	7.94	8.70	7.79
Dec.	7.98	8.74	7.64
1985			
Jan.	7.93	8.67	7.69
Feb.	7.94	8.68	7.68
Mar.	7.97	8.73	7.50
Apr.	8.05	8.64	7.43
May	8.11	8.85	7.42

Table 11.--Income measures of firms in the meat packing industry

Year	Meat packing industry 1/		Meat packing industry by specie 1/			
			Cattle packers		Hog packers	
	Income before taxes	Net income	Income before taxes	Net income	Income before taxes	Net income
	Percent of total sales					
1979	1.8	1.0	1.4	0.8	2.6	1.6
1980	1.7	1.0	1.6	.9	2.2	1.3
1981	1.3	.7	1.1	.7	1.1	.5
1982	1.6	.9	1.5	.8	2.0	1.1
1983	1.4	.8	1.0	.6	1.4	.4

1/ Source American Meat Institute's Annual Financial Review.

.gure 1

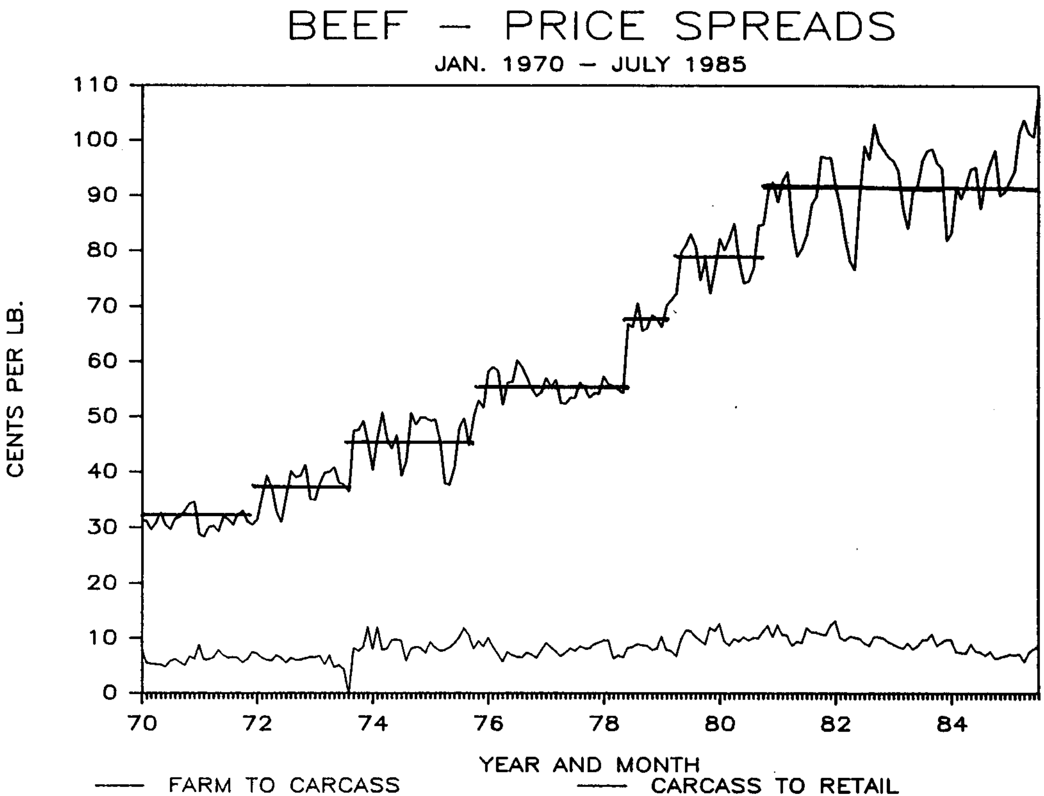

BEEF — PRICE SPREADS
JAN. 1970 — JULY 1985
CENTS PER LB.
110
100
90
80
70
60
50
40
30
20
10
0
70
72
74
76
78
80
82
84
YEAR AND MONTH
FARM TO CARCASS
CARCASS TO RETAIL

Figure 2

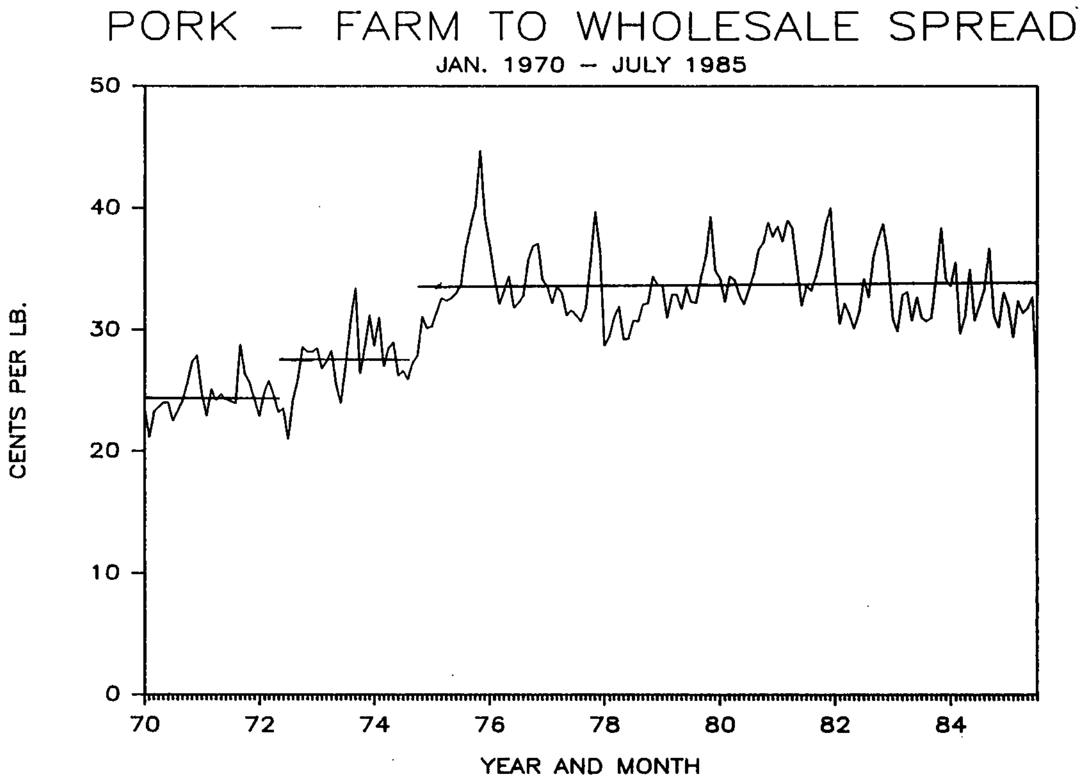
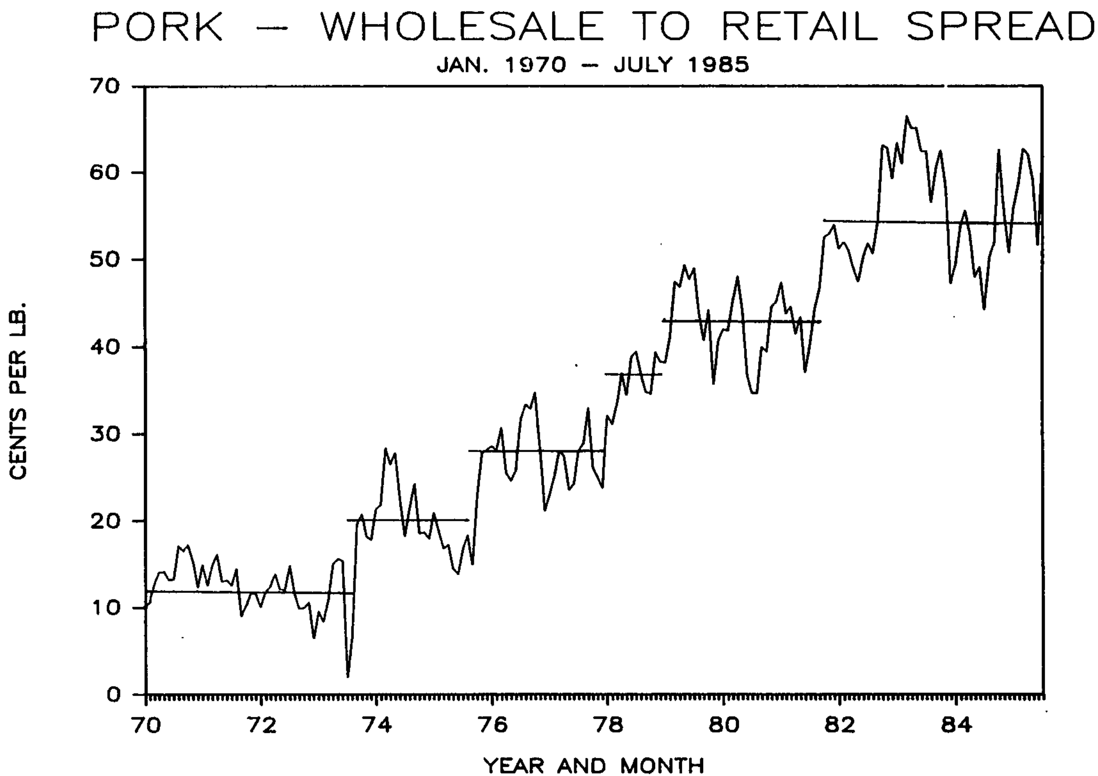

PORK — FARM TO WHOLESALE SPREAD
JAN. 1970 — JULY 1985
CENTS PER LB.
0
10
20
30
40
50
70
72
74
76
78
80
82
84
YEAR AND MONTH

Figure 3


PORK — WHOLESALE TO RETAIL SPREAD
JAN. 1970 — JULY 1985
CENTS PER LB.
0
10
20
30
40
50
60
70
70
72
74
76
78
80
82
84
YEAR AND MONTH

Senator ABDNOR. Thank you, Mr. Clayton.

I find it obvious—you went into this in such detail. It was our request after that first meeting, when we spoke with Mr. Wilson, the Deputy Assistant Secretary for Economics, to get some facts before we started making any broad statements about the situation, and you obviously have. That request was made about a month ago. We thank you. There is still a lot of homework to be done. So it will take us a while to know as much about this as you have recited. Yet we are pleased to have this information, and I'm sure as we go along we will be calling on you folks again for additional information: interpretations of why one thing is one way and not another.

Let me ask you about something that has been a concern of mine for quite some time. All the predictions that do come out of the Department of Agriculture—in the prepared statement you predict steer prices will go in the low 60's this fall. Now, that's great news. At least that's far better news than what we are looking at today. If I recall correctly, you predicted that prices, in the summer, would reach the upper 60's. Mr. Clayton would you like to comment on that?

Mr. CLAYTON. I was just checking my data here so I make sure I didn't misspeak here.

Yes, we were, in March, I believe, expecting prices to go up to mid to high 60's.

Senator ABDNOR. As a matter of fact, I've had a lot of my friends out here tell me that somewhere along the line you predicted a price in the 70's for this fall and for both steer and hog prices to go up substantially. And you think now we may see it in the low 60's; is that right?

Mr. CLAYTON. Yes, that's what we believe now.

Senator ABDNOR. Who makes these predictions?

Mr. CLAYTON. Well, actually we have a number of analysts who watch the markets very carefully and draw upon a research program which is constantly investigating the various economic relationships which account for those price movements.

Senator ABDNOR. Are those people on the Department of Agriculture staff?

Mr. CLAYTON. Yes, that's correct. That's correct.

Senator ABDNOR. Well——

Mr. CLAYTON. I might just add, we were equally disappointed that our prediction turned out incorrectly.

The thing, I think, which I don't think anyone expected was the pattern of marketing switch curve. You know, if you look at the numbers of livestock slaughter, they were in fact down by 2 percent. What we didn't anticipate was the weight of the marketings which did occur.

Senator ABDNOR. Can I interrupt you right there?

Mr. CLAYTON. Yes, sir.

Senator ABDNOR. At our first hearing, Jo Ann Smith, president of American Cowmen's Association made that very point that numbers were less than probably predicted, but weights were grossly greater. And she along with some of us more or less attributed this to you—not you yourself, but someone in your Department. They said prices were going to be $70, so people kept hanging on to their animals. What did she say the extra weight was? Like an extra 40,000 cattle going through there a week. Now, this really concerns me—I wonder sometimes if overall this has been helpful or not. I remember Mr. Tosterud and I went into Chicago to talk about soybeans because your Department of Agriculture predicted a great increase in soybeans. I have friends down here in South Dakota who kept hanging on to them. They said, by god, the Department of Agriculture said they are going to be worth $70, and they ended up what? This makes me wonder how helpful the forecast projections of the Department of Agriculture really are. Maybe it has a tremendous affect on the planning of the people in the field of agriculture. However, sometimes I think they would be better off to do their own guessing.

[Applause from the audience.]

Senator ABDNOR. You are not the one who makes these projections, and thus I'm not picking on you.

It can be a great step toward the problems we have in the market when it's wrong, and maybe it causes people to jump into it too. I'm not so sure. Maybe at the end of the year to know the total numbers for the grain and one projection on the cattle numbers and say, fellows, you are on your own. I'm not so sure that that wouldn't have better results than trying to tell them what the picture is going to be step by step.

I don't know if anyone can do that. But I do know from talking to my friends and people out here in South Dakota that's why some people hung on to their hogs as long as they did, and that's how come they hung on to their cattle as long as they did, and they are killing themselves. They would be a lot better to have the corn back, weight back to where it ought to be and undoubtedly getting a higher price for it. I'm not trying to pick on you. This is a real concern of mine.

Let me go to another thing here. Will you refer to table 7 of the prepared statement. Between 1980 and 1985 the farm value of beef has dropped from $1.45 to $1.28, which is a decline of 17.1 cents. Yet during this same period retail prices have fallen only 1.8 cents a pound. Livestock producers have enough problems right now. It's going to take a 17-cent drop in farm value to get a measly 1-cent drop in retail prices? That's pretty lousy trading. You couldn't play poker that way very long, I tell you.

Mr. CLAYTON. I think that is the heart of the issue in terms of why we are all here today. And clearly we've documented, I think, in essence the facts that the retail price has not moved as quickly as the farm price has. Understanding the retail price ends up being a rather complicated proposition in that we are not talking about a butcher shop. We are talking about supermarkets with many departments sharing general overhead and many other things, and so it does become a bit complicated in trying to understand the adjustment process there. It does seem to me that one would expect to see some additional declines in the retail price. Certainly as we have attempted to document our testimony, in looking at least at those portions of cost that we can identify, it does not appear that there has been a lot of building pressure on the cost side to justify not reducing the spread in terms of particularly on the retail end of the business. Knowing specifically about that obviously involves a great number of individual firms with proprietary records which we don't have access to, and so we don't know for sure what their situation is, particularly with respect to meat. That's the one that becomes difficult to break out and to know to what extent there might be excessive profits being made on meat.

Senator ABDNOR. How do we do that? I mean I had that as a question I wrote down. You said you are speaking of a department of the entire market, but how do you get right into the beef? We have a right to know, don't we? Is there any way? Have you looked at it and made any——

Mr. CLAYTON. We have attempted to do that, yes. The problems we face——

Senator ABDNOR. They resent you asking that question?

Mr. CLAYTON. I might not put it that way exactly, but they don't open their books to us, no.

There are secondary data sources that become available over time which help us to gain some insight into that, but that still falls short of getting in and looking at the books.

Senator ABDNOR. The farmer has to have his books open any time anyone comes around.

The only reason they don't want to show it is because they don't want to show what goes with it, I guess.

Mr. CLAYTON. There are obviously other portions of government which have, I guess, the kinds of subpoena power and other sorts of things one needs to get into that kind of detail. We certainly look at it as closely as we can using whatever data we can draw upon to do that, though.

Senator ABDNOR. Well, you were saying a minute ago that it was difficult to tell if the beef price spreads were temporary things or permanent. It's beginning to look like it's permanent, though, doesn't it?

Mr. CLAYTON. I was beginning to wonder if that's going to squeeze back down again, yes, sir.

Senator ABDNOR. You know, the farmer took a 17-cent drop. That's almost permanent over that period of time. But what do we do in this large prevailing price spread if it does become a permanent step?

Mr. CLAYTON. Well, I think one question is, you know, is the adjustment justified, and if in fact it turns out to be justified I guess we just have to learn to adjust to it.

Senator ABDNOR. Well, something has got to be done. You know, it is very apparent there isn't anyone that can stay in the feeding business that long unless they completely cut back on numbers. But we all hesitate, from the Federal level, to bring action. I'm not advocating to bring action, lawsuits, or something, but maybe it is going to have to come to that. Maybe the meat farmers are going to have to bring it on themselves, going to have to do it. But the Government does a pretty good job of pushing everything else. I just wonder why—don't you think they do have some responsibility if there is—I started this hearing without any predetermined ideas. I mean, sure, I couldn't understand this big spread, but didn't accuse any one segment in any part of the meat industry. It becomes more and more apparent that things aren't quite what they ought to be when you look at this, and we are going to look into it.

When we return to Washington, we will let more people testify, perhaps they may be able to answer some of these hard questions we are asking. It will be interesting to see how they respond. Because the only way we are ever going to overcome this is to induce people to buy more meat when the prices get like this so we get our numbers down.

And, incidentally, earlier you mentioned consumption of meat is up, but apparently in certain areas, the beef and things are down. That's a crime. I mean especially for the bargain they ought to be receiving for it. I have people complaining about the high cost of meat. I guess they don't realize how little farmers and livestock people are getting for their products. We have to make that apparent to them.

This whole subject of consumption of beef is a concern of mine. And I, the beef industry themselves, along with the Department of Agriculture, have to overcome some of this adverse—help the profits come out all the time. They might say that we can't afford that. The taxes that are going in. But we've got all this together, the problem, and, if we want to see the cattle industry stay the farmer's industry, something has to change.

And I guess that's why we have asked you to come today. And I don't mean to pick on you, but I'm just thinking that we've just got to take some drastic steps.

You think the USDA is going to continue to monitor this situation in farming?

Mr. CLAYTON. Oh, I think absolutely.

In response to your earlier question I think perhaps left the wrong impression in terms of what can we do about it. I was thinking, I guess, more in terms of the kinds of regulatory or legal grounds that the Department of Agriculture, itself, might have. I think they are somewhat limited. Clearly there are other areas of Government, other departments of Government which the authority does exist. And I'm sure Secretary Block—one of our basic mandates is to monitor this situation very closely, and I'm quite sure that he is very willing to work with other departments of Government if in fact it appears that something is not as it should be out there.

I think, Senator, also in understanding the current situation, you know, it's, I think, perhaps the unique set of circumstances which have come together—and not to try to reduce the pain and frustration that exists—but I think you talked about the trend in the consumption of meats and so forth. I think we have seen some decline over time in the consumption of red meat. That's clearly something which could be worked on. That's something which industry perhaps could take on its own to see what it could do to push the consumption of beef up.

And clearly the thing which has caught up all of agriculture, including the livestock industry, is this kind of general financial crisis which exists within agriculture right now. Not unique to the livestock sector but across agriculture.

And much of the holding of livestock, and the animal weights, and so forth I think is quite clearly tied to the rather extreme financial pressure that many farmers find themselves under. And I think quite reasonably as they look ahead to what they hope will be better prices that they will in fact slow down their marketing. Some things like that, I think, came together to perhaps make the situation, you know, worse than we might have expected it.

I think clearly in terms of the forecasting angle which you had mentioned earlier—if I could just return to that for a minute. There are quite a large number of people out there making forecasts on livestock prices. One can look around at the various universities throught the country. Most of them have somebody on staff who is involved in that kind of activity.

Senator ABDNOR. But don't they have to get those numbers from you? I mean, they have no way to get the total numbers for the whole country.

Mr. CLAYTON. Usually what happens, the basic numbers in terms of industry levels and things of those we work off a common data base. Some of the basics. How they might lead to a price level is really something that the individual applies——

Senator ABDNOR. I realize that. But without seeing your prices once a year they wouldn't have anything to go on.

Mr. CLAYTON. We like to think we have some role to play in this whole thing.

Senator ABDNOR. Not when you have a track record like you guys do.

Mr. CLAYTON. I think the other thing which is interesting if you look at the livestock prices—one of the things we do each time we do forecasts, we do check around with a variety of other people who are making these forecasts. And when we present ours internally they are always presented in terms of our expectation and the expectations of others as well so that we have some view of where our analysts are coming out as well as other analysts are coming out, and that's kind of taken into account.

I think the question of information flow is one which receives a lot of debate. I guess my own feeling on that is that the, as an individual operator I would certainly like to have as much information as possible about what is going on out there. I may or may not want to believe the price forecast, but I do want to know something about the basic supply-and-demand factors as I would make judgments on when to put cattle, or feed, on the market and so forth. So I guess my personal feeling is that the individual farmers are not going to be in a very good position to gather that information. That there is a public responsibility to provide individuals with as much information as possible. Otherwise it becomes a marketed good. Those with the resources who can have access to that information do so. The little guy in the system probably would end up being at a disadvantage in not having information as to what might be coming ahead.

Senator ABDNOR. Well, let me tell you, this game we are playing, the farmer really doesn't have much going for him. His hand is always showing out there.

How about these futures? I mean, that gets into this picture, too, doesn't it? There are a lot of people who don't have a lot of confidence in the futures. I've had questions in it. I know it's awfully hard to pin anything down on them. And smart fellows who know how to read the numbers, I guess, can get into it awfully easy. I sometimes wonder if they shouldn't have to put up a little more money like the people that play the grain markets. They don't have to put much into the futures, do they? They have to be accountable for it when the time comes. Feel free to answer, Mr. Crawford.

Mr. CRAWFORD. It's generally about the same portion of the contract price that is required for grain, although a little more variable. It's slightly higher in terms of the margin, but certainly a very small portion of the contract price is required to be put down as earnest money when people bid on the futures market.

Also, I might add, in the futures market you have one group of people betting against another. The prices don't necessarily go higher or lower.

Senator ABDNOR. But the farmer is the one sitting with the whole product and cost.

Mr. CRAWFORD. He is usually there with his cattle and hogs in hand rather than so much hedging. One of the problems I think you do see with futures markets, with the small producers the contracts are probably too large for them to hedge satisfactorily even if they so desire.

Senator ABDNOR. You have to admit that has to have an awful lot of influence on what happens to the farmer out there. Really, the whole situation is similar to a game, with two boxers and some people betting on a fight. And these boys in the futures are on the outside sitting around the ring letting the cattlemen go at it, and take most of the risk, and yet totally dependent on what those futures do. They have a great effect on the market. A lot of people question that along with the forecast, but I've never been able to get quite enough understanding of the futures market and how it works. Every time I get around some of those people they outsmart me, but some day we are going to figure out how they do this.

Mr. CLAYTON. It does have a language all its own, I think.

Senator ABDNOR. I'd like to remind you what we are talking about—farming and agriculture—and what we can do about this. We didn't ask only the Department of Agriculture for their assistance. We also called upon the Department of Justice and Trade Commission. We haven't had anything back. However, we intend to keep asking questions because we know this encompasses more than just the Department of Agriculture. Maybe we can all work together and come up with some answers.

Let me ask you one final question. Do you think this current level of retail meat prices is justified giving the farm values of livestock?

Mr. CLAYTON. That does become the bottom line, doesn't it.

Senator ABDNOR. That's just yes or no.

Mr. CLAYTON. Maybe it won't work, hum.

Senator ABDNOR. We would really like to know your feelings on this. We spoke with a gentleman, Mr. Owens, who wasn't part of the Department of Agriculture. Maybe he was a little freer. Commerce didn't think very much of him. Maybe it was easier for him to give us his views. But knowing all the facts that you do and after all you've said on this matter, don't you think that retail prices should be lower?

Mr. CLAYTON. As we indicated in our statement, we are troubled by the size of the spread, as you are. What we are less certain about is what adjustment might take place in that spread and how quickly such an adjustment might occur.

In terms of the information we presented today, one of the questions, I think, is the one we have talked about, whether or not that spread has jumped up to a new step. That it is going to ride in a new plateau for a while or whether in fact we do just have a new aberration. It appears an abnormally large aberration, but that it might come back.

But I think clearly we are troubled by the size of the spread that we see right now. It's not clear to us that it is justified, but I guess we would like to kind of hold judgment, you know, as to the permanency of that. It's just not clear to us what adjustment might occur in it.

Senator ABDNOR. I feel compelled to ask you another question here. You said in your prepared statement somewhere that retail prices lag behind livestock prices for several weeks. What's your idea of several weeks?

Mr. CLAYTON. I think we indicate in the prepared statement that it was 3 to 4 weeks—3 to 4 weeks on beef. I recognize that there are all kinds of variations on the theme there. I'm well aware of the cases wherein the away-from-home food market many people sell aged beef and, in fact, the carcasses will be stored for a period of time, and so clearly the lag in that case could be somewhat greater than the 3 to 4 weeks.

Senator ABDNOR. OK. But have you ever noticed when beef prices go up, the same aged carcasses, they don't go up? Hum? The rules of the ballgame—these guys have enough against them the way it is, everything being equal, let alone giving them the advantage. You say this aged beef lags a longer period of time. If they have fixed dollars in it they aren't going to drop their price in it if prices drop because they have this investment. But at the same time they suddenly take a jump after—we don't take all the credit for it by any means, but after our hearing calf prices went up five bucks for a while. I bet each animal didn't change. I bet the carcasses went up with the sale—the next day's sale. How do we find that out? How can I find out? Any figures in here? Are there any statistics that show how long it takes? I know it takes 4 weeks for it to come down. How many weeks does it take for it to go up?

A VOICE FROM AUDIENCE. Four hours.

Mr. CLAYTON. We are in fact taking a look at that, Senator. We shall be happy to provide you with those results.

Senator ABDNOR. Next Monday? It will be 1 month before we go back in. These are some of the kinds of things we want to ask our witnesses in the retail meat packing.

You don't get into beef imports and numbers and the effect they have on markets, do you?

Mr. CLAYTON. Yes, to some extent.

Senator ABDNOR. Well, let's talk about it. I hope people don't mind here waiting for the next chap to testify.

We have beef and pork coming into this country. Let me start out by asking you: Do they have to stand the same standard? Do they get the same examination? Checking every one and not just a test here and there?

Mr. CLAYTON. Well, yeah, I think you have captured that right there. Imported product doesn't—does in fact have to meet the same tolerance levels on everything from antibiotics to other kinds of things that domestic produce does. Those regulations being promulgated by the Food and Drug Administration and Environmental Protection Agency.

But you are right in your follow-on part of the question, I think, in that it is not a constant in-plant process which is carried on, as I understand it, anyway.

Senator ABDNOR. If we had some legislation that required that, would that be a tremendous burden for the Department? They do it in this country, so they ought to be able to. Why do they get that break? Is there any logic, to your knowledge? Have you ever been told why that happens?

Mr. CLAYTON. To be honest, it begins to get out of my area of expertise and I would hesitate to volunteer anything on the part of the Department here.

Clearly it becomes a very expensive process in that people have to——

Senator ABDNOR. I bet the farmers would be willing to pay for it if they had to check.

Mr. CLAYTON. Maybe that's an option. I'm not sure.

Senator ABDNOR. I mean seriously, we should. We have to compete with them and all the advantages they have. The lower dollar over there—that's the biggest advantage we have to put up with, and then this, too. It's ridiculous. I don't think it's unfair if we said whatever these inspections are, they ought to meet the same inspection on every animal that they are required to do in this country.

I know a little bit about how imports work. The said part is, like all these extra pounds we are putting on animals now, are the total pounds that we are slaughtering contributing to the total of imports coming in?

Mr. CRAWFORD. The quota has been set for the current year 1985. It is based on the forecast for 1985 plus previous year's data, so the extra pounds that we are actually putting on right now does not affect the amount of beef that is allowed into the United States. It will have an impact on next year's.

Senator ABDNOR. The year before? You mean the whole thing—seriously, I'm not being sarcastic. I'm trying to find out. I thought the numbers were kept as we went along and when it reached a certain point it put it into effect.

Mr. CRAWFORD. The main trigger point is January 1, and then they review quarterly. So you will have some effect. But one of the main terms on that factor is the amount of cow beef that is being slaughtered in the United States. So it's affected by the number of cows, not quite as much by the total quantity of beef, although it does have an impact.

Senator ABDNOR. I hope they don't forecast too much because I don't have that much confidence in it.

What do you think would be the price of cattle today if we cut off beef imports?

Mr. CRAWFORD. We've got about 7 percent of our beef supply that is coming into the United States that is imported. It's different for pork, but on cattle you could probably use in your normal flexibility probably 10 to 12 percent if you outlawed imports.

Senator ABDNOR. Now, let me ask you this: Does Canada with hogs have to pay any attention to the numbers coming in? I mean, I know they can't have dumping charges against them, but numbers? We don't have any restrictions on livestock coming from Canada?

Mr. CRAWFORD. We do not have a close on pork.

Senator ABDNOR. That's right. Closed on Canada.

Mr. CRAWFORD. Canada or our other main supplier, which is Denmark.

Senator ABDNOR. No quotas whatsoever? Do we do that on cattle? What about beef?

Mr. CRAWFORD. On cattle, the Canadians, we have some reciprocal agreements with them, and generally that balances out. We have a flowout of the Provinces into the United States and we also have a flowout of the northern areas into Canada. So you see kind of a U-shaped flow the way the cattle supplies are pumped around, so it balances out on cattle.

Senator ABDNOR. Do you ever find yourself having to deal with the State Department? The rear end of it? I mean, do they get into this very often?

Mr. CRAWFORD. In the periods in the past where the Department has had to negotiate long-term agreements on supplies, yes, the State Department is involved in that very heavily.

Senator ABDNOR. I also had a hunch, the import business, I'm dealing more with State and Farm than I am with Agriculture. I know I was when I talked about the embargo on wheat to Russia. In the Cabinet room with the President, on the left Secretary Haig, on the right Secretary Block. I hate to tell you, Secretary Haig was doing much more talking and negotiating than Mr. Block. I'm not too sure that isn't why the 2 million blockade we worked out with Mr. Stockman—grain going into foreign sales by our private companies hasn't been more successful. I'll lay you money that Secretary Schultz and his people and a few others have more to say about what's happening than you people in the Department of Agriculture. That's one man's opinion, but I'm not going to follow that through.

I think we kept you long enough. You have come a long way. We thank you very much. We look forward to seeing you again, Mr. Clayton, Mr. Crawford.

[Applause by the audience.]

Senator ABDNOR. I have been told that the Minot livestock auction, in conjunction with the sale day they have up there, is taking the public testimony on this issue and are going to give me a video tape which I believe will be covered by all the North Dakota news media. I just thought you would like to know that there is a lot of interest in this study we have here.

I'm very pleased to have as our next witness a friend of mine, a fellow I have worked with since I was a State senator in South Dakota. I guess he has been there almost that long. He is known as Mr. Nebraska and he drove all the way up from Bellwood, NE, today. Loran Schmit. Senator Loran Schmit and the State of Nebraska has a vital interest in this, and I know he spent a lot of time on this. We are extremely pleased that you took off and came all the way up here. Why don't you introduce us.

STATEMENT OF HON. LORAN SCHMIT, NEBRASKA STATE SENATOR, ACCOMPANIED BY HON. CARSON ROGERS, NEBRASKA STATE SENATOR

Mr. SCHMIT. Yes. I want to introduce Senator Carson Rogers of Gordon, NE, who flew up with me this morning. He is a substantial producer of pork in Nebraska. I might just add a little note. He loaded a lot of hogs out this morning. They brought $3 a hundredweight less than they were bid yesterday, so he has fresh experience.

I was a little bit, I guess, concerned when I testified before the subcommittee earlier. I should say I am more at ease here than I was in February when I was in Washington. The surroundings are more familiar to me and I'm more relaxed. I'm always a little concerned about what I'm going to say, but when I follow the USDA——

Senator ABDNOR. That was an interesting session that time you were there.

Mr. SCHMIT. It certainly was.

Senator ABDNOR. It was amazing how much difference there was in statements.

Mr. SCHMIT. Yes, it was.

But as I was going to say, when you follow the USDA you really don't need a prepared statement, Senator Abdnor, because I believe they provided me with enough material that I could speak my allotted 15 minutes.

I'd just like to say that comments relative to the Board of Trade, Bergland once told me that the Board was financed by amateurs and run by professionals, and it did not take me very long to tell which class I was in and I left that alone after a while.

Also referring to the projections insofar as the cattle prices for Nebraska, the USDA is not alone, of course, but a year ago Nebraska had a prediction that we would have strong cattle prices in the first quarter, we would have $68 to $62 cattle in the second quarter, he was still predicting we would have strong cattle prices in the third quarter and, of course, we all know what has happened.

It's kind of interesting that I have been a cattle feeder for more than 40 years. I have gone from a young man to advanced middle age. More than 30 years ago I testified before a committee like this. Senator Hruska in Omaha. Exactly the same thing happened, Senator Abdnor, as when you held the meeting in Washington. After months and months of concern because of beef price spreads and spreads also on pork, the committee came to Omaha and held a hearing. And between the time the hearing was announced and between the time the hearing was actually held live cattle prices jumped $5.

Now, you can talk all you like about the lack of publication. There are two ways to look at it. In some ways I would prefer the investigation be done with less fanfare perhaps because you might be noticing up here in South Dakota if you announce you are going to have a speed trap on certain highways we will live within the speed limits, where if you don't announce that you have more success in picking up some customers.

But I think perhaps the announcement of the hearings does two things. It puts the industry on guard and, second, it does help the cattle market a little bit. I can't say the same for hogs, Senator Carson.

But I will just try to stick to my prepared statement.

Senator ABDNOR. We would like to hear your comments and what you have on your mind today.

Mr. SCHMIT. I'll do that. A friend of mine who has fed cattle for a long time commented to me one time that perhaps if the people who made the predictions on the price of cattle had their salary tied to the proceeds of cattle that they might have a higher degree of success, and I suggest that might not be a bad idea to look into.

I know I agree with you totally. The State Department cracks the whip more so than does the Department of Agriculture in most of the negotiations.

I'd just like to say, Senator Abdnor, I'm real pleased that you came to the Midwest and have given me this opportunity to appear before you. This is a very important committee. A very important task that you have. Thank you for the invitation to testify, and I'll try to be brief, but I'll comment from time to time as my remarks correspond with remarks of the previous witness.

As many of you are aware, I am a long-time Nebraska cattle feeder and farmer. Been a member of the legislature for more than 17 years. I served for a 12-year period as chairman of the committee of agriculture, and now for the last 3 years I served as chairman for the pork committee for some of the same reasons that I think the Department of State perhaps has more influence than the Department of Agriculture.

I'm not a Johnny-come-lately to the concern of price spreads. In 1974 I and several others filed a lawsuit against several grocery store chains in which we charged that there were uncompetitive practices taking place. The suit was settled out of court in 1975. Terms of the settlement prevent me from disclosing the details of that settlement, but I do want to say the cattle industry did receive cash from those supermarket chains.

I requested that Members of Congress and the Nebraska attorney general conduct an investigation to determine the reasons for the widest spread ever in the price that farmers received and that consumers paid for beef. It's also interesting that the Governor also requested this kind of investigation and asked me to proceed and to proceed thoroughly. I am still interested in the indepth investigation, and I am not trying to capitalize anymore than anyone else is on the plight of the cattle feeder and the farmers.

I think that before we attempt to prove anything it may be helpful to identify what we are looking for. To most of us the terms "antitrust" and "conspiracy to fix prices" conjure up images of shady individuals meeting in smoke-filled rooms on on a regular basis to determine the price paid to feeders. If that's what the investigators are looking for, they will be able to report back in some appropriate timeframe that they have investigated and that there is no conspiracy. That type of thinking will lead investigators and others to conclude that we only let the free market system work for another few months and the problem will be resolved. That statement may be true, because if conditions continue for a few more months as they have for the past few months the free market system as we know it will be extinct, as will thousands of farmers and ranchers and tens of thousands, if not hundreds of thousands of people who support and depend on the farmers and ranchers for their livelihood.

There have been a lot of conversations. I have followed this subcommittee's activities with interest. And I noticed in the previous hearing, Senator, the USDA and others indicated that the time lag for the delivery of beef from the feedlot to the supermarkets range from 3 to 4 weeks. I've been involved in the industry to a lesser extent than most people, perhaps, but to a large enough extent to know that the time lag is not nearly as great as we have been led to believe; and frequently, my friends in the packing industry. If there is one thing I would own less than a feeding operation, a meatpacking house, because I believe your figures will show the farm to packing house spread is not increased disproportionally. It is an increase of the spread from packing house to the retailer.

But I know that these cattle started down in the middle of winter, December, January. Now just in August we have heard supermarket chains say, "We are going to have specials. We are going to feature beef." and "it takes a while for the price to respond." I think it was indicated pretty adequately a little while ago when the price of fed cattle moves up—it's been so long I can't remember what it was like—but when the price of fed cattle moves up on the farm the price in the retail moves up quickly. The lag is certainly not 3 or 4 weeks. It's not even a few days.

And I can tell you very frankly that packer friends have told me because of the Federal requirements which require them to pay promptly for beef from the feeder, frequently the beef that they deliver to the market, because of the late time the supermarket takes to pay for the beef, the beef is sold before the packer receives its money for it. It's the good old American system. If you can do it, and it's been done with some degree of professionalism.

I do not believe there is the kind of outright conspiracy that we might think occurs. The kind of arrangement which I think we do have is more subtle, and therefore much more difficult to prove in the sense of finding a smoking gun. People ask me if I can prove that conspiracy exists. Obviously if I had positive, absolute proof that two or more people get caught in the act of conspiring to fix prices, there would be no further need for investigation. The Attorney General or U.S. attorney could simply begin prosecuting the offender.

I would like to be able to present that kind of proof to you, but that information is simply not available. But what I shall try to do is attempt to marshall the evidence that we do have to prove to reasonable men and women that the only logical conclusion an intelligent person can reach is that a conspiracy does in fact exist, or if there is no conspiracy, then at least we will know that the so-called free market system does not function any longer in the livestock and meat business. That may be true.

In examining what does and does not constitute a conspiracy it may be useful to set to rest some myths that have arisen concerning the present distress that farmers and ranchers are undergoing. I will not attempt to prove the distress as I don't believe that any informed person disputes the fact that there is a grave crisis in the cattle industry. Cattle feeders are losing from $100 to $150 a head, in some cases more, while the number of cattle in the beef herds have shrunk to 109 million head from 132 million head as recently as 10 years ago.

We are told by some that the cause of the problem is that people's preferences have changed away from beef and red meat to foods like chicken and fish. This myth has been so widely repeated as to have taken on a life of its own as evidenced by a headline on the front page of the August 28, 1985 issue of the Wall Street Journal, which said in part "beef drops in appeal." As evidence of this viewpoint we are told that the per capita consumption of beef has dropped from 127.5 pounds per person in 1975 to 104.4 pounds per person in 1982. To further buttress this view they point out that the amount of poultry slaughtered annually has risen from about 7 billion pounds in 1961 to more than 15 billion pounds in 1983. These are certainly impressive statistics.

What these figures fail to address, however, is the total consumption of beef and red meat. Obviously the cattle industry would be in better shape if people ate as much beef per person now as they did years ago. The point, however, is that while per capita consumption has declined, total consumption in 1983 was as high as or higher than in 8 of the 12 preceding years. Yes, we would like to have a larger market share, but the change in consumer preferences is not the total cause of the current problem.

The next reason we are given for lower beef prices is that the strength of the dollar has resulted in imports being too high and/or exports being too low. There is again some truth in those statements. However, if through import controls and export subsidies imports were lowered to their lowest level in the last 12 years and exports were raised to their highest level in the last 12 years the combination of these changes would only have a net impact of 2½ percent on the supply of beef. Beef and pork imports are a problem, but only a part of the problem.

I want to emphasize here that I believe very strongly that imports at an adverse time can have a tremendously adverse effect on the market. I might add that the figures that we have developed in Nebraska relative to the imports contradict the numbers that we have received from the USDA. And I would suggest at a time when the industry is suffering as it is today, certainly we do not need competition from those Canadian cattle.

Total demand increased more than 2½ percent between 1981 and 1983 without causing a significant change in prices. Obviously the beef industry would like to decrease imports and increase exports. However, we might be able to live with a free market system if the system is allowed to be truly free and is manipulated. I don't think there is a person in the audience today who does not believe the system works totally free.

The third factor we are given to account for the distress in the cattle industry is the oversupply of cattle as evidenced by figures showing that the number of cattle which were federally inspected for processing has increased from about 31.5 million head in 1979 to nearly 34 million head in 1984. However, as we pointed out previously, the size of the cattle herd has shrunk so that we are now processing nearly 35 percent of our herd as opposed to less than 31 percent just 10 years ago, and the finished product is selling at a price that is relatively high compared to the price of live cattle.

One of the most disturbing facts that I continually hear repeatedly is the fact that you have large numbers of cattle. Cattle have a good winter, did well. Cool summer, cattle did well. Average carcass weight 40 pounds up. Therefore we've got too much beef. But no one goes on to point out that every single pound of that beef is being consumed, and the charts will indicate it is being consumed at a record high level at retail prices. Not a pound of it was packaged. Not a pound of it was discarded. It was all consumed. So how can we blame the overproduction which sells at higher retail prices for the distressed prices we receive at the feedlot? It makes no sense to me at all.

I'd just like to run that by once more—one more time, because I was doing a little calculating. A friend of mine, who operated a small packing company in Omaha, gave me some figures a while back. He said 1,400-pound cattle sold in the Omaha market for $37 a hundredweight. They were No. 4's and discounted. We used to call them—30, 40 years ago we called them Prime and sent them to Chicago and got a bonus for them. Now they call them No. 4's and take off for them. Those cattle sold for $518. Those cattle would yield 64 percent product, 896-pound carcass; 72 percent of that would be meat. Yield 675 pounds of meat. That it averages at a retail price of $2.32 per pound, and total gross revenue to the retailer of $1,566. That's more than $1,000 over the price paid to the cattle feeders.

There is going to be all kinds of experts who will come after me and testify about all these inconsistencies in the testimony. The basic facts are USDA figures and weights and percentages that are commonly accepted to point out, take out the packer's margin of approximately $80 a head, that the retailer made over $900 gross over the price received by the cattle feeder. Those are the kinds of figures, Senator, that I think need to be discussed and need to be explained.

Senator ABDNOR. We have the figures you've just mentioned in your statement in the record, which is being taken now, but do you have anything written down?

Mr. SCHMIT. I just jotted it here on my folder.

Senator ABDNOR. Maybe when you are through you could write it down and we will submit it for the record.

Mr. SCHMIT. I'll be glad to do that. I think it's important because we have been led to believe that there is no margin left. Using these numbers I think we can prove otherwise. It's also possible that surplus could be in storage, and we hear that reference being made from time to time. However, the average production which was in storage in the first 5 months of 1985 was exactly the average percentage of production which was in storage during the preceding 10 years. A surplus, if it exists, has not gone into storage.

The only other place for a surplus to exist is at the retail level. Data are not specifically available on the inventories and retail sales of beef, however, we can arrive at a rough approximation by comparing inventories for the category called food and kindred products with the retail sales of food. Inventories of this category have decreased in the last several years. If there is a surplus at the retail level it presumably is not very large. There is not, therefore, any evidence to support the theory that there is a surplus of beef since every pound produced is being consumed at a price that is very profitable to the retailer.

We hear a lot of talk about how the retail level is competitive. I'm sure it is. The retailers have tended to come and go in the business. But I picked up a newspaper this morning and I noted that two separate chain stores advertise 13-pound roast for 79 cents a pound. Exactly the same price. Another one has it for 84 cents. Not too bad for throwing darts at the wall and knowing what to charge for a roast.

Also I'd like to call your attention to the ads. We have been told supermarkets are going to begin featuring beef. This is an ad for beef. It would be approximately 3 inches wide by 4 inches. And there is an ad for cucumbers up on top of the page which is considerably larger. I would say that does not show a great deal of interest in trying to promote beef at the retail level.

It would seem to me we have effectively destroyed the facts of those who deliberately or through ignorance profess there is no conspiracy. One of the pages that follows presents data from the U.S. Department of Labor, Bureau of Labor Statistics. In all cases 1967 was used as a base year and values were equated to 100. I don't like to use charts. Don't like to use this kind of thing. I'll go into it in just a bit later on.

But what it includes is a category which includes 80 percent of the U.S. civilian, noninstitutionalized population. The processed foods figure is for all processed foods including meat, poultry, and fish and the producer column is the index for livestock prices.

Several things are immediately apparent from an inspection of table 1. No. 1: The producer is receiving less now than at any time since 1980 and is, in fact, nearly at the 1978 level. No. 2: As producer prices have stabilized and then declined, consumer prices have stabilized. It appears, therefore, that the farmer, rancher has been sacrificed in the fight against inflation. No. 3: There has been a very close relationship between the prices producers receive and the index for processed foods—in effect the retail food price—with only slight variations one way or the other, until January of this year when the gap between the retail level and the producer level has widened to an unconscionable level to nearly 9 percent over historic levels, which I might add have always included a profit at the retail level.

I want to emphasize here once again, livestock prices began to decline in December and January, and now 8 or 9 months later we are just beginning to hear some acknowledgement from the retail industry that there needs to be something done. Some attention paid and some additional effort to promote beef.

It can be shown that virtually the entire producer-retail price spread is at the retail level by comparing the producer-wholesale price spread which has been essentially constant for at least the last 18 months.

That is what the chart shows. I wish the chart also showed more thoroughly the first 8 months of 1985. I think that would be very indicative. I would guess that the upper red line would continue to progress upward, contradictory from some of the information we hear from our friends in the retail industry.

As proof that there is some conspiracy in the retail trade, there was an article in the August 29, 1985 issue of the Wall Street Journal which states that three retail Ohio chains had signed a consent decree with the Justice Department concerning convictions for price fixing.

I think that's important. It may seem insignificant to some people when viewed in total context, but it does indicate that there have been cases of conspiracy that were blatant enough to be—to result in a conviction.

I feel there are several areas which I would urge your committee to investigate further. These are No. 1, the extent to which retail food chains have an ownership or beneficial interest in commercial poultry operations and thus would benefit from maintaining high beef prices and shifting consumer demand to poultry.

Senator ABDNOR. Do you know of anybody?

Mr. SCHMIT. I do not know of anybody, but I believe in Nebraska we have very high poultry production operations and very little of the poultry is owned by the producer.

No. 2: The amount of control large retail chains are able to exert on packers to force a reduction in the price paid to farmers, and therefore the wholesale price from the packers, when in fact such a reduction was not warranted by supply-and-demand considerations. No. 3: The extent to which large supermarket chains have either directly or indirectly integrated and thus controlled both the price paid to farmers and the price paid by consumers. No. 4: The extent to which the price structure may be maintained on an informal basis by a few relatively large wholesalers and retailers. We have been told in eastern Nebraska and western Iowa four packers account for 60 to 70 percent of the beef purchases in the region, and in some regions may account for nearly 100 percent of the purchases.

Some of our members have urged that rather than fighting the noncompetitive monopolies the beef industry should acquire through leveraged buyouts wholesale and retail outlets for beef. We have been told that retail food stores are a high volume, low profit industry. The industry may not be inherently a low profit business. Some sections of the industry may simply be poorly managed and the managers have found it easier to conspire than to manage well. Retailers have historically commented about their low margin of profit. Less than 1 percent of profit. Let me suggest that we each should find out how often they turn over the beef in the showcase. I would suggest at least an average of once a week. If you turn that beef over that many times the margin of profit is considerably larger than the 1 percent and certainly puts a different picture on the entire industry.

In conclusion, I want to emphasize again what I have said many times. That as a farmer, livestock feeder, and legislator I do not raise the aforementioned questions lightly. I am deeply aware of the relationship that exists between the feeder, the packer, and the retailer, and our dependence upon each other. It may be that the system of marketing livestock as we have traditionally known it, which has already undergone substantial changes, must continue to change and that the free market system as we have known it will no longer exist.

It is already too late for me or for this subcommittee to help thousands of my fellow livestock feeders and producers who are already bankrupt, but in conscience I must speak out on behalf of those individuals who are still trying to earn their livelihood from the livestock industry.

I want to thank you for the opportunity to present these facts to you, and I stand ready to answer any questions.

I would like to make one more comment, Senator, relative to the importation of various products. It appears to me that the United States, in attempting to expose the free trade philosophy, has become the dumping ground for every kind of product that can be produced somewhere else in the world. Whatever cannot be sold and used at home then finds its way to be sent to this country, dumped at bottom bargain prices, to the hurt of the farmer.

[The table attached to Mr. Schmit's statement follows:]

TABLE I

A COMPARISON OF THE CONSUMER PRICE INDEX FOR URBAN CONSUMERS, THE PROCESSED FOOD INDEX AND THE PRODUCER PRICE INDEX FOR LIVESTOCK.

DATE	CPI-U	PROCESSED FOODS	PRODUCER PRICES
1981	252.8	246.2	248.0
1982	262.1	257.6	257.8
1983	261.0	249.0	243.1
1984 TOTAL	266.6	254.4	251.8
JANUARY	268.9	255.8	250.7
FEBRUARY	273.0	254.6	251.9
MARCH	266.6	264.4	260.8
APRIL	270.5	261.7	260.8
MAY	266.7	257.1	254.8
JUNE	263.9	247.4	250.0
JULY	264.6	258.7	260.1
AUGUST	265.7	252.2	253.7
SEPTEMBER	264.5	249.5	244.9
OCTOBER	263.5	245.5	233.9
NOVEMBER	262.4	250.4	247.7
DECEMBER	265.9	255.9	252.3
1985 SUBTOTAL			
JANUARY	266.6	256.6	247.4
FEBRUARY	267.0	255.6	249.7
MARCH	266.1	252.1	236.6
APRIL	263.6	246.3	231.3
MAY	259.8	245.8	227.7
JUNE	259.8	239.9	226.7

SOURCE: U.S. DEPARTMENT OF LABOR BUREAU OF LABOR STATISTICS

Senator ABDNOR. I concur completely with you. We really thank you for coming up here and giving us the benefit of not only your knowledge but also your years of experience in the livestock business and the State legislature. We certainly will take it to heart. Some of the questions you asked are very good questions. I'm sure the staff will do a good job of digesting this when we put it all together.

Senator Rogers, you have come a long way. Do you have anything you would like to add?

Mr. ROGERS. Carson Rogers, Gordon, NE. Thank you for the opportunity to sit in on this, and I would like to make a couple of comments.

Several comments were made about the consumption of red meat. I hope you might be aware the National Pork Council is trying to get a national checkoff and we are going to need all the help back in Washington we can get. This is something relatively new. Only been in the wing about 4, 5, 6 weeks.

Loran mentioned about the experience we went through on my farm this morning, and I think our bid was 3 cents less this morning and I'm sure the beef products will not be better for the next couple weeks. It illustrates how these things do work.

As far as Canadian pork, I've been on the Canada Pork Board for many years, and we feel we won half of that. There is a duty on live hogs, but still no duty on pork products. I still don't understand what the difference is between a live hog and shipping over pork products, but I do appreciate to sit in.

Senator ABDNOR. Well, we really thank you for coming.

Our South Dakota pork producer has been assigned to testify on behalf of the National Pork Council, and they haven't let me forget about the checkoff. I understand that Jo Ann Smith, National Cowmen's Association, is also pushing for one on beef. What do you think about that, Loran?

Mr. SCHMIT. I have a little difference of opinion on that. Nebraska passed a mandatory checkoff for beef several years ago and we have beef, we have corn, we have sorghum, we have soybeans, we have a chicken checkoff. We have every kind of checkoff you can ask for. I have not been pleased with some of the results of the commodity checkoff groups. They have, in fact, the Sale Barn in Clements, NE, the checkoff people provide money to provide little sale cards where I could write down the purchase of my cattle and then on the back is a nice picture of a steak and it says: "Eat more beef." If the livestock people buying the cattle don't know enough to eat his own product, he sure isn't going to learn by looking at that little card. I don't like to use money that way. I think there are some other ways we could use the money.

I think the best way we could use that money is to follow the practice we did this year at Nebraska Legislature and we allowed up to 25 percent of the money collected for both corn and wheat to be used to lobby Congress to be used to tell our story. I don't think it does much good for the Nebraska cattle feeder to raise $2 million and send half of it out to a PR firm in California, a drop in the bucket in the local area. If we can use it to bring our message to persons like yourself to make the USDA aware.

I truly think the USDA, although trying, is not doing a good job for the cattle feeder and Nebraska farmer.

I think those checkoffs need to be monitored very closely, and certainly we need to head in a different area than Nebraska.

Senator ABDNOR. Let me say one thing, though. All the nutritionists, and different groups in this country preaching cholesterol and health—that's tough competition.

Mr. SCHMIT. That's right.

Senator ABDNOR. I have to believe that's more the reason for people eating chicken and not because they like it that much better.

Mr. SCHMIT. That's right.

Senator ABDNOR. Some people really follow the law to the letter. We are the only one in this industry that isn't doing anything to defend itself. I don't think it's good for Congress to offset that. I really don't. They may help you promote it because there are more of them than there are us down there preaching all the time.

I'm not suggesting for 1 second that it doesn't need to be monitored and doesn't need to be followed closely. I suppose what you are saying could happen.

I was in Congress in my early years when they tried a beef checkoff and some very capable people in the Congress said the same thing you are saying. They are strong believers in beef and in the beef industry. However, we have gotten progressively worse.

And when you look at other companies and the advertising they do; it must pay or they wouldn't be doing it. I don't know if we can just sit idly by and see what is happening.

We've got a lot of people from the metropolitan areas to serve on these agriculture committees. I guess it's no secret I was on the Agriculture Committee back in the House. Next to me on the committee was the Secretary of Health and Human Services, Mrs. Heckler, from Boston, MA. "Congressman," I said, "what in the world are you doing in agriculture?" She said, "Well, my people eat that stuff," and she wants to keep it as cheap as she can.

There is a lot of that going on today. This is a consumer-minded world that we are in, particularly our country. I'm afraid our Department of Agriculture gets that way.

I get very unhappy with our present administration. I think they lean far too much—I was even more so under the Carter administration.

You get people to say they will pay more. During my agricultural hearings 1 year ago I had every conceivable organization before me who is associated with agriculture that I could find. Writers and TV people brought two of the bigger consumer groups and their leaders. I posed the question to them: "If we could devise a farm program that would bring a decent return to the farmers would you be willing to pay more for the food?" They didn't want to say no with the people that I had in there, but I'd be darn if they would say yes. We went after them for the longest time.

I recall this summer that the farm groups filled the auditorium we have in Centerville. I was late getting down there because I was chairing a hearing on the Appropriations Committee. I couldn't get away—somebody had to be there. But when I finally got down and had adjourned the committee it was nearly noon. Some of the other

Senators had already testified. Senator Melcher of Montana was running that. At that particular moment some of the participants—the people in the crowd were participating in testimony and a lady—I was waiting for them to finish and a lady from Chicago got up. She had some petitions in her hand and she was waiving them. She wanted the farmers there to know that the people in Chicago thought the farmer was entitled to more dollars. When I finally got a chance to talk I asked her to stand up. I said: "Ma'am, I really want to thank you. You are one of the first individuals I have run into from the city that said they would be willing to pay more for food allowing the farmer to receive more for their product." That wasn't what she meant at all. You should have seen the pain that came into her face. She meant that Government ought to put more money into it.

I think some way, some how to solve this problem people are going to have to pay more for their food. I don't know how we are going to do it. But the legislation, if you put taxes on it it goes to the Finance Committee. You think you got city people on Agriculture you ought to look at Finance.

But these are problems we are going to have to face up to someday, including people paying more money if we are really going to overcome this farm problem, because there just isn't enough money in the Treasury to make farmers prosperous, especially when you have to get city people to vote for it.

Mr. SCHMIT. I think you touched on something very important. And that is, there was an article in Reader's Digest tells how a wife took 30 pounds off her husband—my wife works on me, too—but the point is, she fed him more pork, fish, and poultry, no beef at all. Tens of millions of ladies will read that article and suddenly decide their husbands need to lose some weight and they will take beef out of their diet.

I think that's one of the best points you made this morning, and you made it. That is, certainly that sort of article does more harm than all the ads we can place in a newspaper does good.

On checkoff points, I still think they have a very substantial place. I'm concerned about the direction of the Nebraska checkoff program.

Senator ABDNOR. Now, you think the situation is anything comparable then? When you went to court in 1974 or something, do you see it the same today?

Mr. SCHMIT. Yes, I do, Senator. I believe there are comparable circumstances. The spread between the livestock cattle and the retail price is comparable. I believe that some of the conditions that existed at that time exist again today.

I do believe also, Senator, that we became more sophisticated and, as I indicated, the people who want to fix prices do not have two or three others in a room and say: "We will pay so much for a beef carcass today." I think as an example the prices advertised as special, all of those things today are so much more available to the individual than they were in the past that the actual meeting of the minds can be a very subtle thing and something that is not even required by the presence of two people in the same room.

Senator ABDNOR. Thank you.

Mr. Rogers, do you want to get that comment of yours on the record about the Nebraska Pork?

Mr. ROGERS. No; I mean, I don't know if Loran will take me home because I don't have any other way to get back.

I stated Nebraska has a voluntary checkoff for pork. It may not stay that way if the national program goes through. But we think it's very important to go back to Washington. We always have. We go back there a couple times a year. Irregardless of what some people say, we still think there are a lot of rules and regulations made back there that have just as big an impact as the best management I can do on my farm.

Senator ABDNOR. Thank you both. Thank you, gentlemen, for coming so far to give us the benefit of your testimony.

OK. Now we are going to break for lunch. We are looking forward to the afternoon testimony.

[Whereupon, the subcommittee recessed, to reconvene at 1:20 p.m., the same day.]

AFTERNOON SESSION

Senator ABDNOR. We will come back to order. I realize I set the time for starting at 1:30, but I think we can go ahead at 1:20 if our witnesses are here.

I'm going to call at this time Iowa, Minnesota, and Montana. Bob Dubbert from Iowa, Willis Beecher from Minnesota, as well as James Courtney from Montana. Would you gentlemen come forward to the table here.

Gentlemen, first, let me tall you how much we appreciate your coming so far today. We know you have a long way to go home. We appreciate it and we know you will greatly contribute to our hearing—having Montana, Minnesota, and Iowa here. It is going to be a great help to us, and so we are happy to have you.

I don't care what order you go in. If you want to go from right to left, you go right ahead.

STATEMENT OF BOB DUBBERT, PRESIDENT-ELECT, IOWA CATTLEMEN'S ASSOCIATION, AMES, IA

Mr. DUBBERT. OK. I would like to read my statement and then I would like to have a minute to add——

Senator ABDNOR. OK. All right.

Mr. DUBBERT [continuing]. A few words.

My name is Bob Dubbert, a farmer-feeder from Laurens, IA. I currently serve as president-elect of the Iowa Cattlemen's Association and am on the board of directors of the National Cattlemen's Association. I also serve as a director of the National Livestock and Meat Board. We appreciate this opportunity to discuss the crisis in the cattle industry.

The losses sustained in the feeding segment so far this year and the continued erosion of our land values has deteriorated the farmer-feeder's equity to the point where he can't continue to get financing for feeding cattle at previous levels. As an illustration, the cattle on feed reports show Iowa's placements in June down 25 percent as compared to 1984 and placements in July declined 37 percent. Losses in the feeding industry will have an adverse effect on the cow-calf operations in the form of lower prices for their calves this fall.

The farm to retail price margins have been a major concern of our association and the Iowa Beef Industry Council. Since April we have had an ongoing dialog with Iowa-based retail chains and packers. Governor Branstad has appointed a task force to study the various aspects of the beef industry and a legislative interim study has been implemented to further address the issue. We have also been working with the Market Reporting Service and Iowa State University.

Our findings reveal numerous underlying reasons for the disparity between the farm and retail prices. First of all, most of the Nation's economists, including USDA, predicted 1985 would be a banner year for the cattle industry. They predicted prices would average higher than the 1984 average price of $66 a hundredweight. Evidently they based their predictions strictly on the beef supply equation and did not include a demand factor or the effect of other competing meats and poultry.

The decline of prices in March brought a reluctance by producers to market at reduced price levels resulting in a 5-week period of slaughter levels that did not clear the market-ready cattle. The backlog created by the reduced marketings, plus the exceptionally good weather, raised the average weights 40 to 60 pounds. The extra pounds reduced our positive position of 2 percent less numbers to a negative position of 2 percent more production. Slaughter levels remained slightly below last year's levels and the industry could not get enough numbers slaughtered to get current.

The addition of 6 percent more poultry and an increase of pork production over expected supplies has resulted in a burdensome supply of meat and poultry. We have also been flooded with beef imports the last 3 months. Our research shows that at the end of May beef imports were below year ago levels; but since the first of June large quantities of beef imports have been dumped on our market and by the 17th of August imports were up 13.5 percent over a year ago levels. This is equivalent to 2 percent of our production and has to be a negative factor on our price structure.

Our association does not feel that imports will reach trigger levels, but we do feel an orderly marketing provision or agreement should be implemented to prevent large scale dumping by exporting countries in a relatively short time period.

Various attempts to track beef from the farm to the retail store have resulted in wide discrepancies in trying to assign added values or profits through the system. The current reporting service is only able to track about 11 percent of the total meat movement, and that 11 percent tends to be only the meat sold outside the regular pricing system. Trying to determine average retail prices using the USDA's weighted price system, the NCA's 19-city survey of 5 cuts, or the commodity news service 15-cut average results in a comparison of the price relationship from one place to another or from one time period to another, but they do not accurately reflect retail prices.

The credibility of the USDA's reporting and statistical service has been questioned by the public for many years. A review panel appointed by Secretary Block has released a series of 48 recommendations to improve the service and it is our understanding that the formula for determining average retail beef prices is in the process of being revised.

The fact remains the feeder's share of the dollar spent for beef is at a historic low and the feeding industry is still losing over $100 a head. Somewhere in the system there has not been enough incentive to move our product. The law of supply and demand cannot work unless the entire system, including the packer, fabricator, wholesaler and the retailer pass the lower prices to the end consumer.

The retail chains have been bearing the brunt of the accusations, but recent Cattle-Fax data reveals wider than average margins in other segments of the system.

NCA's August survey of 19 cities revealed an average price of $2.34, a decrease of 21 cents a pound since the highs in February. However, a large disparity existed between cities: Des Moines reported an average price of $1.80; Omaha, $2.15; and New York City, $2.48, $1.04 higher than the same cuts in Des Moines. The prices quoted by New York were only 9 cents a pound lower than February highs.

A large percentage of our product goes to the hotel, restaurant, and institution trade. This segment of our industry has used the burdensome supply to increase profits, not increase demand by lowering menu prices.

No wonder producers are investigating alternative methods of pricing their product. They cannot survive with the present system that refuses to pass on lower prices to increase demand. The overall lack of responsibility on the part of the entire system to help move product during a period of burdensome supplies will force the feeders out of business or they will create a new system to get a share of the profits.

In conclusion let me reemphasize there are numerous underlying factors affecting our pricing system. The cattlemen will only get back on the profit side when numbers are reduced enough to regain a bargaining position or the present pricing practices are corrected. In other words, like in the past, the cattlemen stand alone in determining their destiny.

The cattlemen are certainly willing to do their part to help correct any inadequacies in the present system. We are willing to put up our own dollars for new product development, research, education and promotion and we have initiated a new Beef Research and Information Act to provide the needed funds.

We will continue our dialog with our Iowa-based retailers and packers and hope it can be expanded to the national level. We are all in the same business for the same reason and need to share our concerns. Thank you.

That concludes my prepared statement, but I feel I need to answer this question that was commented on this morning by the USDA, if we are on this level we will have to learn to go with it or to live with it. And I believe—I am assuming that was the comment made—we cannot do that. With the land prices, with the property taxes and so forth at the level it is, we absolutely cannot exist this way. There will be plenty of cattle, there will be plenty of beef for a while and liquidation continues, but when that's over there will be no more. We just can't do that.

And in regard to the national checkoff that the senator from Nebraska was referring to, we are trying to instigate a national checkoff for the beef industry, mandatory and nonrefundable. The reason we say nonrefundable is that that will have the importers do their share—pay their share of promotions. Mandatory that we can run it for 2 years before we vote on it and prove that we can or cannot do the job that we need to do.

Today we are only spending 28 cents to tell the consumer to buy 40 to 60 dollars' worth of beef. We need $1 a head to accomplish that, and this is the way we feel we can get it because everyone will pay accordingly.

With the checkoffs that we have now where there is a refund clause in the law, the big yards or the commerce feeders for the big part are asking for a lot of that money back. And we feel that they have just as much at stake as we do, and to be fair it needs to be mandatory.

We have come up with a Nutra-Fax system. The Nutra-Fax that you will see in your grocery store is that grocery store takes a hold of it so that you will know the calories, you will know the fat content and so forth that are in that portion of meat that you are buying.

We have been on the defensive for a long time. We need to get off the defensive. The reason we have been on the defense is because it takes time to survey these things, to test these things. And the National Livestock Board will not put out any information until it is scientifically proved, and that takes time.

And the feedback—I might comment just a minute on the feedback to the producers. It was mentioned the little card in the sale barn and so forth. We in Iowa, for instance, export 80 percent of the cattle we feed—export out of the State. We don't feel we need to promote Iowa beef to Iowa, but at the same time, if we do not promote some Iowa beef then the producer doesn't realize that we are doing anything. And if we go to Des Moines, we go to some city and we promote this and some producer sees it and says, "I finally see you are doing something." So we think there has to be a certain amount of those promotion dollars funneled back to the producer so that he can see we are doing something and why we are doing it.

Senator ABDNOR. I would guess the people in Des Moines, IA, need to be told almost as much as New York.

Mr. DUBBERT. And just one comment about—I guess we are worried about whether we can stay in business, and I think probably one of the—in our area in Iowa, one of the prime problems we have is that the FDIC is continually writing down our land values from what the land was worth or what it brought 4 or 5 years ago. That's understandable. But when they move the land down $200 a year—$200 at a time, twice in 1 year and they get it down to $1,500, $1,400, $1,500, the land that was bringing $3,000, I think there should be a leveling off place so that we can retrench and go on from there. As it is we—none of us know where we are at for sure.

Senator ABDNOR. Thank you. We want to ask some questions. We will let Mr. Courtney go ahead first and then we will direct those questions to all three of you.

We certainly want to welcome you from Montana.

STATEMENT OF JAMES COURTNEY, RANCHER, ALZADA, MT, ON BEHALF OF THE MONTANA STOCKGROWERS ASSOCIATION AND MONTANA CATTLEFEEDERS ASSOCIATION

Mr. COURTNEY. Thank you, Jim. I appreciate being here representing Montana Stockgrowers Association and Montana Cattlefeeders Association.

The first part of my statement will be representing these associations and then I have another one on the end for another organization, still part of it.

Senator ABDNOR. Fine.

Mr. COURTNEY. I am James Courtney of Alzada, MT. I am a sheep and cattle rancher in southeastern Montana and appear here today on behalf of the Montana Cattlefeeders Association and the Montana Stockgrowers Association. These two organizations speak for the Montana cattle industry, an industry that looms large in the Montana economy.

Each year over $550 million are added to our State's economy by the sale of cattle and calves. By our standards, this is a significant contribution to the State's income. A far more significant contribution could be made if we were able to get out from under the huge burden of excess beef tonnage that now plagues our industry. Although fewer cattle have been slaughtered this year than last, the cattle are heavier and we are now producing more pounds of beef than we did in 1984. President Jo Ann Smith of the National Cattlemen's Association, in a statement before this subcommittee several weeks ago, told you that the increase in average weights of beef reaching the market is equal to the production of 40,000 extra cattle each week. The situation is bad and it is getting worse. Here in Montana our cow herd is being reduced due to drought and the severe economic conditions now prevalent. Many of the producers here today will not be with us in a few more years.

A partial solution to our problem would be for the retailer to do a great deal more featuring of our fine product. This would make more beef available to the consumer while at the same time reducing tonnage. Between November 1984 and June 1985, average retail beef prices dropped by only 2 percent, from 0.236.6 cent per pound to 0.232 cent per pound. At the same time prices for choice steers at Omaha fell from $64.29 per hundredweight to $56.69 per hundredweight and this trend continues.

We recently learned of some work that was done by Raymond Daniel, economist with Chase Econometrics. Daniel terms "phenomenal" the price retail spread that has widened over the past 15 years. For example, in 1970 the retail price spread was 32 cents per pound; in 1975, 45 cents; in 1980, 82 cents; in 1981, 97 cents, and in 1985, $1.09 per pound. According to Daniel, as he was quoted in the August 19 issue of the Western Livestock Journal, "The spread is growing faster than wages or energy or any of the other costs, so it implies that either the consumer is demanding more for parts of meat or it's implying that there is less competition."

From the above facts I think you can agree that for some reason the retailer is holding on to the profits he earns as the result of this oversupply problem with no price advantage going to either the producer or the consumer. Now, we don't want to tell anyone else how to run his business, but it seems to us that the time has now come for the retailer to return competition to the meat department rather than using it as a means of directing traffic through the store.

In conclusion, we are definitely not asking your subcommittee to develop some sort of price-fixing arrangement to insure equity between the parties in the meat chain. We think your subcommittee will have done a service simply by airing the problem. We believe the retailer should be as interested in providing his customers with ample quantities of our product at reasonable prices as we are. What he may not be aware of is the devastating effect the continuation of these wide price spreads can have on the future availability of the product.

Mr. Chairman, we appreciate you coming to South Dakota to give us an opportunity to air our concerns.

I serve as chairman of the Montana Public Lands Council and also chairman of the National Cattlemen's Association public lands committee and I want to make a few comments in representing the public land user. This is primarily in the West.

Livestock producers in the Western States who use these lands are having just as difficult a time economically trying to hold their operations together as the private land users. At a meeting of public land users in Casper, WY, on August 26, a banker made a statement that 40 percent of their ranch loans were in trouble.

The outcome of the omnibus range bill could have a drastic affect on the users if the grazing fee is not set in statute at a reasonable rate. We need to establish stability and certainty to the operator as well as the lending institutions through this legislation. The areas of this bill which addresses land-use planning is of much concern to the users of these lands because of the complications of use caused by extensive planning and inventories by the agencies.

The addition of a riparian area section certainly is causing much concern because it could affect private water rights. The riparian section could open up a whole new area for litigation and could bring upon us restrictive regulations which could affect our ability to manage these resources in an efficient manner.

The differential between cost and income is devastating to the public land user. The rancher who is being forced to liquidate their herds either due to drought or other reasons is in serious trouble. We cannot continue to stay in business with livestock prices at 50.6 percent of parity.

We want to thank you for your interest and concern in having this hearing.

Senator ABDNOR. Thank you, Mr. Courtney.

Our last one with us is Mr. Beecher from Minnesota. Again, we will ask you to remain at the table so we can ask you some questions.

STATEMENT OF WILLIS BEECHER, PRESIDENT, MINNESOTA STATE CATTLEMEN'S ASSOCIATION, CANBY, MN

Mr. BEECHER. I'm Willis Beecher from Canby, MN. I'm president of Minnesota State Cattlemen's Association presently and I'm also a beef producer—still a beef producer, I guess I should say.

And we certainly appreciate the opportunity of being here today and to present this, and I would like to read this and then I guess if I may I might ad lib a little as I go along.

Senator ABDNOR. Sure.

Mr. BEECHER. When we discuss the beef price crisis I find it very hard to separate it from the present state of the general farm economy. We must ask ourselves three very important questions. Where have we been? Well, you know the beef industry has been down for some time and going a little bit from bad to worse. And we have lost in the past 4 or 5 years possibly 35 percent of the cattle feeders in the State of Minnesota.

Where are we now? Well, I'll tell you where we are in the State of Minnesota. We are going to lose 50 percent of that remaining number, and that's a fairly accurate guess. It's still a guess, but it's fairly accurate.

And then I guess we have to say, what must we look at realistically in the future?

In the beef industry we have had significant changes in the area of production. We have become very productive and very efficient. One of the goals was to produce a more desirable lean type of beef cattle. This has resulted in a larger frame animal that requires a longer feeding period to make the desirable Choice grade. Net result is we now have a Choice steer going to market at 1,200 to 1,300 pounds instead of the 1,000 to 1,100 pounds of 20 years ago. And we must remember that we market cattle by the head. But bear in mind, the consumer buys his meat by the pound. Numbers are a factor in overproduction, but tonnage is a bigger factor.

I think our excessive weights in the past 6 months are the result of two factors. One being the price forecasting being done by market analysts and agricultural economists. The industry has never before in history been so badly misled. I might also add that the retail industry was also misled by these same market price forecasters. We cannot do much about private forecasting services, but surely we must stop the USDA from engaging in this practice.

Now, when I say that the retailers were mislead by this, back in April when the cattle market broke sharply the retailer was told that this was temporary, within 30 days our market would be bouncing back and be higher than it was. Retailers don't like to lower their prices for 30 days and then jack them right back up again. So I'm not excusing the retailer completely, but I am saying that this was a factor in them holding their prices so high, and they certainly were gouging us. And this same thing went on for 4 months in a row. Bear that in mind.

The second, probably more important factor in overproduction of the meat industry is the abundant supply of cheap feed grains. If we cannot stabilize feed grain prices at a profitable level to agriculture, we will continue to have overproduction in the meat industry. Cheap feed grains result in cheap livestock prices.

And, as you know, when corn is cheap there is also the tendency to over feed livestock. And we have also much more competition from the poultry industry and from the hog industry.

Now, as to the production-to-retail price spread. We all know the spread has been exorbitant for the past 4 to 5 months. Only in the last 30 days have we seen any break in the retail price. We have seen very little change in the methods of merchandising in the retail market.

And I should have stopped before that sentence and stated that we do have some tables here, studies done in the St. Paul-Minneapolis area, that I'll go into later and show that we have had significant breaks in the retail price of meat in the Minneapolis-St. Paul area.

OK. We have seen very little change in the methods of merchandising in the retail market. I think we can become much more efficient in this area. We must do more research in new product development and marketing promotion. One very important step in this direction is a national mandatory $1 checkoff which should be nonrefundable so every producer pays his fair share. This must also apply to foreign imports. I would urge this subcommittee to strongly support the NCA position on this very important issue.

And I think that so much we—every producer of a product must promote its sale. And while many people feel that this is up to the retailers, we cannot depend upon them for this. We must take this role.

In the past, we producers have had no voice in the pricing of the final product. Perhaps it is time to consider some level of fair profit to the retailers and publish a suggested retail price for meat products. Now, this is just a thought. I don't know how it would work. But many products have that now.

Another one of the most important factors agriculture is facing is the strong dollar which results in the same as an embargo on U.S. products all over the world. Net result is we now import 67 percent of all durable goods demanded by the consumer in the United States. That figure would disturb me if it were 37 percent. We are now on a crash course and steps must be taken to change it.

We in the livestock industry use a very large amount of borrowed capital. Interest rates have come down a little, but agriculture is still paying the highest real interest rate in its history. This results in a tremendous influx of outside money being used in agriculture and especially in the cattle-feeding industry. Much of this outside money comes in as a direct result of our tax laws for the purpose of either adjusting or deferring tax liabilities. Many of these tax benefits are beneficial to the livestock industry but are being abused by outside investors. We feel these tax incentives should be limited to bona fide livestock producers. As for the shortage of money, a viable industry would attract profit-motivated funds.

Now, I'd like to bring your attention to these tables I have here. First I should say the National Cattlemen's Association of Denver, CO, their survey of five cut average over the United States in July 1984 was $2.55 a pound; in July 1985 it was $2.39 a pound. Now, that's not much of a drop for what happened to us in the cattlemen's industry. But just look at what happened in the Twin Cities area. This survey was done, by the way, in the Red Owl Stores, in Rainbow Foods and Cub Foods.

Senator ABDNOR. What was the last one?

Mr. BEECHER. Cub Foods in Minneapolis.

This was done the week ending August 10, and the average price in the St. Paul-Minneapolis area for the same cut, $1.64 a pound. I guess that can tell you how people were being ripped off elsewhere.

Now, I wondered after we had this news conference on about August 14, I wondered what happened since then.

OK. Now this survey was done just last week, same stores, Minneapolis-St. Paul area. And the average price had gone up from $1.64 to $1.75. That's still way below the average of July 1985 over the whole United States which is $2.39, so I guess what this points out is that's possibly about how much too high our meat products are in the retail end.

Senator ABDNOR. Do you want to make that part of the record?

Mr. BEECHER. Yes, I do.

Senator ABDNOR. It will be accepted without objection.

Mr. BEECHER. We would like to thank the committee for its concern in this matter. Really appreciate your coming out here.

[The tables referred to by Mr. Beecher follow:]

RETAIL BEEF PRICE SURVEY -- FIVE CUT U.S. AVERAGE

PRICE PER POUND

SOURCE: NATIONAL CATTLEMEN'S ASSOCIATION   MINNESOTA BEEF COUNCIL

Cut	July 1984	July 1985	August 10, 1985	August 31, 1985	
Ground Beef	$1.37	$1.27	$ .88	$ .87	Three Major Twin Cities Stores were used to tabulate the averages of the 5-cuts studied.
Chuck Roast	$1.56	$1.38	$ .81	$ .91	
Round Steak	$2.51	$2.14	$1.58	$1.71	Red Owl Stores, Inc. Rainbow Foods Cub Foods (Super Valu)
Sirloin Steak Bone-In	$3.22	$3.07	$2.21	$2.41	
T-Bone STeak	$4.04	$4.08	$2.71	$2.84	
5-Cut Average	$2.54	$2.39	$1.64	$1.75	

|------------ Twin Cities Averages ------------| (August 10, 1985 and August 31, 1985)

RETAIL BEEF PRICE SURVEY -- FIVE CUT U.S. AVERAGE
Price Per Pound
Source: National Cattlemen's Association -- Denver, Colorado

Cut	July 1984	July 1985	Week Ending - August 10th (Twin Cities)	
Ground Beef	$1.37	$1.27	$.88	Prices acquired from three major retail stores based in Minneapolis/St. Paul
Chuck Roast	$1.56	$1.38	$.81	
Round Steak	$2.51	$2.14	$1.58	
Sirloin Steak (Bone-In)	$3.22	$3.07	$2.21	
T-bone Steak	$4.04	$4.08	$2.71	
5 Cut Average	$2.54	$2.39	$1.64	

Average price per pound based on NCA 5 cut survey

July 1980	$2.43
July 1981	$2.42
July 1982	$2.45
July 1983	$2.43
July 1984	$2.54
July 1985	$2.39
August 1985	$1.64 (Twin Cities Average)

Senator ABDNOR. Again, we thank you.

Just a few questions. All three of you gentlemen may answer. Your States and organizations are in favor of a checkoff; is that right?

Do you have much opposition that you know about?

Mr. BEECHER. Well, I don't like to step on toes, but I understand our major opposition comes from the major farm organizations.

Mr. COURTNEY. One of them is John Melcher. Have you got anything on him? I mean, somehow we have got to get something on him. He is an obstacle at this point.

But some of the opposition is definitely coming from some of the farm organizations.

Mr. DUBBERT. Yes; certainly most of the farm organizations. As far as individuals and cattle feeders are concerned, not a lot of objection. Just a little, but not a lot.

Senator ABDNOR. Well, are you talking about the outside people farming? I guess you are familiar with my legislation, are you not?

Mr. BEECHER. Yes, I am vaguely familiar.

Senator ABDNOR. With tax loss limitations overhead. This is the second year I pushed it. I just feel that we are now getting out of the ranching into the grain farming, and, well, farming period. We are just getting too much land into production. A lot of it is fragile land around the Midwest and coming in from the outside—I call them nonfarm-farmers—and some of these people are farming for a loss. To enjoy it. They write it off of outside income from other sources. My legislation would limit the amount of loss they could receive. Limit to the average income of a family of four, which is $24,700.

Now, I'll just tell you, checkoff would come up with a lot of opposition. I didn't know there were so many horse breeders, for one thing. In Minnesota, I got hit by a number of them one night, but a lot of other groups, because there are those who oppose it. Some people say this would do damage to the feedlots, losing money and do damage to those big feeders who buy rancher's calves and things like that.

This goes far deeper than that. They go into business they ought to go in with the idea of making some income and not losing it. It's breaking a lot of land into production.

I'm happy to say that in the budget bill that passed, I said that we should pass this legislation, and I'm hoping when the tax bill comes up that's going to be a part of it.

But I do think it would help. We've got too much land into production, and it's a shame to plow up more land, especially fragile land at that. I think it would do a lot to help with farming, the situation, and the problem we have.

Do you care to comment on it? Are you familiar? Do you have much of that going on in your country?

Mr. DUBBERT. Not a lot because we don't have the big feedyards in that. But, yes, we certainly agree with you. We also agree with your—with the fragile land has to be taken out of production. We have a bill in front of our Iowa Legislature concerning that. We worked on it last year and hopefully we will get on it somewhere this next session. But as far as the taxes are concerned, yes, we certainly support your views.

Mr. COURTNEY. Yes, we have had a lot of plow up in Montana, and I just was fortunate to see some of it a little while ago and I was just alarmed.

Senator ABDNOR. Was this outside——

Mr. COURTNEY. Well, the big corporations, yes.

But I guess one thing disturbing us that are in the ranching business is, they are going to get paid to put it back to grassland. You know, some of us don't even have grass. But I sure hope that this thing, before it gets through, some kind of talking about the conservation part of the farm bill, set aside for so many years. But they are looking at this, and this disturbs us a little if they are allowed to raise hay.

Mr. BEECHER. Yes; I would like to say in Minnesota we definitely agree with your views on the outside investment and the tax-incentive money. I guess I can say that my understanding is NCA is not in 100-percent agreement with that, but the Minnesota Cattlemen's Association is.

On the fragile lands, we are definitely concerned about that, and we—and we want a conservation—long-range conservation research is what we need. We must not plow up any more fragile lands and we must put some back in grass. However, we feel they should neither be hayed nor grazed except in emergency situations where there might be a drought. Other than that we certainly want to see it seeded back down.

Senator ABDNOR. That's a good point, Mr. Beecher. The farm legislation, I already know this is—that may not be what they end up with when it comes to the floor, but both the House and Senate versions of land retirement or acres placed back in conservation, I think we may have at least—one is 20,000, I think the Senate version is a little more. See what happens, but that's if a provision may be necessary like that.

We're going to pay them for grazing cattle.

Mr. COURTNEY. I had an opportunity, Senator, to sit in on a panel with one of these large operators. He claimed that USDA had not done all the soil survey and they did not have any right to the [unclear]. What he classified submarsh land. Hasn't been proven yet, so maybe we have a problem.

Mr. DUBBERT. I think the National Cattlemen say—going from what Mr. Beecher said—it has to be long range. No matter what we do, it has to be long range. We have lived as long as we can with this Band-Aid stuff. And we have to have the long range so we know what we can and cannot do.

As far as grazing the land is concerned, it should probably be forbidden as long as the Government is making the payment. And in case of disaster where drought or something, rather than have total liquidating of cattle, let him graze it, but pay back to the Government that year's portion of what he received.

Senator ABDNOR. Thank you. Let me just ask you each a question here with a short comment from you. What's the lowest possible cattle price, and second part of that, how soon can we reach that level before everyone is put out of business? I know there is some way to go for a large amount before they ultimately go broke. What is a respectable price?

Mr. DUBBERT. You're asking me what we didn't want the USDA to say.

Currently—let's put it that way. Currently the cow-calf man cannot exist with what he has got, so we have to give a little more for our calves. Granted we have the mothers to feed. I don't think probably—I can't really see that corn in our area is going to get much cheaper than it is because people will steal it. But I feel we are going to have to have somewhere around $75. Maybe that's minimum. Maybe a little more than minimum. You notice I didn't say $85 either. But I believe somewhere in that area.

And did you ask me when?

Senator ABDNOR. Well, I mean, how long before—if we don't get to that level—it's going to be?

Mr. DUBBERT. Yes. The quicker, the better. The longer it takes, the more people are going to go down the tube before we get there. But I guess because I'm an optimist I'm a cattleman, or vice versa, I don't know. But it looks like it might be a little better after the first of the year if our liquidation doesn't continue too long.

Mr. COURTNEY. Well, that's a real tough question. I come out of a drought area and we have had an awful lot of liquidations. And I guess day after tomorrow probably would be the answer because I don't know where the financing is going to come from to reestablish these herds. They are being liquidated at slaughter prices. A lot of the cows are—don't weigh that much because of the drought and a lot of them are young. They have kept their young cows to try to maintain a herd.

And I'm not sure that we are going to exist on $75 cattle. I guess I'm real concerned right now. We have a farm credit system problem in this country that I think is critical. I think that is probably the most critical issue we have, where are we going to get financing to stay in business?

Senator ABDNOR. Under the conditions—a sad thing to say is that you can't afford to take a loan almost with the kinds of returns you are receiving with the prices today; isn't that right?

Mr. COURTNEY. That's right. And how do you get out of business? I mean, you can't. You are in it and you are home, you are hungry and you are hooked and you can't—we can't sell our property. It's devalued probably 40 to 60 percent to what it was a couple years ago, the price of land. And where all these figures come from, I don't know, because we haven't had any sales—only forced sales. And we are in a tough situation.

Senator ABDNOR. Well, Mr. Beecher?

Mr. BEECHER. Yes. Would you state your first question again?

Senator ABDNOR. I was just wondering what kind of price would you have to have in order to achieve a profitable operation? Where you start showing something in the black instead of the red.

Mr. BEECHER. Well, the cattle we have on hand now would have to be in the $65 range to be profitable. And I guess the cattle you would buy now as feeders you would need about that to break even.

The point I want to go back to is the price of feed grain, and we can no longer produce feed grain for under $2.50 a bushel, and it sounds like we are headed for $1.80. And I tell you one thing. If we are going to settle for $1.80 No. 2 corn you can forget about cattle over the $40 range and you can forget about hogs over the $30 range because that's what goes together. So I guess it all starts back with the feed grain. And the cheaper the feed grain gets, the cheaper the livestock are going to get. And as it falls, the people who have equity in cattle that are on hand are going to lose money until it reaches a level where it stabilizes. And that's the same thing that has happened to land. One of the reasons land has fallen so drastically is because of the outlook on feed grain prices. And when it comes to financing banks are looking to Washington right now and wondering what kind of a farm bill we are going to have. And if we don't have at least as good or better farm bill as we had in the past the banks are not going to loan money.

It is really critical. I'm very disturbed in the farm credit system that the governor of the farm credit system is still saying, "I don't need help from Washington. I can work out my own problems." And what he is doing is he is just charging the people who are still servicing their loans a little more interest, and those people can't stand any more.

Senator ABDNOR. Mr. Beecher, I couldn't agree more with what you have been saying. The entire statement.

Mr. COURTNEY. I guess I done a little penciling, and I guess I could not get right at the exact figure, but I think about 25 percent is what the bankers—if we had an increase of about 25 percent in income would possibly be positive cash-flow.

Senator ABDNOR. With today's feeders?

Mr. COURTNEY. That was last spring. Maybe I'm a little off right now.

Senator ABDNOR. That puts it at a price for the cattle ranchers or any of them couldn't even break even. It's a dilemma.

Let me ask you—I know you are from Montana. Have any of your counties been declared disaster counties?

Mr. COURTNEY. No, and that's disturbing because I visited with Congressman Marlenee in his office the other day, and I think 55 counties out of 56 have applied and they have not, and it's really hurting. They are hurting, I feel, the industry because at this point we are forced to ship our calves and our lambs a little earlier—a month or two earlier because of the drought.

Senator ABDNOR. How long ago did you apply?

Mr. COURTNEY. It's been a while, but it's been hung up.

Senator ABDNOR. You ought to get together with me tomorrow. We have the same trouble.

Mr. COURTNEY. Yes. We are just not getting the answers. I guess we need it declared and that possibly some people could get some cheaper money through SBA or FHA loans so they could maybe keep part of their herds. And it would make a difference to the bankers, too, because we have had some help in the past. This is the problem right now.

Senator ABDNOR. Believe me, I've got some—It's one of the first things we are going to do when we get back to Washington. See if we can beat somebody over the head, break something loose. This is terrible. I know it's been going on a long time. We have the same problem in the West that you have in your country.

I think we had better move along. I just want to say on public land, does that proposal make you a little happier?

Mr. COURTNEY. We have a problem. He has told us that without a reparian section of the bill we will kill her.

Senator ABDNOR. Without what?

Mr. COURTNEY. Without a reparian section of this bill he will not let it out of committee, so we have asked for it redrafted.

Senator ABDNOR. This is a good example of what I mean. I don't mean to get carried away with it, but this guy doesn't know any more about the West part. He is from Ohio and doesn't have much relationship with the public and ranching in the West. We will see what we can do. Thank you, gentlemen. Thank you very much.

Our next witnesses are Rodney Aden from Nebraska; Richard Tokach of North Dakota; and Bob Wright of Wyoming.

STATEMENT OF RODNEY ADEN, PRESIDENT, NEBRASKA STOCK GROWERS ASSOCIATION

Mr. ADEN. My name is Rodney Aden. I'm a farmer-feeder from Gothenburg, NE. I'm currently serving as president of the Nebraska Stock Growers Association, which is made up of cattle ranchers and feeders, most of whom live in the western two-thirds of Nebraska. We appreciate this opportunity to discuss some possible courses of action that might be taken to improve the economic situation of cattle raisers and cattle feeders in our State and the Nation.

We have read and approve of the testimony of Jo Ann Smith, president of the National Cattlemen's Association, gave before this subcommittee on August 1. Many of our members contacted Jo Ann and members of the NCA staff, encouraging her to speak strongly on the issue of the high spread between the price of cattle when they leave the feedlot and beef at the retail counter. We see some improvement in this situation, but feel we have a long way to go.

This spring and summer has been an unprecedented period of time for the beef producer. Cattle prices took a nose dive when all the experts felt they would be moving in the other direction. Much has been made of the supposition that the anticipation of higher prices was the cause of the low market, and it was a factor. However, we feel that the extent and duration of this price decline to the feeder is greater than warranted by the 2 percent additional beef production squeezed out of the 2 percent lower number of cattle sold during the past year.

We producers reacted in a completely predictable way to the promise of higher prices earlier this year, not individually recognizing the collective efficiency of our production machine given favorable weather and feed prices. We still feel the excessive amount the market dropped justifies an indepth look at the whole red meat marketing system.

Let's review some of the problems that have evolved for this industry over the past 20 or so years. We have gone full circle from the time when we had just a few large packers immediately after World War II to a period in the 1960's and 1970's when we had a good many moderate sized, highly efficient, state-of-the-art, on the rail meatpacking plants which had moved out into the areas of concentrated cattle feeding. Now many of those plants are obsolete, and we find they are largely displaced by three or four large packers who have learned to put another new technological advance to work for them, boxed beef. The packers who can't put beef in the box often find themselves selling carcass beef, sometimes at a loss, to the big packers. In the meanwhile, the retailer has largely adjusted his operation to boxed beef, and in the process, found that the longer shelf life of boxed beef gives him a good bit more time to sweat out the market on the down side, or increase supplies in anticipation of an upward move.

At the retail level of red meat merchandising another change has occurred. The preferential treatment of red meat, particularly beef, has greatly diminished. The amount of shelf space available to our product seems to be getting less all the time. This raises a chicken or egg kind of question. Did diminishing demand for beef cause these reductions in giving beef a priority spot in merchandising, or has the lower profile in the supermarket caused the drop in demand? We don't have the answer, but we do know that grocery stores have changed in many ways in the last two decades. They feature everything from food items to drugs, liquor, hardware, to who knows what. This has caused many chain operators to quit using red meat to get people in their stores through highly competitive prices. Rather they have decided that red meat should be one of their high profit items.

As a result of the prolonged record high spread in prices between wholesale and retail a good many producers are looking at alternatives to the traditional marketing systems. The one being most discussed is a possible cooperative structure suggested by Mel Potter of Arizona and Wisconsin based on his experience with the Ocean Spray Cranberry Co-op. We would be happy to furnish the subcommittee a copy of the proposal if needed.

The reason we emphasize the preceding points is not to criticize the retailer, rather to point out that the manner in which our product is presented and priced to the consumer bears heavily on the demand. We should be careful not to resign ourselves to the possibility that everyone has turned into a yuppy who no longer is interested in eating much red meat. We have fads in this country constantly, but rarely do they affect more than a small portion of our population. We submit that plenty of study has been given to the buying habits of this creature of the advertising industry, the yuppy, but far too little has been spent in researching just what is happening to our marketing system.

And what would we recommend? We would start with the promise that what has always been good about our product still is. It tastes good and contributes vitally essential elements to our diet that can't be ingested so enjoyably through any other source. We would then proceed to study the question from two points of view. One, what we need to do to reinforce our strengths with our customers. The National Livestock and Meat Board has been doing this for many years and is best situated to continue to do so.

Second, and for the short run most important, we need to take a hard, thorough look at our red meat marketing system as it has evolved in the mid-1980's. Are the institutions that have grown up to serve it working, and if so, for whose benefit? We fear they are not serving the basic producers who in the beef and pork business are primarily independent farmers and ranchers with considerable land-based wealth, but very little leverage in the marketing system. The same could have been said for the poultry industry after World War II, however the poultry producer was typically a smaller landholder than the beef or hog man.

The question we need to ask is, do we want the red meat industry to go the route of the chicken business? If we emulate their merchandising system we will probably have to change our production system to match theirs, also. There are already prototypes for that in existence in the farrow-to-finishing hog operations and some of the vertically integrated beef feeding and packing operations. In most cases the vertical integration of the poultry industry includes the grain trade, usually on an international scale. Some of the bigger players in the beef packing business are now fully integrated except for the production unit. It is folly to own the breeding units, farms and ranches, when the first profit made by anyone in the beef marketing chain is the loss purchased from the producer of the calf.

We are now in the process of washing 50 percent of the equity out of beef and pork producer's land base. At current prices their operation won't show a positive cash-flow, which is the criterion used to loan them money now that their equity is so low. The stage is being set for the acquisition of a large segment of our production base by either the marketing and processing sector through vertical integration or by outside investors, either for tax shelter purposes or very possibly as sound investments if bought cheap enough and incorporated into a system wherein production can be orchestrated sufficiently to assure a profit. In any case, the integrated entity doesn't have to show a profit at the production level. Their profit center can be somewhere further up the chain.

We have outlined a situation that is closer to reality than many may care to admit, and we haven't even touched on several of the marketing problems that contribute to this current low estate of the cattle producer, what is the effect of live and feeder cattle futures trading? Has it created stability in the market? Is it a viable futures pricing mechanism for the first producer? Is it a viable pricing mechanism for the feeder, and even if so, what affect does locking in a profit on feeder cattle purchased for less than the cost of production have on the first producer?

What about beef grading? Is it still serving the purpose the producer had in mind for it when it was put in effect? Is it sound to push the production of genetically diverse cattle raised on an infinite number of different operations into a single cattle feeding regime to be merchandised as the magic low choice yield grade three end product?

The fact we have been so much more successful at raising than answering questions in this presentation indicates the great need for a thorough, widely based study of the marketing system in the red meat business. We feel the questions we have raised have not been seriously enough considered, but we do know they are on the minds of the people we represent, and it might be well to listen to the commonsense ideas of the farmers and ranchers of this country, even though they may seem an endangered species.

Senator ABDNOR. Thank you, Mr. Aden. You raised some very, very important questions that need to be answered.

Before you start, Mr. Tokach, I'd like to introduce a lady here who's from North Dakota, Dina Butcher. Sometimes it takes a woman to get it straightened out at Agriculture. Dina, I want you to come down here.

[Whereupon Dina Butcher did so.]

Senator ABDNOR. Mr. Tokach.

STATEMENT OF RICHARD TOKACH, PRESIDENT, NORTH DAKOTA STOCKMEN'S ASSOCIATION

Mr. TOKACH. Thank you, Senator Abdnor and other members of the subcommittee. My name is Richard Tokach. I operate a purebred and commercial cattle ranch in south-central North Dakota and I am currently serving as the president of the North Dakota Stockmen's Association which has a membership of 2,400 cattlemen.

As you are well aware, the cattlemen of North Dakota, as well as other States, have been facing low prices and drought for several years. The drought is something that only God can correct, but prices are manmade. There have always been cycles in the cattle business of low and high prices, but usually the fed cattle price and retail level prices move parallel, and reflect the rise and fall of supply and demand. At the present time the cow-calf man is losing between $75 and $140 for every cow-calf unit he runs. The feedlot operator or the person he is feeding the cattle for has been losing between $50 and $100 per head this last summer. The packers have been making 10 percent on his investment. Now, if these people are all losing money or making very little, the price of retail meat should reflect the low prices received by the other people along the beef chain.

From a study done by Mr. Gene Futrell, professor of economics at Iowa State University, regarding the price spread received by the retailers: Before 1977 the spread was 69 cents per pound. From 1977 to 1981 there was a sharp increase and from 1981 to the present time the spread has been in the $1 per pound range. We realize that expenses have gone up on all levels, but at a time when live cattle prices are at the lowest point in many years we feel the retailers are keeping the prices at an artifically high level. We recognize that the retail price has been lowered 21 cents from the 1985 high which was posted in February of this year. We also realize that the retailers raised their prices last spring to maintain their profits in anticipation of a large increase in fat cattle and carcass prices. As we all know, the price of fat cattle did not increase but was at its lowest level in July that we have seen in many years. Meanwhile, the retailer did not pass on his lower cost.

Because of this high price of beef in the meat counter the consuming public has cut down on consumption and gone to other meat products which has impacted the cattle producer.

There seem to be many factors that are causing both economic and marketing problems for the livestock industry. The Federal deficit, high interest rates, the antibiotic-animal health issue, clear title, and lack of beef promotional funds.

The Federal deficit, as you all know, is a major obstacle in moving our product into a foreign market, the strong dollar has made agriculture products unattractive in the foreign marketplace. The uncontrolled spending by our Federal Government has caused unfair competition for borrowed money with the private sector, resulting in higher interest rates. The higher interest rates are a major factor in the poor financial condition that many of our cattlemen are in today. The compounding effect of these rates has been devastating.

Our lack of a foreign market and the decreased consumption of beef here at home gives us more reason than ever to do a better job of promotion and marketing. The Beef Promotion and Research Act will allow us to help ourselves. We are not looking for someone else to solve all of our problems. We need a chance to fund a promotional program of our own that will once again instill trust and confidence in our product. It is necessary that everyone in the business participate, not only the small cattlemen but the large ones also.

I think one of the solutions to our problems is for our Government to renounce the cheap food policy that has been in place in this country for many years.

At the present time the taxpayer is subsidizing some segments of agriculture and industry to the detriment of the other segments. If the consuming public were to pay a fair price for food as they have had to pay for gas and electricity and it would be passed back to the producer, these subsidization programs could be eliminated. Thank you for this opportunity to testify.

Senator ABDNOR. Thank you. I appreciate your coming by and testifying. Mr. Wright.

STATEMENT OF ROBERT L. WRIGHT, FIRST VICE PRESIDENT, WYOMING STOCKGROWERS ASSOCIATION

Mr. WRIGHT. Senator Abdnor and members of the Joint Economic Committee, I am Bob Wright, rancher and first vice president of the Wyoming Stockgrowers Association. I am appearing before the subcommittee on behalf of the members of the Wyoming Stockgrowers Association. We appreciate this opportunity to share with you our views on the spread between livestock prices and retail meat prices, the current economic conditions of the livestock industry and prospects for the near term future of our industry.

All of us at the production end of the livestock to consumer supply chain are keenly aware of the size of the spread between live weight livestock prices and retail meat prices. If $4 per pound for steak or $2.75 per pound for ground beef was a fair price when live cattle were bring 65 cents per pound, then it certainly seems that a 25-percent decline in the base price of the product should be reflected all through the supply chain out to the consumer. Only very recently has the retail price of beef dropped any significant amount. If you apply the same line of reasoning to price reductions as is applied to price setting and price increases, then when the price to the producers falls by 25 percent the price at the retail level should fall by at least 50 percent.

The members of the Wyoming Stockgrowers Association believe that this whole area of price setting, farm-to-retail spread, and reasonable margins needs to be investigated thoroughly by an impartial investigator and the results made public. Are there monopolistic price manipulations taking place? Are the retailers, wholesalers, or others in the distribution chain gouging us consumers? What affect do imports have on prices paid to producers, prices charged to consumers? We all need to know the answers to these questions.

I would suggest that your subcommittee request an investigative committee be composed of an investigative reporter from the Wall Street Journal, Washington Post, National Enquirer, U.S. News & World Report and a member of some nationally recognized accounting firm to document an investigation and make the results known to the public regardless of the outcome. I make this suggestion simply because this would be the type of group that would have credibility before the total public. I'm sure the USDA has lost their credibility. NCA, National Farmer's Organization, all of these groups can be accused of having a prejudiced viewpoint. I think a group such as I outlined—it doesn't have to be these people. I have no particular interest in any of those papers, but I think that type of committee could have credibility and I'm sure they have the ability to delve into this.

This last suggestion is in addition to my statement.

Senator ABDNOR. We talked about that during the lunch hour.

Mr. WRIGHT. Yes, sir. If in fact we, as producers, have to accept a pricing structure that tells us that we can expect only an average of 55 cents per pound for finished cattle in order to sell the volume of meat that we currently produce, the impact on the livestock industry will be devastating to about 25 percent of our members, and extremely serious for the rest of us. On my operation, I'm a cow-calf yearling producer. I cannot profitably produce a yearling feeder steer for 55 cents per pound, and I operate in a grass and cake wintering area. For those of you who are unfamilar with these terms, a grass and cake wintering program is about the lowest cost you can get and still be in the business. I don't claim any exceptional management qualifications, good or bad, but I consider my operation as typical of the type of range operation that is likely to be around for awhile. Therefore I can attest to actual costs and profits, if any, without violating any confidences.

For anyone who believes in the supply-and-demand marketplace, the long-term results are obvious. The available supply of beef will decrease, the price and demand will go up, and then supply will again increase. But for those of us who live in the real world, there is more than enough time for lots of trauma during the course of this supply-and-demand cycle. There are also some outside factors at work that have considerable influence on the pure cycle, both as to timing and amplitude of the cycle. One of these outside influences is imports.

I'm sure that we all recognize that the supply cycles of all the beef-producing areas of the world are not congruent with our own supply cycle. This blending of various supply cycles from around the world can have unforeseen results, particularly as these cycles approach synch. For this reason what may have appeared to be sound policy 10 years ago may need to be reexamined now. For example, the volume of imported beef available to the market was twice as great from February through June of this year than was available for this same period last year. Last year, prices for finished cattle rose from the mid 60's to the low 70's during this February to June period. This year, prices fell from the low 60's to the high 40's during this same February to June period.

Another distorting influence on the pure supply-demand cycle is the effect on supply by those for whom the production of beef is only a minor enterprise, or even a hobby. The hobbiest we will have to live with, but the way that Congress structures the next farm bill can have tremendous influence on the supply of beef, at any price, that will be available over the next few years. If farmers are paid to divert a portion of their farms to noncropping use and then permitted to run cattle on that land, then the cost of production of that segment of the meat supply will be minimal. The probable result of that scenario will be to break the rest of us who must use cattle to profitably harvest the grass, the only usable crop that we can produce in the arid regions of this country. And the urban consumer may well say, "So what?" The "so what" is that as soon as an alternative crop more profitable than Government-subsidized livestock comes along, the farmer switches out of beef and there goes your supply.

The trauma associated with the economic conditions of, and the prospects for, the livestock industry should also be addressed in any attempt to improve the lot of the livestock producer. The financial plight of agriculture lenders, especially the Federal Land Banks and PCA's in this area—Iowa, Nebraska, South Dakota, North Dakota, and Wyoming—has been well publicized in recent weeks. In all of this rhetoric and handwringing, very little in the way of constructive suggestion has been offered. Most of the members of the Wyoming Stockgrowers Association are businessmen first and cowboys secondarily, and we realize that when you make errors of judgment, then the piper—in this case, the banker—must be paid. We don't expect that every loan, good or bad, should be guaranteed by Uncle Sam. We know that those who took on more debt than their operation can possibly support will have to fold. But we do not believe in knocking the props out from under a borrower because of a crisis of confidence among the lenders. And we are seeing that happen today, particularly with the Federal Land Banks and the PCA's.

There are some positive steps that can be taken now to reduce this crisis to manageable levels. The recent infusion of $75 million to the Federal Intermediate Credit Bank of Omaha is one step. Another most important step is to accept the premise that any borrower who can pay his interest up to 10 percent on his current total debt be classed as a safe loan for as long as the borrower keeps his 10 percent interest payment current, regardless of the so-called asset values back of his loan. If this borrower has agreed to a higher interest rate, add the excess above 10 percent out at the end of his loan. As a necessary part of this step, the bank examiners, Federal or State, will be required to place all safe loans in a separate category and consider the asset values behind these loans as more than adequate when using their formulas to determine whether or not a lending institution is solvent.

The immediate benefits of this step are: First, this will give many hard-pressed borrowers some time—breathing room—to sort out their operation and make long-term plans for repayment or partial liquidation; second, the Federal Land Banks and PCA's will benefit at least as much, and mostly for the same reasons, for having this same breathing room; third, many, if not most, of the borrowers will eventually repay all their loans, interest and all. For proof of this, you need only to read the history of agriculture loan repayments from the last Great Depression; and fourth, those whose debt burden proves to be more than they can carry are unlikely to all throw in the towel at the same time. By spreading out the sale of these assets over a longer period of time and over a greater area, the calamity foreseen by those who suffer a crisis of confidence will be largely dissipated, if not totally avoided.

I have heard some lenders say, "We do these borrowers a favor by foreclosing on them before they have used up all their assets." That's a lot like saying you're in favor of mercy killings. I can't buy it. If a borrower wants to put his all into the battle to save his operation, I can only say, "Go to it. I admire your courage and determination."

My final comment is one that I'm sure you have heard many, many times, but it continues to need saying. Please balance the Federal budget. I firmly believe that the surge of confidence this action would generate throughout our entire country in every phase of business, and in all our personal lives, would do more to set things all right than anything else the Congress could do. Thank you for this opportunity to appear.

Senator ABDNOR. Thank you, Mr. Wright.

I assume maybe the response and applause might have come to balancing the Federal budget, but I don't know. I couldn't agree more. I made some awfully tough votes and I may live to regret it when the campaign comes in, but I think if we really thought this all through, we would find that our biggest problem is this huge inflation. That's the first thing that killed agriculture as much as anything else when our prices are either staying level or going down; inflation is going at double digits and interest had to go up, you know, because no one is going to loan money. While you are holding it, they are losing unless they get more than inflation.

Then we start all these programs and have the value of our currency. I used to think it was the greatest thing in the world to have strong currency, but when it affects trade so we can't sell; there are some trade barriers. It still wouldn't solve our problems as long as that dollar stays that high. We are looking at a huge deficit and jobs being lost all over this country. Put it all together, that's the big problem.

We have other problems, too. We talked about a lot of them today in front of you, but I'm glad to see there are some of us here that agree this deficit spending has certainly been the start of a lot of the problems. It hasn't just started overnight. This has been building and building and finally got to the place where now we are all saying the deficit is the biggest problem. The politicians around the country won't tell you that. We should have been talking about it 10, 15 years ago at least.

Mr. Wright, we have PCA problems in this State, too. I'm meeting with some South Dakotans tomorrow—maybe some Wyoming people. It's not a public meeting. I just personally agreed to sit down and talk with some people. I'm not calling this a public announcement. I could probably jam this place with a lot more people now, but I am going to do that before I go on to our next stop.

It's nice to have a lady here, and I know her from Washington. I don't know how many Deputy Commissioners of Agriculture we have around the United States, but it's good to hear from a woman's side of this who knows all the problems.

First let me extend my greetings to Mr. Jones, Commissioner from North Dakota.

Do you, Ms. Butcher, have anything you want to say? I called you out of the audience. I don't know if you came prepared or not.

Ms. BUTCHER. I came to listen and learn because I always do when we get this group of people who are involved in the cattle and livestock industry. They seem to be the clear thinkers. They seem to be the ones that have been least victimized by a lot of things that we have done with the short-term cures that I would like to avoid as far as the limited amount of things we can do on a State level would be. And I'm sure that's what you are trying to do being here is to "uncomplicate" some of the complications we place on industry. So I really don't have any comments except that most of my day when I'm back in the department of agriculture is to commiserate and perhaps be a cheerleader for the people going through the pressures of agriculture.

Nancy Jo Restata who is here representing the beef of North Dakota, did come through with some sage advice and recognition that, to best facilitate what we can do, if Government entities would get out of their way, they could probably solve most of their problems.

So I was here to learn and did learn today, and perhaps can carry back some of this wisdom to the department of agriculture in North Dakota.

Senator ABDNOR. Let me ask you something. I've been crisscrossing the State over 30 days now. I've heard a lot of comments. I ran into a gentleman in the northeast part of the State who has a one-man butcher shop. He said it comes out about the same both ways because he loses even when he slaughters, and that offsets a certain amount of extra expenses he has when he buys the carcass. He has his own computer—and we are talking about the spread of prices between the selling price of an animal and the cost of meat. He was pointing out to me how he breaks this all down in different parts of the animal—the carcass, chuck arm, trim, beef. He says that there are four items in that particular breakdown that everyone wants: the rib-eye steak; T-bone steak; sirloin; and tenderloin, and if you add them all together, they don't make up that much. Like this one, it's a carcass of 328 pounds. Then he has trouble moving the rest of it.

Do you think that is true with housewives? Are they always after the better part?

Ms. BUTCHER. I think it's reflective of the speediness in which we are preparing our meals more so than the traditional housewife. I like to fix the other parts of that.

Senator ABDNOR. It's definitely the better parts.

Ms. BUTCHER. It's my German background. We used a lot of those parts of the animals. But I do think most people are preparing meals in shorter periods of time, and you can slap some steaks on a grill and get it done a lot quicker and perhaps that speaks to the reason why it's not moving.

Senator ABDNOR. Well, maybe you fellows don't cook, but do you have any thoughts on the subject that people might be getting finicky, or they want something quick or maybe they just are living well enough in some parts of the country to get the better parts of the steaks? Do you think that is much of a problem in this marketing?

Mr. WRIGHT. I'm sure it is a factor, but as the State senator from Nebraska pointed out, this meat is being consumed at the prices that are being charged at the present time. So there must be, fortunately for us, a lot of people with good German backgrounds that do like to cook.

Senator ABDNOR. I tell you this much—the gentleman that gave it to me, I'm bringing him to Washington when I bring the retailers and the packers. I would like to have someone—I can understand him.

Mr. TOKACH. Senator, you want me to comment on that?

Senator ABDNOR. Yes.

Mr. TOKACH. I certainly think it is a factor, the lifestyle of the people, as Dina has mentioned and several people have mentioned. This is one of the things that I can't imagine when people say they are choosing chicken rather than beef because it's faster to cook. Now, I don't know that much about cooking, but I've never seen chicken cooked as fast as you can cook a steak. But going on to these other parts of the carcass, I realize it's a problem and a lot of it goes into ground beef now. But this is another thing that we need in the promotional line or development on, more types of reconstructing this into steak type products or McNuggets, or whatever you want to call it. We need new products and this is where we need some of our promotional plugs.

Senator ABDNOR. I think you made a good point. I assume that someone with a really clever mind could devise ads that would make some mighty attractive dishes to people. I don't know, but there isn't much of that going on. Mr. Aden.

Mr. ADEN. I, too, am from a German background, and we have no problem eating the rest of the critter, barring some parts. But the eating habits have changed and I'm wondering if everybody would just as soon have the rest of it ground up in hamburger and we could get rid of it that way.

Senator ABDNOR. I appreciate your comments. I'm glad you brought this out because the gentleman I met was very honest and sincere. I've heard nothing but great things about him, and as I traveled through that part of the State and I brought up his name quite often and they all have heard of him. And that's just the way the buying habits have been coming. The steaks, I guess, are best.

I'm a bachelor and I also find them easy to broil. But it's something to think about.

Ladies and gentlemen, I'd better get on here. I'm going to get in trouble with my South Dakotans if I don't bring someone down from South Dakota. Thank you very, very much.

We welcome you, Mr. Husted, South Dakota Stockgrowers Association, and we are happy to have Bill Daniel who is with—you are with the Livestock Association, aren't you, Bill?

Mr. DANIEL. Yes.

Senator ABDNOR. Whichever one of you wants to go first.

STATEMENT OF ROGER HUSTED, PRESIDENT, SOUTH DAKOTA STOCKGROWERS ASSOCIATION

Mr. HUSTED. Senator Abdnor and the subcommittee, on behalf of the South Dakota Stockgrowers, I'm Roger Husted. I ranch at Harrold, SD.

We would like to thank the Joint Economic Committee for looking into the cattle and beef prices. We are aware of the testimony of Jo Ann Smith, president of the National Cattlemen's Association, to this subcommittee in Washington, DC, on August 1, 1985. We want you to know we feel that information and its recommendations covering cattlemen's: (1) supply problems; (2) marketing callenge; and (3) retail prices has our support.

Also we thank you for holding this hearing in a cattle State like South Dakota. This hearing makes it possible for working cattlemen to testify and point out some of our problems.

The statewide organization I represent is made up of cattlemen who run cows, graze pastures, and sell calves, yearlings, a few bulls and a few cows every year.

Our organization's purpose is to protect the interests of the beef cattle industry; work toward solutions of industry problems; support and encourage market development programs and promote the importance of the beef cattle industry to the public and the Government.

We produce beef. We need cooperation from feeders, packers, retailers, and consumers to make money in our business. We are not all competing on a level playing field, but basically our economic goals are the same.

Our cattlemen's equity investment in beef production is largely in land, equipment, cattle, and labor. When lenders several years ago started stressing annual cash flow we learned that unless you can pretty much self-finance your cow operation, lenders are recommending selling cows. Many commercial lenders in South Dakota are persuaded if cattlemen pay much of an interest bill and run into a bad winter, a poor feed year, or a low calf market, we can't now afford paying much interest to own cows.

Federal Farm Programs have encouraged a lot of pastureland in our State to be plowed up and put into some kind of a cash crop program, particularly if there is a Federal program assistance in the conversion to farming.

The demand per capita for beef has dropped. At times our feedlots held over cattle for a better market and have over-finished cattle. Our fat cattle market slumped badly.

Many cattle owners do not depend on their cattle for a living. This production contributes more cattle numbers than the market can absorb at prices that return cost of production. We depend on supply and demand to price our cattle on the live market.

Of the numbers sold in the live market 30 percent contribute beef at retail that does not need to bring a profit to its producer to be on the beef market year after year.

The futures market may need a thorough study. A lot of our industry does not support it and questions its effect on the market. It really does not, as I can see it, benefit the cow and calf man. Is a real concern with a lot of our members.

Another issue that we feel has done us a great deal of harm was the Cattle King Packing Plant controversy. None of us condone illegal practices by packers. But, we still feel the Government is probably one of the main violators of this case, mainly because of their inaction. Our industry was in the headlines for months, being exposed as providing allegedly unwholesome products to the consumers of this Nation. All of this has put a lot of doubt in the consumer's minds about beef. Something we will have to try to overcome.

We are watching with interest the Abdnor bill that limits the loss that can be transferred from one business to another to $25,000. Profits are even harder to make when one has to compete against those trying to show a loss for tax purposes. A lot of cattle are in commercial feedlots and are investor owned. This tax write-off limitation proposal could have an effect on the cattle industry. We would like to see our industry run by cattlemen that work and make their living from it.

Many full-time South Dakota cattlemen run operations they can't diversify. South Dakota sells grass, hay, and feed through livestock and a lot of our cattle come from low rainfall areas so erratic in rainfall we don't have options except to raise grass and cut numbers in a drought year.

That's hard to survive with a depressed cattle market below $60 with expenses and taxes going up.

Supplies of beef have been large during the past several years and retail beef prices have remained very stable.

Prices of most things we buy have risen. The Consumer Price Index has risen by about 35 percent since early 1980. Average annual retail beef prices have shown only a slight increase. There are seasonal fluctuations in supplies and demand, but there has been little change in average annual prices.

Now, the size of our basic cow herd has been cut back.

Retail choice beef prices have averaged around $2.40 per pound for the past 5 years. Beef commands a retail price about three times that of chicken and 1½ times that of pork.

I would like to emphasize suggestions our organization has on marketing, livestock reporting, and nutrition education.

We think the cattle business from production to retail of our State is too big and too competitive to allow any one economic problem we have, if fixed by legislation, will guarantee a fair return for every working cattleman.

However, some Federal programs do cause all of us problems in our marketing. I'd like to point them out so you can be aware of problems we have that Congress controls.

Livestock reporting service. Faulty and inaccurate reporting by the USDA and widespread media reporting of USDA reports and faulty and misleading reporting of livestock on feed by the Crop and Livestock Reporting Service is creating lower prices throughout the beef trade and generally working to the detriment of the livestock industry.

We think Congress should discontinue the Federal Crop and Livestock Reporting Service.

Marketing. Beef cattle accounts for the largest percent of our State's agricultural income. The State's agricultural and business sectors rely on high numbers in order to maintain profitable businesses.

We encourage Congress to assist us with worldwide sales programs that will aid livestock producers market.

Nutrition education and research. Beef in a diet provides all of the amino acids in the correct balance, and provides iron, trace minerals, and B vitamins.

The U.S. Department of Health, Education and Welfare and other Federal agencies issue dietary guidelines which discourage the consumption of beef.

Cattlemen think the Government should disseminate information based on scientifically proven facts.

We hope members of this committee will take steps so that all sides of any nutritional and food safety health issue relating to beef are properly investigated and objectively publicized.

You have heard much on Governor Janklow's executive order ban on Canadian livestock that have been fed chloramphenicol. This action is one of considerable importance to our industry. I am disappointed this had to be done by the Governor rather than the Federal Government. It is illegal to use the drug on our animals in the United States, yet other countries are using it and importing to this country. It seems to me that we should have the opportunity to play by the same rules. All we ask is that it be a fair trade policy. If the Feds are not going to protect the consumer from health hazards and unfair competition it makes you wonder who is working for us.

I wonder if we are all thinking along the same lines to correct the crisis the farm and ranch industry is in. My hope would be to make it profitable but without subsidizing part of the commodities and individuals at the expense of others. That doesn't work, as we see our present situation.

We all share in the predicament the industry is in. The rancher, farmer, banker, economist, and the politician all contributed to the cause. The banker lent money to an industry wherein the economist predicted inflation would take care of the debt, so expand your operation. The industry followed this advice. When inflation stopped our Government kept right on spending money with a huge deficit budget. Interest rates soared to the point where agriculture can no longer pay its interest bill at today's commodity prices.

Each bankruptcy and each bad loan not set up so the individuals can work out of it must be paid by the rest of the industry. We have come a long way on production, but fall far short on marketing.

We wish we could do away with all subsidies, not just in agriculture, but across the board, and let the free market determine prices. But it will never happen. There are too many factors, other than supply and demand, that affect both supply and demand. Practically all of these factors are regulated or controlled, including import and export policies, monetary policies, environmental pollution policies, land use policies, organized labor prices, tax policies, social welfare policies, health and nutrition policies, and the list goes on and on. All of these impact on both the supply of and demand for beef.

We are firmly convinced that the main factor behind our economic plight is a continuing drop in the amount of beef consumed by the public. I am equally convinced there are only about two main reasons why beef consumption is dropping. First and foremost is the concern that consumers have about the healthfulness of our product, and it's a very real concern whether we like it or not. Most of my urban friends admit to cutting back sharply on the amount of beef they eat because they believe it's high in cholesterol, high in fat, laced with antibiotics, and consequently can lead to heart disease or cancer. Beef has a lousy image, which is not totally justified, but as an industry we have not and are not doing what needs to be done to change that image. Until we do, beef sales will continue to drop.

A second reason why people are eating less beef is because we have not significantly changed the way we offer our product in light of today's family size and lifestyle. I believe the only way we are going to win back customers is to convince them we have a healthy, nutritious product which is good for their body, not bad as they now perceive. Then we need to present that product in forms that fit today's lifestyle.

The best and quickest way to do that is to raise enough money nationally to embark on an aggressive beef research and promotion program aimed primarily at selling the high nutritional values of beef, disproving the health hazard claims associated with eating beef, developing new, innovative, convenient beef products such as a beef drumstick, experimenting with and then teaching the public how to use beef in a microwave.

It will take big bucks. Look at what other industries spend on research and promotion compared with our industry. The dairy industry spends $20 million annually in California, which is more than the beef industry spends nationally. A national $1 per head checkoff should raise $75 to $80 million

In addition to committing big bucks it will take time. We won't turn consumers around overnight. It has taken several years for the bad beef image to develop and it will take several years to get beef back as king of the kitchen.

We appreciate this opportunity to discuss these economic questions dealing with the cattle business with you. We are depending upon you to make the choices that will improve agriculture evenly. I'd like to thank you for this opportunity.

[The prepared statement of Mr. Husted follows:]

PREPARED STATEMENT OF ROGER HUSTED

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The Soil Conservation Service and the present Farm Program are both becoming major concerns in our area. Most especially with the breaking of marginal land and the conservation problem that creates. The present program encourages full production farming of this marginal land, at expense to the taxpayer. We also need to watch that marginal land is not seeded back to grass, in an effort to collect government subsidies that would have an effect on the cattle market.

Dams and trees planted years ago at government cost have truly enhanced and changed the landscape. It is so discouraging to see them removed. Farming the draws and waterways is creating a serious washing problem. We believe we should preserve our resources for future generations instead of exchanging it for the quick dollar now.

I wonder if we are all thinking along the same lines to correct the crisis the farm and ranch industry is in. My hope would be to make it profitable but without subsidizing part of the commodities and individuals at the expense of others. That doesn't work, as we see our present situation.

We all share in the predictment the industry is in. The rancher, farmer, banker, economist and the politican, all contributed to the cause. The banker lent money to an industry wherein the economist predicted inflation would take care of the debt, so expand your operation. The industry followed this advice. When inflation stopped, our government kept right on spending money with a huge deficit budget. Interest rates soared to the point where agriculture can no longer pay its interest bill, at today's commodity prices.

Each bankruptcy and each bad loan not set up so the individuals can work out of it, must be paid by the rest of the industry. We have come a long way on production, but fall far short on marketing.

We wish we could do away with all subsidies, not just in agriculture, but across the board and let the free market determine prices. <u>But it will never happen!</u> There are too many factors (other than supply and demand) that affect both supply and demand. Practically all of these factors are regulated or controlled, including import and export policies, monetary policies, environmental pollution policies, land use policies, organized labor policies, tax policies, social welfare policies, health and nutrition policies, and the list goes on and on. All of these impact on both the supply of and demand for beef.

We are firmly convinced that the main factor behind our economic plight is a continuing drop in the amount of beef consumed by the public. I am equally convinced there are only about two main reasons why beef consumption is dropping. First and foremost is the concern that consumers have about the healthfulness of our product, and it's a very real concern whether we like it or not. Most of my urban friends admit to cutting back sharply on the amount of beef they eat because they believe it's high in cholesterol, high in fat, laced with antibiotics, and consequently can lead to heart disease or cancer. Beef has a lousy image, which is not totally justified -- but as an industry we have not and are not doing what needs to be done to change that image. Until we do, beef sales will continue to drop.

A second reason why people are eating less beef is because we have not significantly changed the way we offer our product in light of today's family size and lifestyle. If we are going to compete for the favor of today's consumer, we need to present beef products that are attractively packaged, quick and easy to prepare and serve, and can be consumed by today's one to two family size without leftovers for a week. Today's homemaker doesn't like leftovers.

I believe the only way we are going to win back customers is to convince them that we have a healthy, nutritious product that is good for their body, not bad as they now preceive. Then we need to present that product in forms that fit today's lifestyle.

The best and quickest way to do that is to raise enough money nationally to embark on an aggressive beef research and promotion program aimed primarily at selling the high nutritional values of beef; disproving the health hazard claims associated with eating beef; developing new, innovative, convenient beef products such as a beef drumstick; experimenting with and then teaching the public how to use beef in a microwave.

It will take big bucks. Look at what other industries spend on research and promotion compared with our industry. The dairy industry spends $20 million annually in California, which is more than the beef industry spends nationally. A national $1.00 per head check-off should raise $75-80 million. That's about what it will take to start turning the consumers back to placing beef at the top of their shopping list. If that happens, the $1.00 per head will be well worth it.

In addition to committing big bucks (the $1.00 per head check-off), it will take time. We won't turn consumers around overnight. It has taken several years for the bad beef image to develop, and it will take several years to get beef back as "King of the Kitchen".

We appreciate this opportunity to discuss these economic questions dealing with the cattle business with you. We are depending upon you to make the choices that will improve agriculture evenly.

SUMMARY

Agriculture is on our nation's agenda. TV, newspapers and radio are daily giving information about low commodity prices, surpluses, agriculture trade practices, drought, and economic problems of farming and ranching.

Our Association is focused on areas that would improve cattlemen's opportunities. We believe these items need priority action by Congress.

* Reduce the national deficit and work toward a balanced budget.
* Work toward a trade policy that would eliminate our negative trade balance.
* Oppose commodity subsidies being paid to operators who cause new plow out of Class 4E, 6, 7, and 8 lands.
* Support a Public Lands Grazing Fee Formula that will recognize the ability to pay.
* Oppose subsidy programs in the 1985 Federal Farm Bill that would adversely impact any segment of Agriculture.
* Support limiting farm loss deductions by farms owned by non-ag corporations.
* Favor a division of administration of Public Lands between the Forest Service and Bureau of Land Management.

Senator ABDNOR. Thank you, Mr. Husted.

Bill, it's nice to have you here. I don't know why you are one-handed.

Mr. DANIEL. I probably should explain that a little bit.

Senator ABDNOR. Yes.

Mr. DANIEL. It wasn't bad enough the cow nearly broke my financial back, they had to break my arm in the last load I loaded out. Kind of adding insult to injury, isn't it.

Ms. Evans, our executive secretary, sends her regrets. She was called to Rapid City. Her mother became ill yesterday and she was called to be with her.

STATEMENT OF WILLIAM DANIEL, PRESIDENT, SOUTH DAKOTA LIVESTOCK ASSOCIATION

Mr. DANIEL. Senator Abdnor, we certainly appreciate the opportunity to be here today, and we certainly thank you for this opportunity to discuss some of the economic factors affecting the well-being of our beef industry.

As already noted, my name is Bill Daniel and I'm presently serving as the president of the South Dakota Livestock Association. This organization is a trade organization representing agriculture producers who raise and feed livestock for slaughter, primarily cattle.

I am in partnership with two of my sons. We operate a cattle feeding and grain producing operation in Lake County, SD.

Before I begin my statement I would like to respond to a question you asked here two panels ago on what had to be derived from an animal to ensure a profit. I remember seeing figures probably 2 years ago that said in order for everybody in the production of the calf to slaughter—in order for everybody to break even the price at that time—the final price, had to be $850, and it's been a long time since we have seen that kind of a figure on a finished animal. So consequently if somebody is making a profit during that process somebody else is taking a heck of a loss, and in the present condition we are all taking losses in subsidizing the housewife on the other end.

In the interest of time I would like to say that we are in agreement with most everything that has been said here today, and I would like to just lift out some parts of my prepared statement that you have there before you.

Senator ABDNOR. Bill, we will include all of your statement in the record.

Mr. DANIEL. Thank you.

Senator ABDNOR. Go right ahead.

Mr. DANIEL. I would like to lift out some things there that haven't been brought up yet and that I think are also relevant to our profit picture—or at least a concern to our cattlemen and other areas of agriculture.

First I would like to say something about clear title. This is certainly an important item in the farm bill which is being considered as far as the credit title.

Under current law in many States a buyer of an agricultural commodity does not receive clear title to the commodity and may be subject to double payments. Some States have limited the farm products exemption in some form or another to eliminate double jeopardy, but laws vary from State to State. Livestock and other agricultural products move from State to State and the lien searches are nearly impossible for the individual who is purchasing livestock or grain from someone. We would like to see agricultural commodities treated like other commodities by removing the farm products exemption from the Uniform Commercial Code.

I would like to state that how this all came about back when the Uniform Commercial Code was adopted the people in Washington, in their infinite wisdom, felt that we as farmers out here did not have the business expertise to look after our own business interests so they thought that they were protecting us from Uniform Commercial Code, and I certainly disagree with that feeling that they had at that time.

One thing the Government could do to stimulate foreign demand for U.S. feed grains and also what little beef and meat products we do export would be to rescind the Cargo Preference Act. At least lowering the percentage requirements could go a long way in reducing commodity costs to our foreign customers.

Then when you consider nearly 20 percent of the beef consumed in the United States comes from dairy animals, I hope you would appreciate our concern with the type of Dairy Program enacted as part of the farm bill. The timing and volume of dairy cow marketings could drastically affect the prices we receive for our beef animals. If there is a diversion we insist on orderly marketing provisions and that the Government absorb the extra beef for distribution through various welfare programs.

The question that remains in our minds is what has changed over the past year to make this program work when the same type of program with the same goals failed then?

And of course we all had a great deal of concern about our Beef Promotion and Research Act. A lot has been said about it, and I would like to add some other thoughts that are not included in my prepared statement there, if I may. These are my own personal viewpoints, and I feel very strongly about this action that we are asking the Senate to include in their bill. Of course we all realize—and I don't think there is any problem on this—that higher prices would solve a lot of our problems. I think that it's been alluded to today many times that we can't legislate higher prices and we can't legislate profits, so how do we acheive the objective of raising our profits? Of course the only way we have is to increase our demand for our product, and we have two ways to do that. Either we decrease our supply, and this is very difficult to do in this type of a product that we produce. It takes 2 years from the time that cow was bred until that calf is born and eventually reaches slaughter—2 years at a minimum. So you can see the reaction time that is required to reduce our supply. It probably takes 3 years. A year for everybody to realize we've got a problem before we start to do something for it, so it's 3 years down the road, really, before we can really react to an adverse situation. So what other alternatives do we have?

We have to make our product more desirable for our consumer and we have to develop new products. We have to have an aggressive sales approach, and this, of course, required funding on our part.

I just picked up my Farm Journal last night and read through it, and it told me in there that the Australians have a mandatory checkoff of $10.40 per head on an animal that is worth much less than we even receive today. The Australians spend more in a promotion of their product in Japan than we do for our entire beef industry, and here we are asking for a checkoff of $1, raising it from 28 cents. I think we could do much more.

Several farm groups feel that the packer and the retailer should bear the cost for the promotion of our product. I disagree. The retailer will promote the product that is bringing them the greatest return or profit. This could be fish. Besides that, any promotion the packer or retailer do carry out is eventually going to be passed right on down to us, the cow feeder and calf producer, so let's get with it and do it ourselves and then we can do it the way we want to do it, because we are going to pay for it anyway and we are the ones that are going to receive the benefits from this. If we don't think enough of our product to put some bucks out there to promote it we don't deserve to be in the business in the first place.

I've got a few things that I'd like to say just as Bill Daniel, cattle feeder and Corn Belt South Dakota.

In the immediate future we are going to see a change in the financial structure of agriculture. In 1986 the last of the banking regulations expire. We see the First Bank system wants to get rid of their banks. They are up for sale right now in the rural areas of the Midwest. And then we hear rumors that other major bank corporations are considering doing the same thing and they are trying to get rid of their agriculture loans. And we see bank failures of the small banks in Minnesota and Iowa already. We have our local bankers in my area, and I know the areas in Iowa adjacent to Minnesota, telling people, their cow people, to get rid of those cows and participate in the Government Loan Program with their grains. This certainly does nothing but add to an already glut in the grain market.

We see the Farm Credit System in financial trouble. That's been mentioned several times today. John Block is saying that the FmHA will no longer be making direct loans, only loan guarantees, so who is going to finance agriculture?

I'm in the cattle feeding enterprise. I require a lot of capital. Who do I turn to for financing? Am I going to be forced—and I'm saying things right now that 3 or 6 months ago I wouldn't even dream of saying—am I going to be forced to seek out that outside investor? That investor looking for a tax shelter? I don't think this is good for the industry, but am I going to be forced into this?

I don't have the answers to these problems, but these are the problems that face me as a cattle feeder if I'm to remain a cattle feeder.

This really concludes my statement. I appreciate the time and effort you have put forth, Senator Abdnor, and appreciate this opportunity for testifying.

[The prepared statement of Mr. Daniel follows:]

PREPARED STATEMENT OF WILLIAM DANIEL

On behalf of the South Dakota Livestock Association, I thank you for this opportunity to discuss some of the economic factors affecting the wellbeing of our "beef" industry.

The South Dakota Livestock Association is a trade organization representing agricultural producers who raise and feed livestock for slaughter, primarily cattle.

Our "beef" industry not only generates more dollars of gross income than any other segment of agricultural production, it also represents the greatest diversification. Ownership of the calf may pass through five hands-the cow/calf producer, the order-buyer, the backgrounder, the order-buyer, and the finisher - before slaughter.

Ownership of the meat may change four times more - the packer, the wholesaler, the purveyor and the retailer or chef - before ultimate conusmption.

Each owner shares the same objective, to profit from his ownership.

The changing economic climate is changing the cattle feeding industry in South Dakota. Traditionally, there has been little commercial feeding, most being done by farmer/feeders who owned the cattle they fed. The high capital requirements of cattle ownership, coupled with low commodity prices, continued high real interest rates and erroding equity have driven many of these producers from the industry.

We feel it is critical that we reduce the federal deficit to lower these real interest rates.

We feel deficit reductions should come through spending reductions that are spread uniformly across all areas of federal expenditures.

We believe that under current economic conditions the government cannot immediately stop farm commodity price support programs. But we will continue to support efforts to phase these programs out. We support the transition to a market-oriented program, if the transition is supported by the existance of actual markets for our products.

The typical farmer/feeder of the midwest does not believe that low grain prices are good for his business, as low feed prices ultimately lead to overproduction of livestock and, ultimately, lower livestock prices.

We support the goals of the long-term conservation reserve. however, we object to incentives to increase cattle production by allowing grazing on these acres, except during disaster situations.

Another important item of the Farm Bill is clear title legislation, which is being considered as part of the credit title.

Under current law in many states, a buyer of of an agricultural commodity does not receive clear title to the commodity, and may be subject to double payments. Some states have limited the farm products exemption in some form or another to eliminate double jeopardy, but laws vary from state to state. Livestock and other agricultural products move from state to state and the lien searches are nearly impossible for the induvidual who is purchasing livestock or grain from someone. We would like to see agricultural commodities treated like other commodities by removing the farm products exemption from the Uniform Commercial Code.

One thing the government could do to stimulate foreign demand for U.S. feed grains through lowered foreign costs is to rescind the Cargo Preference. At least lowering the percentage requirements could go a long way to reducing commodity costs to our foreign customers.

When you consider that nearly 20% of the beef consumed in the U.S. comes from dairy animals, I hope you will appreciate our concerns with the type of dairy program enacted as part of the farm bill. The timing and volume of dairy cow marketings could, once again, drastically affect the prices we receive for our beef animals. If there is a diversion, we insist on orderly marketing provisions and that the government absorb the extra beef for distribution through various welfare programs.

The question that remains in our minds is what has changed over the past year to make this program work when the same type of program - with the same goals, failed then?

The last area I wish to discuss is the Beef Promotion and REsearch Act. Legislation has been introduced to allow the beef industry to implement a national check-off for promotion and research - as part of the farm bill.

Our market is changing - other products are aggressively going after the market that has traditionally been ours for many years.

If we are to stay in the business of producing cattle in South Dakota, we must have the means to carry out an authorized advertising, promotion, consumer information and new product development program.

The current system of individual state check-off programs is a step in the right direction, but our needs are immediate and if this legislation is passed as recommended by NCA, cattlemen could decide whether to ask USDA to authorize the program.

We are asking for enabling legislation to implement this program as soon as possible, forgoing a time-consuming referendum until later. We are also calling for a no-refund provision so all producers will share equally in this program.

This program is not asking for a government subsidy or for government management. It's a tool to help our nation's largest agricultural industry help itself.

Again, thank you for your concerns, interest and invitation to participate in this hearing.

Senator ABDNOR. Thank you, Mr. Daniel. I think you have some interesting points and asked some very serious and important questions. I wish I had the answers for them.

I think it all has changed our thinking a little bit. Agriculture has had its ups and downs for a long time many, many times. This is probably the most crazy situation that has ever occurred since the 1930's, and maybe in some ways worse because you could last a little longer when you lost your money than in this day and age.

The tax loss bill I was talking about, I was going to ask you before you got on to the even more important part of it when these people searching around for some feedlots, some big outfits sitting in here now because local hog producers are now feeding out hogs to other people. I don't think that's agriculture's way. That doesn't do much for us, but maybe it keeps people in business. I was wondering, what would happen if my legislation would go into effect and get passed on the tax bill? What would it do with the feedlots? I mean, most of them moved to the South Dakota area, did they not? The big feedlots?

Mr. DANIEL. Yes, sir; that's one of the problems we have been concerned about in our industry is that our cattle feeding industry isn't declining that much, it's just that it's shifting into the major feedlots where they do have these tax incentives that they can promote. And of course we in the small feeder—the cattle farmer feeders in this area do not have the expertise, the time, or whatever to get involved in these types of operations. We don't have the facilities in the second place.

Senator ABDNOR. Would they come back if this kind of legislation was in it?

Mr. DANIEL. I don't think—nobody wants to feed for a loss.

Senator ABDNOR. No.

Mr. DANIEL. And even an investor is looking for a return on his investment. And the people I'm talking about say they are looking at a 15 percent return on their investment. Personally—this is a personal observation—last spring I alluded to it at that time and didn't know it was going to come home to roost so quickly, but I think maybe your $25,000 limitation probably that is maybe a little low since I talked at that time. The two sons I said I'm in partnership with have left the farm temporarily, I hope, to seek and acquire outside jobs, and they are earning more than that $25,000 limitation, and I would certainly hope that they would not be able to—would have an opportunity to at least take the moneys that they are earning to set aside for the loss that we have incurred in the last 2 years in our operation.

So basically I'm not saying this isn't good legislation. What I'm saying is maybe we should consider a little higher limitation on it.

Senator ABDNOR. I've been told that by other people. The bill 244. I mean sometimes you find if you really want something, you have to give and take. But I was surprised. I got it through as a resolution of Congress, which is nothing more than a statement of Congress that they believed such and such and they want this. A Senator from Iowa who is supposed to be a big friend of the farmer tried to table it for me. I noticed when he got down to vote he ended up voting with me. I don't know what he was quite trying to do. I do think overall there is support for it.

These questions are good to be talking about, so I appreciate your thoughts on it.

I guess most of the feedlots have gone out of Iowa, haven't they? A lot of the big ones, for instance?

Mr. DANIEL. Well, I'm not from Iowa, but I know there is a great concern there.

Senator ABDNOR. They have moved south, I know that.

Mr. DANIEL. The organization I work with, basically the cattle feeder, the membership has dropped two-thirds in 4 years, and I think that's indicative of what happened to us in South Dakota, and it's also indicative of the fact that our grain producers should be concerned because we are losing a market for our grain. And the question I raise is, are we all going to eventually be producing for a Government bin?

Senator ABDNOR. Let me get back to one other question. You want to comment, Mr. Husted on that? Otherwise I'd ask you a question.

Mr. HUSTED. Go ahead and ask.

Senator ABDNOR. Mr. Futrell, who was mentioned a minute ago, appeared in Washington at our first hearing. He gave us a statement that he summarized, but at the hearing went through in detail, in which he concluded that this beef should be selling for 13 cents less. What would happen if that were really in effect? That's what we are talking about, 13 cents less a pound at the counter. Would this eventually get rid of our glutton? Would this really increase sales, do you think?

Mr. HUSTED. I'm sure it would increase sales, but if the—if the live market didn't go up the 13 cents drop we would still be in serious trouble.

Senator ABDNOR. You are not going to have a lot of government programs. You have to get rid of the over supply so you can go back and hopefully get things in balance. Maybe it would be better to get people to eat beef again. It would take a transition period, granted, but it would help get rid of some. You got stuck with this price anyway. I don't know how long you are going to be able to last with it, but the idea is, what makes it that way? Partially supply and demand. The other factors we talked about, the scarcity of people eating beef and things like that. So the sooner we cut back on, well, heavy cattle the better. Maybe by now the cattle feeders are going back to raising cattle at a little less weight and we will be able to get things in balance. A drop in price, that's what we are trying to do for now, I guess. I don't know if the bill is going to raise the price of beef in Washington.

Mr. HUSTED. I was in Chicago, and what the Meat Board told us, really the consumer, the price isn't really why they are not consuming beef, but the lifestyle has changed. They are more concerned about their health and all the bad publicity. You read a lot of stuff how beef is hazardous to your health, and I'm sure that people have cut back on beef and all red meats, and I think that has a very serious effect on consumption, and they are really not complaining about the price of beef. The consumer isn't.

I sell a few feeder cattle at my ranch. I never sold a bushel of corn or wheat off my ranch, but I feed a few cattle and I sell them. There is no problem. People aren't complaining about the price of beef, but there is a drop of consumption. I should say we sure aren't doing very good on it, and I don't know if beef dropped 13 cents—I don't think for the average consumer it would really affect their buying habits that much.

Senator ABDNOR. I guess one of the things on my mind, at least in Minnesota, Beecher says in some isolated areas they cut the price of beef, and I thought that made some difference. How do you feel on it?

Mr. DANIEL. I wouldn't care if they left the price where it was if they brought the price we got back up. I imagine there is room for us to rise without lowering it. Right now I think probably the banker is trying to make up for some of the losses he made when things were dropping so. They get a crack at profits before we get ours. I think it's still out a ways somewhere there.

Senator ABDNOR. You're absolutely right. It could go up a lot. I've been led to believe, from what I've heard so far, that the price of beef could go up considerably without the price being raised on the other end, but that doesn't mean it wouldn't be, I guess. That's what we are trying to find out.

You mention farm exemption from the Uniform Commercial Code. I guess it is in the bill now.

Mr. DANIEL. Yes, it's in the bill. Of course naturally we have banking interests are butting up.

Senator ABDNOR. I want to ask you, do you think—I've been asked by some bankers. Do you think it would hinder loans on the part of bankers to farmers and ranchers if that was done? I mean, because it's been indicated to me that makes a difference. I don't know.

Mr. DANIEL. Well, that's the threat they are using. It's an out for the bank right now. They don't have to go out and chose down that guy that has run off with the check. They can let someone else worry about it. The poor guy that really doesn't have facilities or lawyers at his disposal.

There are some horror stories out there. And of course the meat packing industry—I know most of us are aware I.U.P.L. no longer send out single party checks. They want everybody involved in that check. You and your banker and whoever else is involved. And of course that's hurt the pride in a lot of people. They figure it is a slam on your integrity. But they have been caught with some big checks, too. So we just feel that it would certainly be a protection for the people—for the farmer, especially the farmer-feeder who buys corn from local people and so forth.

Senator ABDNOR. Do you have a stand on that?

Mr. HUSTED. Yes; we strongly support it.

Senator ABDNOR. All right. You also mention cargo preference. Getting off of the idea about beef counts and what you settle for, but I guess it's a difficult issue for me to understand also why half of the grain sold overseas to the Government program is to be shipped on American ships. I understand the argument for the national defense. Didn't you tell me, in the recent news letter, that it is no longer a factor with the Navy and all, but it will cost the farmer about $48 a bushel. What really bothers me more than anything else, is that the grain that goes in cargo preference comes out of the Agriculture budget. If they want a subsidy they should at least have to fight for it on their own instead of coming through the Agriculture budget. It should be coming out—they get their subsidy on shipping. It's always a controversial issue, but we never seem to get it changed. I don't think this year is going to be any different, although I have my name on a couple different bills that try to do that. Gentlemen, we thank you very much for your appearance.

Mr. Herman Fink of the South Dakota Beef Council; Jim Strain of the American Cowman's Association; and Leon Reiner, who I have seen around here, the Pork Producer Association.

Gentlemen, we welcome you. You have waited a long time. We still have other people waiting very patiently. This is the first time Mr. Reiner appears before us. He is from Washington. We welcome you all. Mr. Fink, you can go right ahead.

STATEMENT OF HERMAN FINK, CHAIRMAN, SOUTH DAKOTA BEEF COUNCIL

Mr. Fink. My name is Herman Fink. I'm chairman of the South Dakota Beef Council. Our board of directors include three representatives from six major farm organizations: The Stock Growers; Cow Bells; Farm Bureau; Livestock Feeders; Beef Improvement Association; and Livestock Markets. Our 18 person board decides where the money from the beef checkoff program in South Dakota is spent.

I don't have a prepared statement to give to the subcommittee. My office is 170 miles from home so I had my hired man, his wife type up this, but I'll give you what I have after I'm done here.

I'll speak more on cause and effect—and some of it has been alluded to in the previous testimony—but as far as our organization is concerned and the structure of our organization, cause and effect of beef marketing and the importance of that industry to South Dakota agriculture.

The latest figures that I could get were in 1982 and 1983, and in those years the income from five beef sales which included dairy beef equaled 40 percent of all agricultural income in the State of South Dakota. I suggest that a great deal of political rhetoric is spent on irrigation talk and on the tourism industry. But to put into perspective the real dollars that were generated in those years, the beef industry generated $1.4 billion while tourism generated $400 million, less than 30 percent. Not even your staff are all aware of this point Senator.

The red meat industry accounts for 50 percent or more of all real agriculture income from our state.

What do we spend to promote our production? We have a $1.4 billion beef industry, and through the checkoff program which is the only area of our industry that from the producer level provides funds for new product development, nutritional research, point of purchase market development, product use training and many more things that need to be done. Why do these things need to be done?

What I'm talking about is livestock and retail food prices—there is a lot that happens between those two items. The time that it takes from the time that the cow is bred until her calf is ready to use in the red meat food industry takes almost 3 years. When that animal is sold for food the rule of thumb says that the value doubles in 3 weeks.

In South Dakota we, the people that have that animal for 3 years, spend about 3 cents or less than 3 cents on every $100 in sales for promotion and product research. Wrigley Spearmint Gum spends $8 for every $100 in sales for advertising alone. Ralston Purina spent $145 million for advertising in 1979 to sell producers feed for their animals.

Trying to put things in perspective, what we are doing as far as promotion of product and development as producers in South Dakota, I'm just—some figures were kicked around in other testimony that we spend 28 cents an animal national average. Some States have a dollar checkoff. Quite a few are at 50 cents.

Senator ABDNOR. Those are voluntary, aren't they?

Mr. FINK. No; some have a refund available. Some of them don't.

Senator ABDNOR. These dollar ones, do most of them allow their money to stay there?

Mr. FINK. California does. I'm not aware of the other States. Those are just real recently.

Gentlemen in this audience, do you know that only 60 percent of the cattle sold in South Dakota support a program of work to provide funds to advertise, research and identify markets for your product?

There are 22 market outlets that don't support any program. Most of the rest take 25 cents on every head sold through their ring. And this barn takes 10 cents.

What has happened during the last few years? The American public has been subjected to a lot of misinformation about our product. Often by public paid people. The Ralph Naders, health food people, vegetarians, et cetera. National diet and health officials, even the public paid doctor and dietitians at our VA hospital in Sioux Falls just 3 weeks ago put my cousin's husband on a diet where he could eat all the chicken and fish he wanted to but no red meat. Well, the latest nutritional data says what I have known all along. There is no difference between chicken, fish, and red meat as far as nutrition is concerned. There is more difference in the type of preparation than in the food classes themselves.

Why am I telling you this? Just for my next point, of course. We quite frankly have lost a big market share to the poultry industry. Some of it due to bureaucratic manipulation, changing lifestyles, smaller portions eating out, one member households, single parent families are many markets that we have identified. One parent families, for instance, are taking up larger and larger groups of household or where both parents are working, so our lifestyles have changed. We need to identify what these people use and how can they use our product in their normal lifestyle. It has been charted that in just 15 months, the first time since records have been kept, there will be more poultry sold than beef. That's not very long now.

Both the Beef and Pork Councils together with American Livestock and Meat Board have a program on top to help recapture some of our marketshare and have introduced in the House of Representatives in Washington enabling legislation to raise some real dollars to help our red meat industry innovate, promote and provide nutritional data so that the purveyors of our products can move our production in greater volume profitably.

Most of us that know what needs to be done believe that $1 per head transaction or change of ownership will go a long way to recapturing some of our market share. And that still would only be 15 percent of the dollars that McDonalds spend for advertising.

Put that in perspective, that this is just one national syndicate and we are producers that provide all of the beef for all of the short-line chain offices that use our product, and we are only spending 15 percent of what this one outfit spends.

I have a vet back home that compares giving 5 cc. of antibiotics to a very sick steer as to standing on the bank of the Jim River behind a tree and relieving yourself and then expecting a flood downstream. This is what we have been doing in promoting our own beef industry in South Dakota by checking off 25 cents, 10 cents, or nothing, and now we have a market problem.

Our organization, South Dakota Beef Council, has a seat on the American Meat Export Federation, and I appointed Ordel Rogan of Sherman, SD, to attend the last meeting which was held in Toronto, Canada. And one of the things that kind of amazed me—and this is your department—department Government manipulation and what happens. One of the things that was brought out at that meeting was another point of market erosion is what happened this spring, a major market of ours. Denmark, offered to Japan—the Government of Japan—Danish processed hams at the price of $800 to $900 a ton when the going world market price at that time was $1,900 or more. That was the prevailing market which was even less than $1 a pound for world price on cured hams. Here again, Denmark came in and offered—which is our traditional large market—Danish hams for $800—I think it was $865 a ton. Now, that brings that price down to Japan to less than 50 cents a pound. That is a pretty hefty discount, but that was all subsidized by the Government.

Now, tongue in cheek, I think we should put a couple of their ships down next to the *Titanic* and tell them where we need to be.

Senator ABDNOR. Do they do the same thing to our meat products?

Mr. FINK. What is that?

Senator ABDNOR. The time the beef is sold by the pound over there it's what, $20 a pound. They have their own little——

Mr. FINK. The difference in import—import, what they bring in, and what they charge the Government or the consumers over there is entirely two different things.

Senator ABDNOR. Yeah, two different things. I just wondered. I wonder how far the discrimination goes to. I thought maybe even between countries we are being taken.

Mr. FINK. That's part of the market erosion, what I'm talking about. The American Meat Export Federation is a conglomerate of many different organizations. It costs us $5,000 a seat to have a person on the house of delegates at that convention, and part of it is cosponsored by the Federal Government. The work that is done overseas in market and development and produce information to overseas or people that want to ship market overseas. One of the things we have to remember absolutely without question is when a housewife walks into a grocery store, a national—one of our major grocery stores, she has 6,000 items to choose from, approximately, how she is going to feed her family, so we in the red meat industry have a long ways to go to recapture our market because the innovativeness of the poultry industry—I seen an ad the other night over the TV where it was advertising that chicken without any—with the feathers still on—well, I like to see most chickens with their feathers on, but they have innovative ways of selling their products and they spend huge amounts of dollars doing it. I'll yield to the next speaker.

Senator ABDNOR. Thank you, Herman. That was a very revealing statement.

Mr. Strain of the American Cowman's Association.

Mr. STRAIN. You got it right. I guess the thing I appreciate, that if you had to drain the entire ocean to get to the bottom of this thing and find the answers, that you were willing to do it. I really appreciate that, and the people that I represent I know appreciate it. And if you need help bailing that ocean you can get some from us.

Senator ABDNOR. OK.

Mr. STRAIN. The way it sounds to me, as soon as they get the USDA abolished, these two fellows will probably want to hire on with that bailing deal because it sounds like they will probably be looking for work.

STATEMENT OF JIM STRAIN, CHIEF EXECUTIVE OFFICER, AMERICAN COWMAN'S ASSOCIATION

Mr. STRAIN. My name is Jim Strain. I'm a rancher from the Badlands of South Dakota. I am also the chief executive officer of the American Cowman's Association.

As a beef producer and the representative of a beef producers group it is naturally beef and its situation in today's movement to market which is of paramount concern to us.

In the past few weeks a great deal of interest has been generated in beef production circles about the current farm-to-retail spread. Radio and TV commentators have talked about it, trade publications have written at length about it, and today, because of their efforts, more beef producers perhaps than ever before are aware of the spread and how today's spread compares with spreads of past years.

There are two power concentrations between the producers of beef and the consumers of beef. The first is a few large packers who process a very high percentage of the beef processed in this country, the second is a few megaretailers who retail most of this beef.

To understand the farm-to-retail spread we must first realize that it has two components: (1) The farm to carcass, which is cattle feeder to packer; and (2) the carcass to retailer, which is packer to retailer.

Rather than bore you with lots of figures, which you have full access to, let's deal with general percentages. In the past 8 years the farm-to-retail spread has widened by approximately 70 percent.

The first component, farm to carcass, has remained fairly constant with periods both above and below the 1977 reference year, during the past 2 years this component has been quite low. However, the second component, carcass to retailer, has widened almost each year on a near constant growth curve until today it is at record levels having increased approximately 81 percent in the same 8-year timespan.

Shocking? Our association believes so. What does this mean in real terms to consumers? In 1977 the carcass-to-retail average for the year was 54.57 cents, through June 1985 the average has been slightly above 99 cents. This means that 44 cents more of the consumers beef dollar now goes to the retailer than in 1977. Another easy to understand figure is that if a cattle feeder donated his Choice beef animal consumers would still have to pay an average of $1.10 per pound for their beef purchases to cover the costs asserted by both middlemen.

Bear in mind this widening of retail margin has taken place at a time when first, because of recession most businesses were trimming overhead to the maximum and really leaning themselves up to remain competitive. Second, from 1981 through today when much of this increase took place inflation has been low and labor costs have been relatively stable.

We have talked about how the middleman's margins affects the consumer. Let's look at what they mean to the producer. The consumer who is provided the option of many lower priced protein sources has demonstrated a willingness to pay the price the retailer has put on beef, in that they have bought all that has ever been offered. Since it takes 2.4 pounds of live beef to make 1 pound of retail beef this means that if the retail price was left as it is and 24 cents of the farm-to-retail spread was transferred back to the producer the price of live beef would increase by $10 per hundredweight. A 36-cent producer back transfer would add $15 per hundredweight live. These are very meaningful figures to people in the production end of the business.

We know that if figures like I have just pointed out aren't returned to the production end of the beef business this most preferred source of essential protein will eventually be lost as an option for the American consumer.

Any American sophomore high school student understands that competition is the lifeblood of our free enterprise system. Suck that lifeblood out and our system dies. If the figures we have used, which are gathered by the USDA, accurately reflect the current situation, it appears that competition is working in the processor's part of the spread, but the second component, carcass to retailer, looks suspect to us. The figures speak for themselves, compare the two.

Now, we in America often speak with pride about the percentage of the American consumer's disposable income which is spent for food. That percentage is impressive indeed, the lowest in the entire world. However, little is said about how much of this small percentage goes to the people who produce the food. This is not a matter of national pride but one of national shame.

Today American agriculture, the beef business included, is in shambles. Much of the credit system which finances it is faltering, foreclosures are at depression levels, two and three generations of hard work and thrift vanish like mirages on the desert and the hopes and dreams of upright and productive citizens of this country are shattered daily. America must know that an inexpensive and plentiful food supply doesn't just happen. It is not a national birthright and cannot be guaranteed.

The corporate giants who retail this food must acknowledge and preserve the free enterprise system which has enabled them to prosper and not allow themselves to become slaves to the bottom line to the end that this system is destroyed.

Mr. Chairman, let the record show quite clearly that our association of beef producers has no fear of a fair, open and competitive marketplace setting the price of our product. We do, however, fear a situation which becomes so concentrated that the price we are paid and the price the consumer pays is set in the country club rather than the marketplace.

We further believe that if this free, open, and competitive market does not exist it is Government's proper and obligatory role to take whatever measures are necessary to guarantee such a market, however harsh those measures may seem.

Senator Abdnor, we appreciate the fact you have accepted this responsibility and have taken the lead in seeing that the truth is brought out in this matter, and we wish you Godspeed as you continue. Thank you.

[Applause from the audience.]

Senator ABDNOR. Thank you, Mr. Strain. Well, I guess it's all the same. You are talking hog, they are talking beef. Go ahead, Mr. Reiner.

STATEMENT OF LEON REINER, PRESIDENT, PORK PRODUCER ASSOCIATION

Mr. REINER. Thank you, Senator. As stated earlier, my name is Leon Reiner, president of the Pork Producer Association. I really appreciate the invitation to come in and talk today because we all know red meat and swine production more than ever is really correlated and the proceeds we get for our product is really correlated with what the cattleman can receive for his product.

Traditionally, I think, what producers have believed is that what they receive for their product is a direct result of producer supply and the consumer demand for our product. But it is obvious that we have broken from this simple pricing system to a rash of forces causing change in the red meat industry. Things like consumerism, energy, nitrosamines, isolated soy-protein, sanitation, food safety, labor, and, yes, leanness and muscling are all involved.

How important is the red meat industry? Statistics show that the United States is the No. 1 meat producer, producing more than twice the amount of the world's second place producer, the U.S.S.R. This suffering industry has sales of $70 billion annually, which makes it the largest single component of U.S. agriculture.

If we look at the food dollar we find that 50 cents of every dollar is spent on food produced by animals, and of that, 80 percent or 40 cents of every dollar is spent for meat. Yet, I think, that this industry is at the brink of financial bankruptcy.

If we look at the swine production it does not take us long to assess the situation. We see more and more producers custom feeding hogs for larger corporate companies. There is only one reason for this. It is not because the $7 or $8 a head they receive for their facilities and labor is more profitable, it's because they haven't made enough money to continue buying or raising their own stock. Others are producing on borrowed time until their facilities are worn out and then they'll have to close their doors.

There are no secrets to this problem. We are past the point of becoming more efficient. We are past the point of borrowing for capital improvements. And we are past the point of producing in volume to combat the cost-price squeeze. We are now at low producer prices with little change in the retail market. Besides the abundant supply of red meat, which has forced prices down, we are faced with two major packers going out on strike with the possibility of this number rising to five. Saturday at midnight, 2,500 Morrell employees went on strike. Yesterday, hog prices fell $3 a hundredweight. On a 230-pound butcher that means $6.90 per hog. Something must be done.

I realize that during depressed hog prices the level of retail prices charged to consumers is often very closely scrutinized. Clearly, retail prices must be reflective of wholesale as well as live hog prices. But it sometimes appears that retail prices are slow to change, especially in a falling market. This creates a temptation to accuse one part of the meat marketing chain of profiting at the expense of others. However, as a State leader I feel that we must always work very closely with retailers and packers in situations of depressed prices and oversupply.

Also, being a member of the National Pork Producers Council, we have learned through experience that the long-term welfare of the industry is best served when all segments of the industry cooperate at all times, not just in times of surplus. We as producers must strive to stay in constant contact with leading retailers and wholesalers throughout the country. We must stress the need to keep the product moving in order to prevent serious production cutbacks in months and years ahead that would destabilize the entire red meat industry.

Essentially, what we are talking about here is meat merchandising. I feel that producers have just begun to fund this new concept. I feel that we are just crawling now, but must learn to walk, then run. For it's obvious that retail stores will always have some meat in their meat cases, but do they sell it? We must make sure that our product is sold, not just produced.

It's a common fact that consumption will vary with income, and comparative prices for what we receive for our raw product must be reflected at the retail level so that we can consume our way out of these depressed prices. Recently Senator Pressler quoted in his newsletter that the average retail store has a gross profit of 56 cents per pound of beef. This is more than the farmer grosses for his efforts to raise cattle. This does not sound like comparative pricing to me. Senator, we need your help to find out why.

I feel that the problem for the livestock man are many. Recently I stated at a livestock crisis meeting that we do not need misleading reports from the USDA Livestock and Crop Reporting Service.

Some people argue that we need more reports and that funding has been cutback, possibly reducing their accuracy. I can appreciate that thought, but, Senator, Congress must decide to fund this service to provide accuracy or eliminate it. My question still remains, is it justified to use consumer tax dollars to provide predictions? We raise one crop a year, cows calf once a year and pigs farrow only twice a year. I think actual production figures once a year would be sufficient.

Also, it has been proven over and over that U.S. producers are competing with subsidized products from other countries. Yet our Government closes its eyes and calls for free trade. Senator, I don't think our industry is asking for handouts or subsidies, we would just like the opportunity to compete on an equal basis. I'm convinced that our producers can compete fairly with anyone, but not when we witness drug abuses from incoming livestock, mislabeled meat, even mislabeled species in these boxes. I would hope that the 1985 farm bill will be fair to all segments of agriculture. The livestock industry cannot survive on a supply and demand motive if it is the only one doing it.

I feel education and a greater understanding of our industry at the producer level is very important. We must realize that the consumer demand for leaner meat has made certain demands on the producer, the packer, and the retailer. It is producers who can offer the product that is in demand. At all times we must remember to strive for a 210- to 240-pound lean hog with the capacity to grow and reproduce. Whether we're in the classroom, showroom, feedlot, packinghouse, or meat case, we must produce what the thrifty consumer demands. And I think it is safe to say that a 300-pound purple ribbon butcher or Prime cut quality grade beef, which is generally a No. 4 yield grade, is not what the public is demanding.

Finally, the present tax structure and how it relates to agriculture must be changed. Profits must be taxed according to their source of income. It has been stated that 30 percent of the meat produced in this country needs no profit. Simply stated, agriculture as we know it today is a means of tax evasion for the rich. We need someone to assume the leadership in solving this tax evasion loophole. Senator Abdnor's bill limiting the transfer of loss from one enterprise to another to $25,000 could go a long way to solving our overcapitalization and oversupply problems in agriculture.

So in summary, I believe that all segments of the industry have an obligation to each other to do their part in times of crisis. Retailers need to be reminded that a stable pork or beef supply over the long run is to everyone's advantage. This prevents the market fluctuations that have hurt our industry in the past. We recognize that when we overproduce, we lose producers. But when we underproduce, we lose consumers.

I would hope that retailers understand this, and that they are for the most part doing what they can to keep retail meat prices consistent with those paid on the farm. At this time I would like to thank you for your time.

Senator Abdnor. Thank you, Mr. Reiner. I thank you for your comments on my bill.

Mr. Tosterud has something for us.

Mr. TOSTERUD. I just happened to get into a table here that was provided by U.S. Department of Agriculture. Sometimes they provide some useful information, and this is one of those cases.

The reason I bring it up, Jim, is you raised the point of what a 20 cent lower—or 24 cent—20 cent lower price spread, what that would mean in terms of live animal value. And if you go back in time it's extremely interesting to note that the farm-to-retail price spread has increased basically 20 cents a pound in the last 10 months from 96.8 cents in November 1984 to 116.6 cents in July. So there is your—basically your 20 cents.

Now, as it works out, had that 20 cents gone to the farmer and farm value rather than to the retailer, you are absolutely right. That animal would be selling for $12 to $15 more per hundredweight today with no increase in the retail price of beef.

I think that's extremely enlightening and I appreciate your comments on that.

Mr. STRAIN. Well, you know, it's pretty easy to figure it, you know, and it's important.

You know, there has been a lot said about the promotion here—beef promotion. To me we are getting the cart ahead of the horse. I've got to feel secure about the system before I want to spend a dime on promotion. I think promotion can be affective. I really do. I'm a strong advocate of promotion. But if someone has situated themselves through a power situation that they can pick off the fruits of your effort, why even undertake it? That's the way I feel.

I don't feel it requires a lot of research or study. I think the figures grab right out at you and jump out at you and grab ahold of you. I think a sophomore high school student could realize that.

We have the consumer paying enough for the product, but there is someone in the middle taking handfuls out of there. The thing has to be looked at hard, I think. I think it's at the bottom of the ocean that the Senator spoke about earlier, and, I think, we have to bulldog down there and really look at it. Does that answer your question?

Mr. TOSTERUD. Yes, it does. Mr. Fink, do you have a question?

Mr. FINK. As I analyze it, it isn't that simple. An average household is only 1.4 persons per household. We have single parent homes have gone up to, I think, 30 or 40 percent of the homes in the United States are single parent homes. The one parent that is there has to go out and work. A large part of this farm-to-carcass-retail spread in the last 10 years has come about where the wife has gone to work to stabilize the family income. This is countrywide. She is requiring the prepackaging, precooking, short order strips. For now, one out of every other meal is eaten away from home on a national average. This is where a large part of that carcass spread is. We can face it or scrape it under the table.

As far as I'm concerned I lost as much money individually as people did individually here because all of my production that as long as I've been ranching has gone into the red meat. We also put everything out for it. Last year, for the first time, I sold some background cattle. Maybe it's the best thing that ever happened to me. But I recognize the fact that we have a changing market, changing lifestyle. We as an industry had better zero in and tune in on that as part of the problems we have now.

Now, I don't discount the fact of this 20 cents you are talking about in the last 20 months. That isn't justified. I agree with that. But we do have some other things we had better consider in this industry other than that.

Figures can lie. Those can be taken in perspective. We have a different kind of market as recently as 5 years ago.

Mr. TOSTERUD. You're not saying that price is not important?

Mr. FINK. No. I'm just saying that the farm-to-carcass-to-retail—the demand of our consumers is so much different now than it was a few years ago where the housewife would take a 10-pound roast home and roast it in the afternoon. That market is almost extinct. It takes more prepackaging and more precooking. Many more things to be done with that cut of beef before they get ahold of that.

Mr. TOSTERUD. Isn't there kind of a catch-22 here that say, had retail beef price been more reasonable, say, 5, 10 years ago, perhaps that change in cooking habits wouldn't have occurred?

I know for the first time in 8 years I hate a 22-ounce Prime rib last night. I haven't even seen one. And the only reason I did it was that it was $13. And you go to Washington, DC, if there is one in Washington, DC, at 22 ounces, you are not going to be able to touch it with anything less than $25, I would guess. And I know my wife is very sensitive to changing retail meat prices.

Mr. FINK. To relate a story. Just a few weeks ago, in Salt Lake City, a group of us went out to this hilltop or top restaurant that had glass all around it over looking the court area of the Mormon Temple. I happened to be sitting next to Jo Ann Smith, the president of the National Cattlemen's Association, that evening, and we had all been eating more than we needed, but we went out just as a group, you know, so we could have some atmosphere and get away from the crowd. And being a country boy, I didn't know really what I wanted to order off this fancy menu, but I took the first thing off the top left-hand corner of the menu. Just ask her about it some time. It was the most horrible thing you have ever seen. It was a little fish dinner or fish appetizer about this thick or 4 inches square. And I told Jo Ann—and this is a two-course meal—the first half I'll eat with the spoon, and the other half with a fork. But I did get through with it. I'm stubborn. When I start something I want to get through with it. She is more with the ways of the world. She ordered a 3-ounce fillet so she did help me with a chaser to get the taste of that out of my mouth.

People are eating more nutritionally. This was one of the most horrible pieces of meat I've ever eaten, but I did eat it. A 22-ounce steak at that place was $48.

Senator ABDNOR. Mr. Reiner.

Mr. REINER. I think both the gentlemen are right and correct about what they have said. I think since I came up to the hearing today with the thought in my mind, "We sure don't want to knock anybody along the way, whether it's the retailer or myself if they are making an honest profit." Now, I buy a $15 40-pound feeder pig and sell it for $40 in 3 months. I sure hope that no one comes back to me that I was in cahoots with someone or knew price fixing was coming along the line. We want to separate profitability from price fixing or something like that.

What Mr. Fink said, I really have to appreciate. As I research this we all know anytime this product is handled it increases in price because anyone who handles it is going to try to make a little profit. And what he said is right. But, I think, we can argue both ways. If the housewife is that busy, she has a second job, she is working, they probably generally have the ability to pay for the value of this product.

We are caught on the bottom. We are receiving less value since I started farming 12 years ago, and I know a lot of you people have farmed longer than that. I'm not ready to throw my hands up yet, but we definitely need to find a way through this.

Mr. STRAIN. I think that chart on the right deals with—with a yield grade 3 steer. As I understand it, I was led to believe we are selling these beef just the same as 15 years ago, and you are talking about value added. That's the reason you need the research money is to get into the 21st century. That's what I've heard all day. Most of this fast prepared meat is lean meat. That's a yield grade 3. We are talking about apples and oranges here. Apples and oranges is what we are talking about.

This could get lengthy and I know we are at the tail end of the day so that's all I care to say on that.

Senator ABDNOR. Now is probably a good place to drop it off and say thank you, gentlemen. I think it all was very helpful and I hope we can use this material and the information like we should to come up with some answers.

Our next panel is Mike Held with South Dakota Farm Bureau and Charles Groth of the South Dakota Farmers Union. We welcome you two gentlemen and your organizations to the panel. You go right ahead, Mr. Held.

STATEMENT OF MICHAEL HELD, ADMINISTRATIVE DIRECTOR, SOUTH DAKOTA FARM BUREAU FEDERATION

Mr. HELD. Thank you, Senator Abdnor. I appreciate the opportunity to be here. I thought you saved the closest to home for last because the rest have a considerable distance.

Senator ABDNOR. It bothers me a little that some of these people may be going 500 miles or so to home.

Mr. HELD. My name is Michael Held. I'm the administrative director for the South Dakota Farm Bureau Federation, a voluntary, general farm and ranch organization with a membership of 7,000 member families. A high percentage of our members are producers of beef cattle, swine, and sheep.

Farm bureau members have been concerned about the farm-to-retail price spread for many years. It is a topic that receives considerable discussion at meetings of our members at all levels of the farm bureau. Discussion and comment on the farm-to-retail price spread has increased tremendously in the past 6 months.

As you are well aware, price spreads between what consumers pay for beef at the counter and what farmers receive at their feedlot reached record highs in April 1985, and then topped that in July 1985. This is not a new phenomenom. As a rule, farm-to-retail price spreads tend to increase during periods of increased supply and declining fat cattle prices. Although the trend in the past 6 months agrees with historical data, the fact that record margins were occurring, caused concern to us, especially the margin increases in July when it was evident that we were really in a down market. If you study the figures in the past 10 years, the timelag is always slower in the down market than the timelag from farm to retail is in the up market.

This scenario prompted American Farm Bureau president, Robert Delano, to send letters to the National Grocers Association and the Food Marketing Institute for their assistance in reducing those record marketing margins. The farm bureau urged the retailers to develop a strategy that would more quickly reflect in the meat counter what feeders are receiving for their live animals. Current computer technology should make it possible to monitor more rapidly the actual margins being experienced and to make the necessary marketing margin adjustments.

Looking at the farm-to-retail beef spread the past 6½ years gives a clear indication of why farmers and ranchers are concerned. From 1979 to 1984 the net farm value as a percent of retail value ranged from a low of 55 percent in the third quarter of 1983 to a high of 62 percent for the calendar year of 1979. In 1984 the high month was January at 61 percent and the low month was September at 56 percent.

The year 1985 portrays a declining farm value as a percent of retail value for beef. January was 58 percent and the succeeding months declined until in July 1985, the farm value was at the 49 percent level. I am sure no one can recall a time when farmers and ranchers received less than 50 percent of the retail value of beef.

Ironically, since 1975 packer margins for beef have decreased 1 percent while the retailers share has increased 124 percent, and that does not include the July 1985, figures, just up to July.

For pork the same trend was experienced this spring in April and May when farmers were receiving 42 and 43 percent of the retail value. For June and July 1985 that percentage has rebounded to the more normal levels of 47 and 46 percent. The 6-year average is 46.7 percent for pork in the amount that farmers share of retail value.

One of the most difficult tasks in accurately analyzing what the situation really is regarding farm-to-retail price spreads is obtaining current and accurate information. The result many times is an increase in suspicion and mistrust, which is again evident these past few months.

In 1981 the USDA discontinued a weekly price and price spreads report for Choice beef and pork. That report provided the only current information available concerning the market price share received by retailers, meatpackers, and livestock feeders. Shifting to Bureau of Labor Statistics data for the development of a monthly report is almost useless because of the timelag involved in summarizing, preparing and publishing the information. We sense a growing need to reinstate the weekly price and price spread report for Choice beef and pork by USDA to tell us what the price shares are at the beef and pork level.

For the past couple years the farm bureau has published a brochure entitled "Who Gets Your Food Dollar." In both of the last 2 years farmers and ranchers received 27 cents of the consumer's food dollar. This is all food products, not just red meat products. Also in both 1983 and 1984 labor received 33 cents out of the consumer's food dollar. I remember the shock about 5 years ago when the percentage of the food dollar earned by labor equaled the farmer's share. Today the wages for labor are 22 percent greater than the farmer's share of the consumer's food dollar.

The farmer's share of the market basket food dollar has decreased from 50 percent in the early 1950's to 40 percent in the early 1970's. At 1984 we were at the 27 percent level.

While analyzing and assessing today's topic is difficult, finding and putting in place a solution at times seems nearly impossible. Allow me to suggest a few areas for further discussion in hope that the results will lead to the higher net incomes needed by farmers and ranchers.

The wide margins to retailers of red meats in 1985 hopefully will provide the opportunity for merchants to pay more for meat at the farm gate without raising prices to the consumers.

Second, hearings and the publicity that results from them will place pressure on retailers to attempt to be more current in reflecting the prices that farmers and ranchers receive for their livestock.

Third, producer groups need to work more closely with packers and retailers to find ways to reduce the uncertainty of long-range supplies and to find a way to transfer long-term risks.

Fourth, producer groups need to take the lead in putting up research and development capital for new product development, market research, new packing, and other marketing innovations because it is not being done by others in the industry.

We have had all kinds of examples today in the red meat health controversy that is going on. We need to get the facts out and get the research done.

One other item that I have that is not in my prepared statement that I would like to comment on, the comments by USDA and also Senator Schmit, as they related to retailer's profits. I've looked at the food industry for the last 16 years that I've worked with the farm bureau in various jobs. I was talking about their margin on sales, and I'm not sure that's a very accurate reflection on what is going on in any industry. Take the beef industry—the beef retailing industry as an example. Obviously a beef carcass could be turned 27, 50, maybe 100 times in a year's time. When you compare margins on sales and talk about the percentage that they always talk about, I don't think that's a clear reflection. I think they ought to, or USDA or your staff come back up with the figures and talk on terms of investment and, I think, that would more accurately give us a picture what's happening in the food market industry.

Another thing is the lack of the—you can't really tell what's going on with red meat and vegetables, et cetera.

In conclusion, Senator Abdnor, I commend you for taking the lead on this very difficult and delicate subject. At this time when farmers and ranchers are in desperate need of higher net incomes, your leadership in tackling the tough questions is truly appreciated by the farm bureau.

Senator ABDNOR. Thank you, Mr. Held. I appreciate those comments. Mr. Groth.

STATEMENT OF CHARLES GROTH, COMMUNICATIONS DIRECTOR, SOUTH DAKOTA FARMERS UNION

Mr. GROTH. My name is Charles Groth. I reside here in Huron and currently serve as communications director for the South Dakota Farmers Union, our State's largest family farm and ranch organization.

Mr. Chairman, I appreciate the opportunity to testify here today regarding a problem that has been of great concern to members of the farmers union for many years. We believe there is ample evidence indicating that retailers and, in particular, the giant chain stores have monopolistic control over the price of beef to the detriment of both producers and consumers.

The average 1,200-pound steer carcass yields about 500 pounds of beef, retail weight. In April of this year, according to USDA figures compiled by the South Dakota Division of the Independent Stockgrowers of America, the consumer was paying $1,185 for that beef. The net farm value, which is shared by the rancher and the feeder, had declined from $700 in 1984 to $636. At the same time the packer's value also declined from $38 to $29.50. However, during this same timespan the retailers' share increased from $460 to $519. In other words, retailers who handle that beef for an average of 2 days are grossing almost as much as the rancher and the feeder who have 2 years of production costs tied up in the animal.

This situation is not new. It has been worsening year by year for more than 25 years. In 1968 the growing price spread and evident retail chain monopoly control over beef prices prompted seven Western ranchers to file an antitrust action against three of the Nation's biggest food chains. The ranchers' suit contended that actions by the food chains had resulted in prices that had denied them the cost of production for the previous 7 years. I think this is a case that was talked about to some extent by Senator Schmit this morning.

The food chains settled out of court, but the Great Atlantic & Pacific Tea Co., the A&P, went to court and lost. The judge and jury found that the damage to the ranchers was 20 cents a pound or $200 on each 1,000-pound animal sold, and the A&P was forced to settle with the ranchers for approximately $10 million.

Evidence of price fixing by the chain stores was also disclosed in congressional hearings. Clearly what the food chains pay for dressed beef wholesale sets prices on all beef sold retail and on live cattle. The same goes for hogs and sheep.

The South Dakota Farmers Union recommends two specific actions to remedy these circumstances:

We urge you to support congressional passage of the Agricultural Producers Anti-Trust Access Act. This action was made necessary by the U.S. Supreme Court decision in the *Illinois Brick* case which held that plaintiffs in antitrust cases can't collect damages, though proven from price fixers unless the damages are direct. Since ranchers and feeders seldom sell directly to the chain stores this decision has denied them the right to pursue justice through the court system.

We also strongly urge the administration and the Justice Department to launch a vigorous investigation of the price spread on meat and of the activities of the chain stores. We further urge the Justice Department to use the evidence gained in such an investigation to prosecute those who have been involved in price fixing activities.

However, we feel that congressional action on the Agricultural Producers Anti-Trust Access Act is imperative. That is because the current administration has refused to enforce antitrust laws and has refused to prosecute price fixers.

Mr. Chairman, the current economic situation of agricultural producers is critical. The huge margins and markups taken by the chain stores have had the effect of pushing cattle prices to their lowest parity levels in history. In 1933 the parity price for cattle stood at 62 percent. Today the parity price for cattle is 51 percent, 11 points lower than in the Depression of the 1930's.

We need a strong 1985 farm bill capable of restoring prosperity to rural America. We also need legislation to assure that agricultural producers have access to the courts in their legitimate efforts to achieve economic justice.

I would like to mention a couple of topics that have come up today. There has been some discussion in your legislation regarding tax loss farming. I think, you know, that the farmers union strongly supports your view on that, and we have so testified at the previous hearing.

There has also been quite a bit of discussion of the proposed commodity checkoff legislation in Washington. I would like to state the farmers union viewpoint on the commodity checkoff. We support voluntary checkoffs rather than mandatory checkoffs. And we believe that if any nationwide checkoff is to be proposed, it should not be put in place without a referendum of producers. Some of the people who testified earlier today indicated that they felt producers supported their view. If that's the case we hope that they will support a referendum before any checkoff would be imposed. Thank you.

Senator ABDNOR. Thank you.

Mr. Echman, president of NFO.

STATEMENT OF KEN ECHMAN, PRESIDENT, STATE NATIONAL FARMERS ORGANIZATION

Mr. ECHMAN. Thank you, Senator Abdnor. This comes as quite a surprise to me. I just walked in to hear and to observe.

I'm Ken Echman. I'm president of the State National Farmers Organization. And I have no prepared statement. You caught me off guard.

However, I worked with the farm people for many, many years. The last 24. I believe that we are on the right bases at the present time, working toward suitable legislation for the 1985 farm bill.

I had the opportunity to hear just as late as Friday to visit with Senator Abdnor, Senator Pressler, Congressman Daschle, and Governor Janklow, about what we would like to see in the 1985 farm bill. And I hope this does get back to Washington, DC.

However, I would like to just use this time to talk a little bit in a different realm, and that is that we hear most of the time about this overproduction. We are well aware in NFO and the statistics pointed out that we have not produced enough red meat or dairy products to feed our domestic supply for the last 10 years. I believe if there should be some words taken from our vocabulary it should be "demand, surplus, foreign markets, import, export, value of the dollar." These words tend to cite farmers that they have to take less.

My organization believes this is not true. Any group that allows buyers to set the price are at the discretion of those buyers. The farmer has as much right as any other segment of this economy to set the price for his raw materials, and this is the function that we have been working on to extract a fair and just price from the marketplace, being assured that through legislation that we do have the support and the livestock and the grains. The basis the same as labor does. There is a minimum price on labor, but most people can't work and operate at minimum labor wage. So we believe that there should be a basis to start from from the 1985 farm bill, and we believe that farmers should then go into the marketplace and extract what is rightfully theirs.

One other thing I might add at this point. I understand in the red meat business that our State university at the present time is serving Argentina beef. Now, I wonder if somebody shouldn't do some checking. It looks to me like in the State of South Dakota and good beef people in this State that we need not bring Argentina beef into our State university.

I was just made aware of that just as late as the other day. And I know that that Argentina beef hasn't met the same requirements that our domestic supply has, and I believe our students deserve a better product. So I hope somebody takes a look at that.

I want to thank you for letting me make a few comments. I feel that things are going to turn around for agriculture. I would like to really be optimistic at this point because it seems like you only get attention when you have a dying man or a dying industry, and we are at that threshold right now. And, I think, that the proper people are becoming more and more involved to try to turn this thing around.

I hope to see some success down the road and something to end these foreclosures and bankruptcies that are taking shape.

And I'll tell you one thing. I'm going to be a part of it and out there turning it around, you can bet on that. Thank you, Senator.

Senator ABDNOR. I hadn't been aware that we were using foreign beef in this country, particularly Argentina beef at a college. I thought we had all that we needed. That's a pretty sound statement, is it? I don't mean to suggest—I mean, is it pretty substantial?

Mr. ECHMAN. Yeah. It came from a couple of young boys that work over there in the State university and they had their lunch there, so I think that we can get a good product in there.

I don't like it when people drag down the retailers and people that are making a profit. I believe everybody deserves a profit. They've got successful business because they are successful businessmen. And I would hope that farmers would start to become the same type of entrepreneurs or whatever you call them. Entrepreneurs, meat businessmen. I'm sure no meat retailer could operate very long if every consumer came in and said the price of corn flakes today is 37 cents a box. You have to have a price tag somewhere along the line.

Senator ABDNOR. Thank you. Does your organization have a stand on checkoff?

Mr. ECHMAN. Very definitely. I testified at Representative Daschle's hearing in Sioux Falls. The NFO is not against a checkoff—a beef or pork checkoff. We are against a mandatory checkoff without a referendum. We believe we still live in a democracy and farmers should be allowed to choose what is their future. And if they so desire to take checkoff on their production. We do it at our collection points and products that are marketed through our organization. If they want the checkoff taken off we see to it that it is. But it should be the right of the farmer to decide, and that has to be done from a referendum. I don't want Uncle Sam telling me that I've got to give some organization—between pork and beef it would amount to some $150 million without even having a voice in it. I don't think that's too democratic.

Senator ABDNOR. It was voted on and it was mandatory—I mean if it would be, would you accept it?

Mr. ECHMAN. The majority rules. Absolutely.

Senator ABDNOR. Mr. Held, it sounded like you were in support of a checkoff, are you?

Mr. HELD. I'm in the South Dakota Farm Bureau and member of the South Dakota Beef Member Council and participated in that program. We have a couple hangups with the proposed national legislation, Jim. Be very frank, the same problem the other two have here with the referendum part. The other part is the proposal with the opportunity to take checkoff moneys and use it for lobbying and other activities. Hopefully that will get worked out before that bill comes out because we don't think that that activity is proper with checkoff money.

Senator ABDNOR. One thing about the mandatory on beef and hogs—all those hogs we have coming across in Canada—it would be a shame to keep those people out of it and take advantage of the promotions we did over here and let them capitalize on the benefits we derive from it.

Mr. HELD. I agree. We have no problem with mandatory if everyone, the importer and everyone else—you asked Mr. Daniel about the clear title legislation. Can I make a comment?

I would suggest that California has had some excellent experience, and my counterparts that I have worked with, they have had clear title in agriculture for about 6 or 7 years. And bankers and lenders and everybody predicted disaster and it wouldn't work and all those kinds of things. And that, in fact, has not happened. Farmers are very happy with it and lending institutions indicate no problems with it, so there is one example where it has worked.

Senator ABDNOR. Do they have such State laws?

Mr. HELD. Yes, States had their own universal code in every State law book. We have it here in South Dakota and we would have the opportunity.

Senator ABDNOR. Our legislators could have done it?

Mr. HELD. Could have got clear title in the State of South Dakota.

One of the problems you have, obviously, is when you get into interstate trading among farmers, bankers. If you do it State by State you have a hodgepodge. Nobody knows what law applies, so that's why we think it should be on the national.

Senator ABDNOR. How do you feel on that, Mr. Groth?

Mr. GROTH. We don't necessarily have any problem with that.

Senator ABDNOR. Clear title, either way?

Does anybody have—I brought it up once. The cargo preference. How do you feel about that?

Mr. ECHMAN. I'm not too familiar with the cargo preference at this point, but I just have another comment. I think your legislation on tax reform is going to be very, very important. I believe this is part of the reason that we are having problems is farmers, to compete with those who want to show the tax lost on feeding cattle. At that point, I think, we can see our farmers back here in South Dakota buying their calves, putting the grain through at their own feedlots. I hope you can get something done on those tax restrictions, Senator.

Another thing I would like to see, a good Senate investigation. Somewhere I would like to hear the figures of what Cargill absolutely sells our grain for on the world market.

Senator ABDNOR. I don't know. Another subject of this is the BISEP Program. How do you feel about it?

Mr. HELD. We think the concept looks good, but I agree with you 100 percent. I think other parties of the Government have got into the UHBS bonus; namely, State Department and Treasury, and had a tremendous amount of influence on it.

Senator ABDNOR. It's ridiculous. Until we get back in competition I imagine we have plenty of trade problems. Maybe this Congress is going to—they might just go too far. The reciprocity maybe is important, but until we can someway, somehow, get our currency in line with others, it looks to me it's going to be a while to do this.

We sit with all this grain in storage. It's already charged up with the cost. And really I think the European Economic Community is dumping it over there with their excess. They do all this subsidizing on the domestic front and they have just simply taken a lot of our markets away from us.

I know that the first time this was tried on a private program Bill Brock was—he wouldn't tell me what he was going to do. I was in the office one day. He said, "just watch," and a couple of weeks later it happened. They announced this big flour sale and we lost it to France. They simply cut us out, I mean, by underbidding us. When we got it back in that one sale they were still screaming, but we got a taste of what they were doing to us.

When you have that, practically called dumping, you have to do something pretty drastic.

I called Cargill and found they were going to buy 150 tons—metric tons of wheat from Argentina. That shook up a lot of people, and they backed out because of so much heat from it. That thing just can't go on.

Mr. HELD. Senator, we feel if the BISEP Program is to be used we would like to see some assurance that the purchasing country would get the full benefit of the commodities. We would like to see assurance that Cargill and the other large corporations aren't going to be able to siphon off some of that.

Senator ABDNOR. That shouldn't be too difficult, I don't think. I agree with you, it could happen, but we don't want it to happen. It's kind of hard to catch them at it.

Mr. HELD. We are very disappointed with what happened about BISEP as we talked about it in our organization in February and March. We talked about it looks like the redtape and paperwork and everything else is mind boggling, and then the intrusion of other areas of Government. It's not working.

Senator ABDNOR. By April or May I sat in on two sessions right after we had agreed—we didn't even take legislation, you know, because it was something they already owned and could take without any special legislation. We had Stockman's agreement and Block's. And a short time later we met with Senators Dole and Stockman and Block. As we farm senators talked, it got more complicated so we had another session and brought in different groups and organizations. We were making mountains out of molehills, I guess, somewhat concerned we would turn around and sell Russia wheat with the BISEP Program after the public would rise up in arms subsidizing a Communist country. But right now, as long as America benefits from it and it's not something they are going to send back to us in the form of bullets it's not going to bother me any. If they are going to buy it someplace I'd rather take what money they have. We have more of it to sell off. I tell you that.

It's a better program than PIK in the long run. When I go back I've got to find out a lot more about that.

Mr. ECHMAN. When you get into this field I get a little concerned that it becomes a primary problem of distribution really, more than the pricing formula or value of the dollar. We realize that we only produce 1 percent too much wheat in the world, or 1 day extra supply. We also know that there is 22,000 people starving every day. I can't believe that we can constantly hit farmers and hold this over their head of overproduction. We are raping our soil to produce the world with a cheap grain at the expense of the farmers.

I'd rather see us go to that domestic market. Get our cost of production plus a profit out of that grain that we are producing, and let's summer fallow and let's take care of our American soil so the next generation will have something to work with.

Senator ABDNOR. When the PIK Program was in place it reduced our production level to 20 percent, at least on wheat. Overall worldwide it was nowhere near that because other countries just kept producing more. We used to say in America they had to come to us, but Argentina piled up, Canada keeps piling up, and I don't know what Europe is doing to raise more, but we have China producing more wheat now than we produce. I grant you they need it. I mean, they use it. Russia has the biggest crop they have ever had put in. I don't think Canada has quit plowing up there. Hell, a couple years ago India was sporting a little wheat, so I guess it says that we have plenty of competition. We can no longer say that they have to come to us.

We can maybe control our own in this country. I know the controls are good, but then we are saying that we are just going to give up foreign trade. I don't know. The world market is the one area that is still ahead of the game. We are still exporting more than we are bringing in, so far as I'm concerned, and importing less. But all I'm saying is there are some real problems, I guess decisions have to be made if we want to get the heck out of the export business and start producing most of it domestically, but that's one way to go.

The other way, I guess, is to just say we are going to fight these other countries.

Mr. ECHMAN A lot of people disagree. They say that when you get a price for a farm commodity, that everybody will produce more, and we found directly the opposite true. We believe that the farmers are producing at a maximum because of the small price. They have to get a cash flow. We believe when they are getting satisfactory prices for their wheat that the production would probably cut down. Same with dairy livestock. Because if your tax laws work properly, the farmer is going to take off a little more time if he is getting a fair price.

Mr. HELD. I didn't get an opportunity to say anything about cargo preference. You know where we are on cargo preference. We included it in our bill and have hopes we can get cargo preference in the past—get rid of it.

Just something I read the other day. Everybody made a big deal about the Live Aid Concert that was here a couple months ago to raise $40 million for Ethiopia, and we commend that.

Cargo preference is going to cost. It is going to come right out of the United States and is going to cost for this year about $80 million, just about a little more than all the good people raised for the Live Aid Concert, to subsidize the maritime industry. Absolutely ridiculous.

Senator ABDNOR. It's a good comment. If they need it, they ought to go through their own treasury rather than take it out of the farm budget.

Do you have a feeling at Farmers Union? Have a statement on the cargo preference?

Mr. GROTH. We don't see that as the key problem.

Senator ABDNOR. It doesn't bother you that you are paying for somebody else's——

Mr. GROTH. I think we need to be sure that we have an adequate merchant marine here in the United States, but probably not to the extent that cargo preference exists today.

Senator ABDNOR. If it did, I think it just seems to me——

Mr. GROTH. It should go out of somewhere else, definitely.

Senator ABDNOR. Ladies and gentlemen, I think we have been going at it about as long as we do anytime.

[Off-the-record comments were made.]

Senator ABDNOR. I wouldn't want to see her down in Washington. It would be great. Cut expenses if you get that much mileage. That is no reflection on the other people. They just don't accept the fact that going for 5 or 6 hours running that machine that steady, but that goes back to South Dakota people. They are willing to do more than a day's work for a day's wages if they have to.

She will hit me up for twice as much.

Now, thank you all very much. I wish we could take a little more testimony, but I think we used these facilities most of the day, and I just can't thank the Bales people enough for helping us as much as they have. Thank you.

It's been a great hearing. This is as good as any, wouldn't you say, Mr. Tosterud? Any we ever had?

Mr. TOSTERUD. Yes.

Senator ABDNOR. We have heard excellent and diversive thoughts, on this matter. The testimony for the record will be very informative. We thank everyone for participating.

I know how far people have come. Seven States have been ably represented here today. The seven States that we had here almost account for one-third of all the livestock produced in this country, so I think it's good that we brought this sub-committee out here. The views and concerns you have expressed are now a part of the public record. In my judgment, the Congress, the administration, and the American public have now been given adequate notice regarding a clear and present danger.

But one does wonder just how much more depressed the agricultural situation has to get before our Nation, including the Reagan administration, wakes up. We seem to care more about the future of the whooping crane than the family farmer and rancher. We need a broad-based national commitment to agriculture and rural America. Our neighbors residing on farms and in rural towns are exhausted; they've given all they have to give. They need and deserve our full support and that support is an investment, not a subsidy. Future generations of Americans, and other nations, will stand in judgment of the decisions of our generation relative to food production.

As I mentioned in my opening statement, there will be a third hearing on this subject during which the so-called middlemen will testify. Stay tuned. I appreciate your support. The subcommittee will stand in recess.

[Whereupon, the subcommittee recessed, to reconvene at 10 a.m., Thursday, October 3, 1985.]

THE GROWING SPREAD BETWEEN RETAIL BEEF AND LIVE CATTLE PRICES

THURSDAY, OCTOBER 3, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room SD-342, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and D'Amato.

Also present: Robert J. Tosterud, deputy director.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The subcommittee will come to order. First, let me thank and welcome today's panel of witnesses. I'm sure Mr. Krut will join us shortly. With weather like this, sometimes traffic does cause problems.

I just want to say that this is our third hearing within the last 2 months on the issue of the spread between livestock prices and retail meat prices. I've noted with some interest that T-bone steaks that were selling for $3.99 per pound on August 1, are now selling for $2.98 per pound. Also, during the last 2 months, since our first hearing, the price of New York strip steaks has declined from $2.49 per pound to $1.99 per pound, and the price of roasts have gone from $1.69 to 98 cents per pound. In the meanwhile, cattle prices have gone up $6 to $7 a hundredweight.

Now I was told by several livestock interests before I began this series of hearings that I would discover that retail meat prices are more responsive to congressional forces than to market forces. And while I don't believe this to be the case, I must admit that, given current livestock and retail meat price trends, I am tempted to turn this effort into a continuing series if necessary.

At our last hearing, which was held in Huron, SD, we heard from a dozen witnesses, including livestock representatives from seven States. Now not surprisingly, they echoed each other in expressing extreme frustration and anger over the price spread between what they were selling their cattle for and what was being charged for beef in retail outlets. There was a great deal of finger-pointing and more than one witness recommended an investigation by the Department of Justice. The Department of Justice has been contacted, as has the Federal Trade Commission. One witness suggested the establishment of a congressional commission on farm and food prices. However, no hard evidence on retail meat price fixing or manipulation was offered. But it's obvious to even the most casual consumer-observer how remarkably coincident meat promotions and prices are among retail stores. Hopefully, today's witnesses will enlighten us on retail meat pricing practices as well as other issues.

Finally, and unfortunately, a sour note in all of this. During the last 3 years, the Joint Economic Committee has held over 30 public hearings on problems confronting the agricultural and food industry involving some 200 witnesses. Staff has informed me that never during this 3-year period has an invited witness refused to appear, that is, until today. When contacted on September 23, a spokesman for the United Food and Commercial Workers Union told staff that this hearing, as the previous two hearings on this subject, would accomplish nothing and besides it was nothing but an Abdnor reelection ploy. Should the refusal by union labor to participate in this hearing result in less than a complete record on this subject, and I'm afraid it will, then that is regrettable. Their self-imposed silence only serves to perpetuate any misconceptions. And, if responding to constituent concerns is a political ploy, I proudly confess guilt.

For the record, a U.S. Department of Agriculture study that I requested shows that the portion of the price spread attributable to meat packing labor has actually declined during the last 10 years. In 1975, 9 cents of the 57.2-cent spread belonged to labor involved in the live cattle to carcass stage of processing. In 1985, only 8.6 cents of the 116.6-cent spread belongs to this group of laborers. In other words, while the total price spread has more than doubled in the last 10 years, meat packing labor costs have actually declined. They are part of the solution, not part of the problem. Unfortunately, their union representative isn't here today to receive my personal gratitude and thanks for a job well done.

My gratitude to today's witnesses who have chosen to appear and to present their views on the price spread goes without saying. My objective has always been, and continues to be, one of factfinding.

So, gentlemen, I do welcome you to this hearing and I'm looking forward to hearing your testimony.

Mr. Hodges, would you care to be our leadoff witness? Mr. Hodges is vice president for fresh meats of the American Meat Institute. You go right ahead.

STATEMENT OF JAMES HODGES, VICE PRESIDENT, FRESH MEATS, AMERICAN MEAT INSTITUTE

Mr. Hodges. Thank you, Mr. Chairman. My name is Jim Hodges, vice president for fresh meats at the American Meat Institute. I welcome the opportunity to report to you today on the economics of the meat packing industry.

AMI has recently completed a financial survey of the meat packing industry. The data I will be discussing this morning are primarily derived from that report. The report is currently at the printers and copies will be made available to you when we receive them.

For purposes of this presentation, I will define meat packers as those companies that slaughter livestock, regardless of whether or not they further process the carcasses. This definition includes many companies generally thought of as processors, and thus the profit margins I will be discussing will be somewhat overstated because of the higher value-added component associated with the processing segment of our industry. Based on this definition, the meat packing industry had sales last year of $49.5 billion, up only slightly from a year earlier. Industry sales have been flat for the past 5 years. Industry production has also remained essentially flat and price increases for our products have been moderate, and in some cases even negative. In fact, carcass prices, like live cattle prices, are today trading in the same range as they were in 1978.

Meat industry earnings after taxes, our net profit, historically runs about 1 percent of sales, less than one-fourth the average for all manufacturing industries and less than one-third the average for all food processing industries. Profits in the meat packing industry last year, however, were below average for the fourth consecutive year, with industry earnings equivalent to eight-tenths of 1 percent of sales. This eight-tenths of 1 percent return is an average for all meat packing; breaking the figures down by type of slaughter shows that beef packers last year fared worse than did the packing industry as a whole. Beef packers in our survey accounted for almost 60 percent of the commercial cattle slaughter in this country and their figures show an average profit last year of only six-tenths of 1 percent of sales, which is down from seven-tenths a year earlier. Data for 1985 is not yet available, but comments from our members indicate profits in the beef sector have been worse this year than at any time in recent memory.

The low return on sales characteristic of meat packing reflects the high-volume nature of our industry. Specifically, we make our money on volume, not on margins.

A typical meat packer's income statement would show that for each dollar of sales, livestock costs account for about 80 cents. That leaves a gross margin of approximately 20 cents. Labor costs take about half that 20 cents and the remainder goes for depreciation, interest, rents, taxes, supplies, distribution, advertising and other costs. That's less than 1 cent of the dollar left for profit.

The subcommittee is concerned today about recent differences between cattle prices and retail beef prices. There can be no question about whether the packing industry has been responding to lower live cattle prices. We have, and that response has been to lower the prices that we are receiving for our beef. Changes in live cattle and carcass prices have tracked fairly consistently this year, with monthly declines in carcass prices actually exceeding those of live cattle prices in March, April, July, and August.

Price declines at the wholesale level have been characteristic of weak demand in recent years and have been further aggravated this year by record-large supplies of all meats. Government figures indicate wholesale beef prices have declined 13 percent since the first of the year and are now as low as they've been since 1978.

You can see that changes in the prices we are receiving for our beef accurately reflect changes in the prices we're paying for live cattle. By passing our lower costs on to our customers, our sales are still remaining flat and our earnings subpar. Our industry was and is today being pressured by large meat supplies relative to demand. To increase profits while at the same time passing on lower livestock costs, we either have to cut operating costs or increase production. But if we increase production, we only compound the problem of excessive supplies. And our operating costs have been cut about as much as they can be.

As to costs, I mentioned that after livestock, labor is the meat packing industry's largest expense. Labor's high share of operating expenses lies at the heart of much of the industry restructuring and wage concessions of the past few years.

Average hourly earnings in meat packing fell last year for the second year in a row. The Department of Labor reported hourly wages in the meat packing industry averaged $8.17 in 1984, almost 5 percent below 1983's average.

The trend toward lower wages in meat packing is a relatively recent one. Because labor costs account for approximately 50 percent of industry operating expenses, they have served as an incentive for packers to develop and utilize labor-saving technologies. The number of industry employees have been reduced 16 percent since 1970. Over the same period, however, labor costs have increased 64 percent.

Labor costs have been increasing for decades, reflecting increases in industry production and sales. Wage rates in meat packing have traditionally been above the average for all manufacturing industries, but starting in the early 1970's, labor costs in meat packing began to rise dramatically. The rate of increase was well in excess of both industry sales and earnings. Disparate labor costs between packers doing business in the same markets had created a situation where a sizable portion of the industry could no longer compete effectively with newer, lower-cost companies. This situation was further aggravated by a recession-reduced demand for meat and increased competition from other protein sources. Plants were closing, others were reorganizing, unemployment was reaching record levels, and the stage was set for major labor concessions.

Beginning in 1983, average wage levels in meat packing fell below those of a year earlier for the first time since the depression of the 1930's and below those of all manufacturing industries for the first time since World War II. They declined again in 1984 and are today at the same level they were 5 years ago.

To summarize, the meat packing industry is characterized by very low margins relative to both other food processing and all manufacturing industries. Because of our low margins, our emphasis has traditionally been on volume, but in the past several years, we've seen our production increases result in burdensome supplies and a corresponding flattening of sales at the same time our costs have been increasing. Our margins have been further squeezed which has resulted in many companies going out of business or restructuring. Those that remain have been forced to become more competitive in cost, and for many companies, this has meant cutting wage levels.

As to the industry's response to declining cattle prices, the facts are clear. Our carcass prices have reflected lower cattle prices, and in some cases have declined even more than live prices. Cattle prices are off 20 percent since the first of the year, and so are our carcass prices.

I hope I've put into perspective some of the meat packing industry's unique financial characteristics. Mr. Chairman, I'll be glad to take your questions.

[The prepared statement of Mr. Hodges follows:]

Prepared Statement of James Hodges

Mr. Chairman and members of the committee, my name is Jim Hodges, vice president for fresh meats at the American Meat Institute. I welcome the opportunity to report to you today on the economics of the meat packing industry.

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Meat industry earnings after taxes -- our net profit -- historically runs about 1% of sales, less than one-fourth the average for all manufacturing industries and less than one-third the average for all food processing industries. Profits in meat packing last year, however, were below average for the 4th consecutive year, with industry earnings equivalent to eight-tenths of one percent of sales. This eight-tenths of one percent return is an average for all meat packing; breaking the figures down by type of slaughter shows that beef packers last year fared worse than did the packing industry as a whole. Beef packers in our survey accounted for almost 60% of the commercial cattle slaughter in this country and their figures show an average profit last year equivalent to only six-tenths of one percent of sales, down from seven-tenths a year earlier. Data for 1985 is not yet available, but comments from our members indicate profits in the beef sector have been worse this year than at any time in recent memory.

The low return on sales characteristic of meat packing reflects the high-volume nature of our industry. Specifically, we make our money on volume, not on margins.

A typical meat packer's income statement would show that for each dollar of sales, livestock costs account for about 80 cents. That leaves a gross margin of approximately 20 cents. Labor costs take about half that gross, with the remainder accounted for by depreciation, interest, rents and taxes, supplies, distribution, and advertising -- leaving about 1 cent of the dollar left for profits.

The committee is concerned today about recent differences between cattle prices and retail beef prices. Questions about the quality of the government data used in measuring the differences have been discussed at length, specifically questions about time lags and volume measures not reflected in the government data.

There can be no question, however, about whether the packing industry has been responding to lower live cattle prices. We have, and that response has been to lower the prices we are receiving for our beef. Changes in live cattle and carcass prices have tracked fairly consistently this year, with monthly declines in carcass prices actually exceeding those of live cattle prices in March, April, July and August.

PRICE AND PRICE CHANGES OF LIVE CATTLE AND CARCASS PRICES, 1985

	Choice Steers 9-1100 lbs. Omaha	-PERCENT CHANGE- Month Earlier	Year Earlier	Choice Steer Carcass YG3,6-700 lbs.	-PERCENT CHANGE- Month Earlier	Year Earlier
Jan.	$64.35	-1.5%	-4.1%	$99.50	-0.3%	-5.7%
Feb.	62.80	-2.4	-6.4	97.42	-2.1	-5.3
Mar.	59.58	-5.1	-13.1	92.00	-5.6	-12.5
Apr.	58.72	-1.4	-13.5	89.20	-3.0	-13.8
May	57.58	-1.9	-12.6	89.52	Sm.+	-10.1
Jun.	56.69	-1.5	-11.8	88.48	-1.2	-10.2
Jul.	53.26	-6.1	-19.0	82.22	-7.1	-18.8
Aug.	51.94	-2.3	-19.3	80.02	-2.7	-18.0

Price declines at the wholesale level have been characteristic of weak demand in recent years and have been further aggravated this year by record-large supplies of all meats. Government figures indicate wholesale beef prices have declined 13% since the first of the year and are now as low as they've been since 1978.

You can see, to summarize, that changes in the prices we are receiving for our beef accurately reflect changes in the prices we're paying for live cattle. This is not helping our sales, of course, nor our profits. By passing our lower costs on directly, our sales will remain flat and our earnings subpar. Our industry was and is today being pressured by large meat supplies relative to demand and something has to give. To increase profits while at the same time passing on lower livestock costs -- and there is no guarantee we can -- we either have to cut operating costs or increase production. But if we increase production, we only compound the problem of excessive supplies. And our operating costs have been cut about as much as they can be.

As regards costs, I have already mentioned that after livestock, labor is the meat packing industry's largest expense. Labor's high share of operating expenses lies at the heart of much of the industry restructuring and wage concessions of the past few years.

Average hourly earnings in meat packing fell last year for the second year in a row. The Department of Labor reported hourly wages in meat packing averaged $8.17 in 1984, almost 5% below 1983's average.

The trend towards lower wages in meat packing is a relatively recent one. Because labor costs account for approximately 50% of industry operating expenses, they have served as an incentive for packers to develop and utilize labor-saving technologies which have contributed to a 16% reduction in the number of industry employees since 1970. Over the same period, however, labor costs have increased 64%.

Labor costs have been increasing for decades, of course, reflecting increases in industry production and sales. Wage rates in meat packing have traditionally been above the average for all manufacturing industries, but starting in the early 1970's labor costs in meat packing began to rise dramatically, increasing at a rate well in excess of both industry sales and earnings. Disparate labor costs between packers doing business in the same markets had created a situation where a sizeable portion of the industry could no longer compete effectively with newer, lower-cost companies. This situation was further aggravated by a recession-reduced demand for meat and increased competition from other protein sources. Plants were closing, others were reorganizing, unemployment was reaching record levels, and the stage was set for major labor concessions.

Beginning in 1983, average wage levels in meat packing fell below those of a year earlier for the first time since the Depression of the 1930's and below those of all manufacturing industries for the first time since World War II. They declined again in 1984 and are today at the same level they were 5 years ago.

SUMMARY

To summarize, the meat packing industry is characterized by very low margins relative to both other food processing and all manufacturing industries. Because of our low margins, our emphasis has traditionally been on volume, but in the past several years we've seen our production increases result in burdensome supplies and a corresponding flattening of sales at the same time our costs have been increasing. The result of this has been a further squeezing of margins which has resulted in many companies going out of business or restructuring. Those that remain have been forced to become more competitive in cost, and for many companies this has meant cutting wage levels.

As regards the industry's response to declining cattle prices, the facts are clear: our carcass prices have reflected lower cattle prices, and in some cases have declined even more than live prices. Cattle prices are off 20% since the first of the year... and so are our carcass prices.

Gentlemen, I hope I've put into perspective some of the meat packing industry's unique financial characteristics as well as some of the major issues we're dealing with today. I will be glad to take your questions.

Senator ABDNOR. Well, thank you, Mr. Hodges. Before we do that, we're going to hear from each of our panel. Our next witness I'm pleased to introduce is Harry Sullivan, who is vice president and general counsel of the Food Marketing Institute. Mr. Sullivan, we're anxious to hear from you.

STATEMENT OF HARRY SULLIVAN, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, FOOD MARKETING INSTITUTE

Mr. SULLIVAN. Thank you, Mr. Chairman. Today, all of us are well aware of the major problems facing cattle producers which continue to erode equity and cash flow. According to USDA, the industry's financial problems are causing herd reductions. Beef cow numbers are down 7 percent from 1 year ago, and beef replacement heifers are now down 11 percent from 1 year ago.

Beef cow slaughter, during the first 8 months of this year, was 16 percent lower than a year earlier. However, compared with sharply reduced inventories, the weekly slaughter is relatively large. Heifer slaughter was up 9 percent from 1 year ago. The low heifer retention level indicates that producers may replace only 60 percent of the cows slaughtered during 1985. According to USDA, not since before 1950 has retention been this low.

This factor, liquidation, is no doubt contributing in part to the rally in cattle future prices which has been occurring recently. Looking, however, at what has been happening, again according to USDA, cattle feeders delayed marketings throughout the first half of this year in anticipation of higher prices for choice steers. Dressed weights for federally inspected slaughter rose to a record 665 pounds in May. Another dressed weights record was set in August at 667 pounds. Problems in the cattle industry have been compounded by low feed grain prices and good weather that have enhanced feedlot gains. The increase in fed marketing during the second quarter has provided little relief to the backlog problem. Steers and heifers in the two heaviest weight groups were up 6 percent from a year earlier. Steers in the heaviest group were up 36 percent from a year earlier, while heifers in that group were up 15 percent. A 9-percent increase in the number of heifers weighing 700 to 900 pounds implies that fed marketings will remain high through the end of the third quarter.

Beef production during the third quarter will likely remain near a year earlier. At the same time, pork production is up 5 percent for the third quarter and poultry production is up 4 percent. With continued large total meat production up 3 percent over last year, consumers will continue to have plentiful supplies of fresh protein sources. While 1985 supplies look strong, beef production could be down 5 to 7 percent in 1986, according to USDA.

In recent months, allegations have been made that the decrease in live cattle prices has not been passed on to the consumer. There is a lot of confusion, misinformation, and lack of accurate information on this subject. These "myths" and "beliefs" that have evolved do not reconcile with the facts.

One thing is clear. Cattle producers are facing very tough economic conditions, and they are quite naturally looking for the cause or causes. Most observers believe that the major problem has been oversupply. Witnesses in previous hearings before this subcommittee, identified the leading cause as oversupply. While the most recent marketing report showed the number of cattle slaughtered was down 3 percent for the year, beef tonnage was up 2 percent.

The marketing of heavier cattle—1,112 pounds as of the week ending August 31 versus 1,067 pounds 1 year ago—has accounted for this increase. If this year's 3 percent fewer cattle had been marketed at the same weight as cattle marketed last year, there would have been about 5 percent less tonnage available this year than marketed 1 year ago. In addition, pork is in plentiful supply and poultry tonnage is 5 percent above last year.

Another contributing complication is the declining per capita consumption of beef. Revised USDA figures indicate beef consumption has declined from an alltime high in 1976 of 94 pounds per person to an estimated 77 pounds per person in 1985. This reflects the well-documented change in consumers' perception of the healthfulness of red meat. Producers, packers, and retailers are redoubling their efforts to tell the real story about red meat's role in a healthy and nutritional diet.

Irrespective of why, or maybe simply because, live prices have dropped in the first part of the year, some people believe that the reductions have not been reflected at retail. Before reviewing this question, I would indicate, first, that FMI does not keep track of prices. We do not predict, forecast, or comment on future prices. Occasionally, we are asked to look retroactively at prices reported by others. We need to do that in order to respond to comments on the current beef situation. We do not engage in any activity that could be interpreted or misinterpreted as price signaling. The market is a product of millions of individual consumer decisions each week which are served through thousands of inventory and stock responses by grocery stores, supermarkets, food service outlets, and restaurants. According to the National Live Stock and Meat Board, supermarkets account for 65 percent of the beef tonnage and 60 percent of the beef dollars. Hotel, restaurant, institutions, and others would then account for 35 percent of the beef tonnage and 40 percent of the dollar sales.

A complaint often heard is that live prices dropped 10 percent, or some percentage, while retail prices only dropped 3 percent, or whatever percent. The use of this misleading comparison is the cause of most of the confusion and complaint. Percentages applied against different bases simply cannot be accurately compared. For example, a 10-percent drop in $60 cattle amounts to 6 cents per pound. A 10-percent drop from a $2.40 retail price is 24 cents or four times the per pound live price. We should not compare apples with oranges. It is not realistic to expect a fourfold-per-pound drop at retail. Conversely, it would not be realistic to expect a 24-cent increase at retail from a 6-percent increase in live prices.

Just as percent-live to percent-retail are not accurate measures, neither is the cents-per-pound live with cents-per-pound retail. Using the same numbers as above, nearly everyone quickly agrees that a 6-cent-per-pound drop at retail is not equivalent to a 6-cent-per-pound drop in live prices because they are not equivalent weights. If the first example was apples to oranges, then this one is oranges to apples.

What then constitutes a reasonably accurate yardstick? The USDA, in its price reporting series, uses a factor of 2.4 pounds live weight to 1 pound of beef at retail. In other words, it takes 2.4 pounds of live weight to yield 1 pound in the retail cuts.

Using those conversions, let's quickly recap what those expectations might look like for just the cost of the product at retail.

The percentage method of 6-cent drop in live would expect 24 cent at retail. A 6-cent drop in live on a straight cents method would amount to 6 cents at retail, and moving off of that $2.40 retail, you would expect $2.34. Using the equivalent method, 6 cents of live times 2.4 to get the equivalent weight, would amount to 14.4 cents at retail. In other words, a 6-cent drop at live should come through as a 14.4 cent drop at retail for just the cost of the inventory for the product—no other considerations given to anything else in that cost mix.

One other thing before we look at how supermarkets have performed is lags. One major criticism of the USDA reporting series is that it compares today's live weight prices with today's retail prices. This morning's market in Omaha is not instantaneously transferred to every meat case in the supermarket. But the reporting series implies that it is. Most supermarket operators say that beef is offered at retail 4 to 6 weeks after slaughter. Many of those who are on an "aged beef" program purposely put incoming inventories in coolers for 30 days. Irrespective of whether it's four, five, six, three, or some other time for the "average" lag, beef is not instantaneously transmitted from the feedlot to the retail counter. Some lag must be recognized. The numbers in the following examples that I've used are based on a 4-week lag. A different lag could be used—2 weeks, 3 weeks, 5 or 6—and while it would change the intermediate numbers, the overall effect would be the same.

Let's just go to table 1, and the summary on table 1 uses the most often heard "live prices dropped so many percent from 1 year ago, but retail prices only dropped such and such percent." This table has used the National Cattlemen's Association 19-city survey of five popular beef cuts, which they've been doing for some time. We used their survey to see how well the retailers are doing in reflecting the drop in retail prices.

We went back and gathered USDA numbers on live prices. We went back to NCA and asked them to give us the back issues of their surveys. And over that 13-month period, live prices dropped 12.05 cents. Using the equivalent weight, you might expect that to translate to a 28.9-cent drop at retail. According to NCA, the National Cattlemen's Association, their 19-city five-cut survey showed that prices nationally dropped 25 cents, almost all of the 28.9.

But I'm not sure that's the right target—a year ago. We forget what happened 1 year ago. Sometimes things were on special, sometimes they weren't. It's hard to remember the supply situation and I think that a more accurate and more focused way of looking at it is by comparing prices with 1 month ago. If we go to table 2, we can track the changes in live prices compared with a 4-week lag at the retail level. Again, we can examine all the intermediate steps, but the net changeover that year, live prices dropped 12.05

cents which would expect an equivalent for the cost of product, of minus 28.9, and 25 cents was what the NCA found in their survey.

I think the conclusion is that retail prices do reflect changes in live weight prices. While not always precise at every substep, the change in value of the live product does show up in the retail meat case. Myths to the contrary have not evolved overnight and it cannot be expected to dissipate quickly. Hopefully, this comparison of oranges with oranges will help everyone in the beef industry—from the range to the customer—focus on improving the consumer's understanding and appreciation of this nutritious and wholesome food's value and of the marketing system.

Two avenues that we think offer no hope are legislation and litigation. Neither contributes to the consumer's confidence in, or consumption of, beef. Both are divisive, costly, and dead ends for all involved.

There are several areas where excellent cooperation has existed and should be continued.

Education: For 10 years, FMI did not have a meat marketing conference, yet meat and beef are important parts of supermarkets. Why? Because we've been involved in litigation claiming that those workshops were used to facilitate price fixing. So we cut off the education conferences—an absolute tragedy for the most important department in our stores to go 10 years without any education efforts. Notwithstanding that those lawsuits haven't totally been resolved and much to the credit of the leaders of FMI, in cooperation with the American Meat Institute and some others, we decided it was time to get back to educating and promoting and doing the best job of merchandising we can.

We spend time and effort to learn how to merchandise fish and we learn how to spend time and effort to merchandise flowers, bakeries, and everything else in our stores. We need to look after the basics. So for the last 2 years, 1984 and 1985 and it's now going to be a continuing series, we're back to the educational conference on meat.

Research: FMI's annual studies of supermarkets include studies on consumer attitudes, trying to understand consumers better, trends in supermarket operations, store features, how to handle computer-to-computer ordering—all ways of trying to handle, distribute the products more efficiently and effectively.

Advertising: According to "Progressive Grocer," supermarkets spend $2.4 billion out of the $253 billion in sales annually on advertising, about 1 percent. Almost every newspaper advertisement is built around the meat department and beef is always the center of that meat advertisement.

Communication: We've worked with several producer groups—the National Pork Producers Council, the National Cattlemen's Association, the National Live Stock and Meat Board, the American Farm Bureau Federation, and others. Just this past year, we were contacted probably by all of them, by personal visits from them. Several times we've communicated with our membership about the plentiful supply of meat and, in particular, beef. Just recently, we offered our forum at a regional press conference to the National Cattlemen. We were pleased that they joined us so that they could convey that message directly.

Next week, the American Meat Institute, representing the packers, the National Cattlemen's leadership, and FMI will conduct a 3-day tour. Starting at the supermarket end of the distribution chain to see what's happening in the supermarkets, examining what the consumers and customers want, and working our way all the way back to the range so that all elements of the beef chain better understand each other's operation. That way, all of us can individually do the best job possible.

Promotion: I think there's been plenty said on that.

Nutri-Facts: We talked about declining consumption. One area that we've worked on, Mr. Chairman, is a nutrition information program for the consumer. We're all very well aware of some of the attitudes about red meat, but red meat happens to be, besides an extremely good value, a very nutritious product.

If we were in the middle of litigation and legislation and trying to pin the blame on each other, this joint project would not have occurred. But every supermarket in the country is getting excited about bringing this information to the consumer, not only the good news about protein, iron, zinc, thiamide, niacin, and B-12, but also some of the other things that consumers think about—calories, total fat, cholesterol. It will allow consumers to make an informed decision. Are they going to have their calories in ice cream or sugar or some other form, or are they going to get some good protein and other vitamins and minerals with it at the same time through red meat?

Well, we're excited about that program and we hope that long range the consumers' attitude and appreciation of red meat will improve.

Mr. Chairman, that concludes my statement and I would be glad to answer any questions at the conclusion of the panel.

[The prepared statement of Mr. Sullivan, together with an attachment, follows:]

Prepared Statement of Harry Sullivan

Mr. Chairman, I am Harry Sullivan, Senior Vice President and General Counsel of the Food Marketing Institute, located at 1750 K Street, N.W., Washington, D.C. The Food Marketing Institute (FMI) is a nonprofit association that conducts programs in research, education and public affairs on behalf of its 1,500 members--food retailers and wholesalers located in the United States and overseas. FMI's domestic member companies operate more than 17,000 retail food stores with a combined annual sales volume of $140 billion--half of all grocery sales in the United States. More than three-fourths of the FMI's membership is composed of independent supermarket operators or small regional firms. As businesses operating on the main streets of our towns, in suburban shopping centers, and on country corners, our members know that business is best served when everyone in the food chain is making a reasonable return.

Today all of us are well aware that the major problems facing cattle producers continue to be an erosion of equity and cash flow. According to the U.S. Department of Agriculture (USDA), the industry's financial problems are causing herd reductions. Beef cow numbers are down 7 percent from one year ago, and beef replacement heifers are down 11 percent from one year ago.

Beef cow slaughter during the first eight months of this year was 16 percent lower than a year earlier. However, compared with sharply reduced inventories, the weekly slaughter is relatively large. Heifer slaughter was up 9 percent from a year ago. The low heifer retention level indicates that producers may replace only 60 percent of the cows slaughtered during 1985. According to USDA, not since before 1950 has retention been this low.

This factor is no doubt contributing in part to the rally in cattle future prices, which has been occurring recently. Looking, however, at what has been happening according to USDA, cattle feeders delayed marketings throughout the first half of this year in anticipation of higher prices for Choice steers. Dressed weights for federally inspected slaughter rose to a record 665 pounds in May. Another dressed weights record was set in August at 667 pounds. Problems in the cattle industry have been compounded by low feed grain prices and good weather that have enhanced feedlot gains. The increase in fed marketings during the second quarter has provided little relief to the backlog problem. Steers and heifers in the two heaviest weight groups were up 6 percent from a year earlier. Steers in the heaviest group were up 36 percent from a year earlier, while heifers in that group were up 15 percent. A 9-percent increase in the number of heifers weighing 700-900 pounds implies that fed marketings will remain high through the end of the third quarter.

Beef production during the third quarter will likely remain near a year earlier. At the same time, pork production is up 5 percent for the third quarter and poultry production is up 4 percent. With continued large total meat production up 3 percent over last year, consumers will continue to have plentiful supplies of fresh protein sources. While 1985 supplies look strong, beef production could be down 5 percent to 7 percent in 1986, according to USDA.

In recent months allegations have been made that the decrease in live cattle prices has not been passed on to the consumer. There is a lot of confusion, misinformation, and lack of accurate information on this subject. These "myths" and "beliefs" that have evolved do not reconcile with the facts.

One thing is clear. Cattle producers are facing very tough economic conditions, and they are quite naturally looking for the cause or causes. Most observers believe that the major problem has been oversupply. Witnesses from the cattle industry, USDA, and universities who appeared before a recent hearing of your Committee identified oversupply as the leading cause. While the most recent marketing report showed the number of cattle slaughtered was down 3 percent for the year, beef tonnage was up 2 percent.

The marketing of heavier cattle (1112 pounds [August 31, 1985] versus 1067 pounds a year ago) has accounted for this increase. If this year's 3 percent fewer cattle had been marketed at the same weight as cattle marketed last year, there would have been about 5 percent less tonnage available this year than marketed a year ago. In addition, pork is in plentiful supply and poultry tonnage is 5 percent above last year.

Another contributing complication is the declining per capita consumption of beef. Revised USDA figures indicate beef consumption has declined from an all time high in 1976 of 94 pounds per person to an estimated 77 pounds per person in 1985. This reflects the well-documented change in consumer perception of the healthfulness of red meat. Producers, packers, and retailers are redoubling their efforts to tell the real story about red meat's role in a healthy and nutritional diet.

Irrespective of why, or maybe simply because, live prices dropped in the first part of the year, some people believe that the reductions have not been reflected at retail. Before reviewing this question, I would indicate, first, that FMI does not keep track of prices. We do not predict, forecast or comment on prices. Occasionally, we are asked to look retroactively at prices reported by others. We needed to do so in order to respond to comments on the current beef situation. FMI does not engage in any activity that could be interpreted or misinterpreted as price signaling. The market is a product of millions of individual consumer decisions each week, which are served through thousands of inventory and stock responses by grocery stores, supermarkets, food services, and restaurants. According to the National Live Stock and Meat Board, supermarkets account for 65 percent of beef tonnage and 60 percent of beef dollars. Hotel, restaurant, and institutions would then account for 35 percent of the beef tonnage and 40 percent of the dollar sales.

Need for a Common "Yardstick" for a Comparison of "Apples to Apples"

A complaint often heard is that "live prices, for example, dropped 10 percent while retail prices dropped only 3 percent." The use of this misleading comparison is the cause of most of the confusion and complaint. Percentages applied against different bases simply cannot be accurately compared. For example, a 10 percent drop from a $60 per hundredweight (cwt.) live cattle price equals a 6 cent-per-pound drop. A 10 percent drop from a $2.40 per pound retail is 24 cents or four times the per pound live price drop. We should not compare "apples with oranges." It is not realistic to expect a fourfold per pound drop at retail. Conversely, it would not be realistic to expect a 24 cent increase at retail from a 6 cent increase in live prices.

Just as percent-live to percent-retail is not an accurate measure, neither is cent-per-pound live with cent-per-pound retail. Using the same numbers as above, nearly everyone quickly agrees that a 6 cent-per-pound drop at retail is not equivalent to a 6 cent-per-pound drop in live prices because they are not equivalent weights. If the first example was "apples-to-oranges," then this comparison is "oranges-to-apples."

What then constitutes a reasonably accurate yardstick? The USDA in its price reporting series, uses a factor of 2.4 pounds live weight to 1 pound of beef at retail. In other words, it takes 2.4 pounds of live weight to yield 1 pound of retail cuts.

Using the conversion factor (2.4), our previous example would look like this:

Live			Cost of Equivalent Product at Retail
6¢/lb. X 2.4		=	14.4¢/lb.

From a retail price of $2.40 per pound, a 6 cent-per-pound drop in live weight prices would--under the three methods of calculating equivalent product at retail prices--produce three outcomes. They are as follows:

			Expected new retail value w /adjustment for change in cost of Product (Inventory)
percentage method:			
6¢ live	=	24¢ retail	$2.16
straight cents method:			
6¢ live	=	6¢ retail	$2.34
equivalent (weight) method:			
6¢ live X 2.4	=	14.4¢ retail	$2.256

The equivalent only measures the cost of product with no regard or adjustment for other expenses or for price adjustments that occur prior to receipt of the product by retailers. In other words, if the live price dropped 6 cents-per-pound (and it takes 2.4 pounds live to yield 1 pound at retail), then the cost of the product inventory--with a 100 percent pass through by packers, wholesalers and retailers--would be 14.4 cents less at retail. Now we are comparing "apples-with-apples" or equivalents with true equivalents.

Before we apply this yardstick to see if decreases and increases in the cost of product have been reflected at retail, one other important point, i.e., lags, must be examined.

Lags

A major criticism of one of the USDA reporting series is that it compares today's live weight prices (and changes) with today's retail prices. This morning's market price in Omaha is not instantaneously transferred to every meat case in the supermarket. But the reporting series implies that it is. Most operators say that their beef is offered at retail four to six weeks after slaughter. Many of those who are on an "aged beef" program purposely put incoming inventories in coolers for thirty days. Irrespective of whether four, five, six, three or some other time is the "average," beef is not instantaneously transmitted from the feedlot to the retail counter. Some lag must be recognized. The numbers in the following examples are generally based on a four week lag. A different lag could be used, but over a period of time the net would be the same. In some periods the retail price would then appear to under reflect a change in live prices and at other times it would then appear to over reflect changes.

Comparisons of Equivalents

Moved by the often heard "live prices dropped 'X' percent for last year, but retail only dropped 'Y' percent," we can see what the trend has been for the most recent twelve months. The live prices are based on reported Omaha 900-1100 pound Choice Steers. (USDA average livestock and meat prices, Table 1.) Retail prices are from the National Cattlemen's Association's monthly 19-city survey of supermarket beef prices of five popular cuts: ground beef, round steak, bone-in sirloin steak, T-bone steak, and 7-bone chuck roast. [A copy of the most recent (September 12th) survey is below.]

Table I

Price Compared With A Year Ago

LIVE						RETAIL				
	Price/cwt				Retail equivalent cents /lb.for		Price/lb.			
Date 84/85	Yr.ago	This Month	Change cents/lb.	% Change	cost of Product	Date 84/85	Yr.ago	This Month	Change cents/lb	% Change
8/18	$62.02	$64.65	+ 2.63	+ 4.2	+ 6.3¢	9/13	2.43	2.54	+.11	+ 4.5
9/15	$59.30	$63.30	+ 4.00	+ 6.7	+ 9.6	10/11	2.35	2.47	+.12	+ 5.1
10/13	$60.00	$60.45	+ 0.45	+ 0.1	+ 1.1	11/11	2.29	2.44	+.15	+ 5.6
11/17	$58.75	$64.40	+ 5.65	+ 9.6	+13.6	12/13	2.37	2.49	+.12	+ 5.1
12/15	$62.30	$65.75	+ 3.45	+ 6.6	+ 8.3	1/12	2.47	2.49	+.02	+ .1
1/12	$66.70	$64.35	- 2.35	- 3.5	- 5.6	2/14	2.54	2.53	-.01	--
2/16	$66.55	$63.35	- 3.20	- 4.8	- 7.7	3/14	2.60	2.48	-.12	- 4.6
3/9	$68.05	$60.25	- 7.80	-11.5	-18.7	4/11	2.58	2.45	-.13	- 5.0
4/13	$68.15	$59.55	- 8.60	-12.6	-20.6	5/9	2.56	2.39	-.17	- 6.6
5/18	$66.00	$58.30	- 7.70	-11.7	-18.5	6/13	2.60	2.39	-.21	- 8.1
6/15	$64.25	$57.50	- 6.75	-10.5	-16.2	7/11	2.54	2.39	-.15	- 5.9
7/13	$66.25	$55.65	-10.60	-16.0	-25.4	8/8	2.55	2.34	-.21	- 8.2
8/17	$64.65	$52.60	-12.05	-18.6	-28.9	9/12	2.54	2.29	-.25	- 9.8
Net Change			- 12.05¢		-28.9¢				-.25¢	

The Proof is in the Pudding

Overall, changes in live weight prices were reflected at retail. A 12.05 cent-per-pound drop at live weight ($64.65 in August 1984 to $52.60 in August 1985) equates to 28.9 cents at retail and the actual drop at retail was 25 cents from $2.54 per pound (September '84) to $2.29 per pound (in September '85).

While Table I uses "one year ago" as the reference point, Table II tracks the same experience using the "previous month" as the reference point. In many respects, the previous month is a clear way to determine if retail prices are reflecting changes in the cost of the live product. Overall, as in Table I, changes in live weight prices were reflected at retail. A 12.05 cent drop in live weight equated to -28.9 cents per pound at retail and the actual change at retail was -25 cents. Since adjustments are not instantaneous, more recent prices may be expected to show further adjustments in retail prices. These adjustments reflect the historical 2.4 pound relationship between live weight and retail weight.

Table II

Price Compared With Previous Month

LIVE				RETAIL		
Date	Price /cwt.	Change cents/lb. X2.4	Equivalent cost of goods at Retail	Date	Price	Change
8/18/84	64.65	- 1.55	- 3.7¢	9/13/84	2.54	--
9/15/84	63.30	- 1.35	- 3.2¢	10/11/84	2.47	--
10/13/84	60.45	- 2.85	- 6.8¢	11/11/84	2.44	- .03¢
11/17/84	64.40	+ 3.95	+ 9.5¢	12/13/84	2.49	+ .05¢
12/15/84	65.75	+ 1.35	+ 3.2¢	1/10/85	2.49	--
1/12/85	64.35	- 1.40	- 3.4¢	2/14/85	2.53	+ .04¢
2/16/85	63.35	- 1.00	- 2.4¢	3/14/85	2.48	- .05¢
3/9/85	60.25	- 3.10	- 7.4¢	4/11/85	2.45	- .03¢
4/13/85	59.55	- .70	- 1.7¢	5/9/85	2.39	- .06¢
5/18/85	58.30	- 1.25	- 3.0¢	6/13/85	2.39	--
6/15/5	57.50	- .80	- 1.9¢	7/11/5	2.39	--
7/13/5	55.65	- 1.85	- 4.4¢	8/8/5	2.34	- .05¢
8/17/5	52.60	- 3.05	- 7.3¢	9/12/5	2.29	- .05¢
Net Change		-12.05¢	-28.9¢			- .25¢

As in Table I, changes have not always been uniform and mechanical. For example, the September 1984 drop in live weight prices equated to a 3.2 cent drop in retail, but the actual was -7 cents. The October 1984 drop was just the opposite. The March 1985 3.1 cent-per-pound drop in live prices equates to a 7.4 cent equivalent at retail, but the actual retail price dropped only 3 cents. The April 1985 live price drop had a retail equivalent of -1.7 cents, but the actual retail price dropped 6 cents-per-pound--more than three times the retail equivalent of the live weight price decline.

Conclusion

Retail prices do reflect changes in live weight prices. While not always precise at each sub-step nor in robot, lock-step, lemming-like fashion at every twist and turn, the change in value of the live product does show up in the retail meat case. Myths to the contrary have not evolved overnight, and they cannot be expected to dissipate quickly. Hopefully, this comparison of "oranges with oranges" will help everyone in the beef industry--from the range to the customer--focus on improving the consumer's understanding and appreciation of this nutritious and wholesome food's value and of the marketing system.

Two avenues that offer no hope in this regard are legislation and litigation. Neither contributes to the consumer's confidence in or consumption of beef. Both are divisive, costly, and dead ends for all involved.

There are several areas where excellent cooperation has existed which should be continued:

Education --Because of the beef antitrust suits (which are still pending), there were no joint distribution education programs on meat for about ten years. In 1984, Food Marketing Institute (FMI) and the American Meat Institute (AMI) started a meat merchandising conference. FMI and the National Live Stock and Meat Board (NLMB) are working on scanning and random weight labeling, and expect to cooperate on other projects that will help the entire beef chain to better serve the consumer.

Research - FMI's annual studies of supermarketing include studies on consumer attitudes, trends in supermarket operations, store features, departments, sizes, operating statistics, etc. We conduct research with others on packaging, transportation, distribution, direct-store delivery, computer-to-computer ordering, etc.

Advertising - According to Progressive Grocer, supermarkets spend approximately $2,401,200,000 annually on advertising. Almost every newspaper advertisement is built around the meat department, and beef is almost always the center of the meat advertisement.

Communication - In addition to all of FMI's annual studies and reports, we have responded to periodic requests from the National Cattlemen's Association (NCA), the American Farm Bureau Federation and the National Pork Producers Council to inform our members of plentiful supplies. The most recent mailing to FMI members was in August. In addition, FMI has shared its regional press conference podium with the cattlemen in order to communicate directly to the public on the good value and availability of beef. Next week, NCA, AMI and FMI will conduct a tour of the "beef chain" from the consumer, retailer, and packer--all the way through to the cattleman. This "hands on" tour will help all parts of the "beef chain" to better understand and appreciate the interrelationship of serving the ultimate consumer.

Promotion - Many supermarket operators have even further increased their promotion of beef during this plentiful supply period.

Nutri-Facts - Perhaps the single program in the past few years that will have the most significant long-term positive influence on beef consumption is the joint work of AMI, NLMB, and FMI in developing Meat Nutri-Facts. This program has been so widely reported that details are not necessary here. Many nutrition "myths" and "beliefs" about red meat will be shattered by Nutri-Facts . Nutri-Facts could be classified as part research, communications, promotion, and perhaps advertising, but the essential thrust is pure and simple--consumer education through industry cooperation.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or any other committee members may have.

NewsRelease

NATIONAL CATTLEMEN'S ASSOCIATION

NCA

AVERAGE PRICE OF FIVE BEEF CUTS DECREASES

CONTACT:
Roger Berglund -- (303) 694-0305
Kendal Frazier -- (303) 694-0305

For Release Sept. 18

DENVER, COLO., Sept. 18, 1985---The national average price of five cuts of beef decreased during the past month, the National Cattlemen's Assn. said today.

Reporting on its monthly 19-city survey of super market beef prices, NCA noted that the national average price of the five cuts was $2.29 per pound on Sept. 12, compared with $2.34 on Aug. 8. The Sept. 12 average was down 25 cents from a year earlier and down 24 cents from the 1985 high of $2.53 (in February).

The national average prices of round steak, T-bone steak and chuck roast decreased during the past month. The ground beef average was unchanged, and the sirloin steak average rose slightly. The Sept. 12 19-city averages were: Ground beef, $1.24; round steak, $2.10; sirloin steak, $2.91; T-bone steak, $3.82; chuck roast, $1.40.

Prices of the preferred steaks, which have remained in relatively good demand, have shown less weakness in recent months. However, ground beef, round steak and chuck roast prices have recently been at the lowest levels in almost seven years, and the national five-cut average is at the lowest level in almost two years.

Cattle and wholesale beef prices have been at the lowest levels in several years, and that situation has been reflected in low featured prices in most cities and in lower average prices nationally. In the latest survey, the lowest featured prices were: Ground beef, $.79; round steak, $1.29; sirloin steak, $1.89; T-bone steak, $2.78; 7-bone chuck roast, $.79.

The 19-city five-cut average decreased during the past month in 13 cities and increased in six. Price averages vary from month to month and among cities partly because of variations in merchandising and in the amount of price specialing by retailers at the time of the survey (second Thursday of each month). Differences in wage, transportation and other costs are among other reasons for the variation.

NCA BEEF PRICE SURVEY

AVERAGE RETAIL BEEF PRICES, PER POUND -- 9/13/84; 8/8/85 and 9/12/85

City	Date	Ground Beef	Bone-in Round Steak	Bone-in Sirloin Steak	T-Bone Steak	7-Bone Chuck Roast	Average 5-Cuts
tlanta	9/13/84	$1.79	$2.53*	$2.96*	$3.71	$1.80*	$2.56
	8/8/85	1.46	2.32	2.69*	3.65	1.69	2.36
	9/12/85	1.42	2.10*	2.98*	3.82	1.35	2.33
imore	9/13/84	1.52	3.09	3.72	4.79	1.69	2.96
	8/8/85	1.24	3.16	2.99	4.59	1.39	2.67
	9/12/85	1.29	2.81*	2.99	4.62	1.69	2.68
hicago	9/13/84	1.09	1.69	2.35	3.51	1.45	2.02
	8/8/85	1.11	2.23	2.77	3.98	1.18	2.25
	9/12/85	1.06	1.45	2.08	3.18	1.31	1.81
leveland	9/13/84	1.64	3.74*	3.49*	5.24	2.14*	3.25
	8/8/85	1.06	2.16*	2.92	4.24	1.52*	2.38
	9/12/85	1.27	2.97	2.92	4.24	1.49	2.58
allas	9/13/84	1.68	3.08	3.78	4.38	2.28	3.04
	8/8/85	1.43	2.06*	3.23*	4.48	1.93	2.64
	9/12/85	1.68	1.93*	3.20*	4.43	1.48*	2.54
enver	9/13/84	1.29	2.43*	3.58*	3.84	1.32	2.49
	8/8/85	1.05	2.44	4.08*	4.34	1.36	2.65
	9/12/85	1.11	2.14	3.54*	3.89	1.19	2.37
es Moines	9/13/84	1.19	1.95	2.85	3.74	1.38	2.22
	8/8/85	.99	1.52	2.39	3.12	.99	1.80
	9/12/85	1.02	1.52	2.32	2.99	1.02	1.77
etroit	9/13/84	1.47	2.82	2.95	4.02	1.57*	2.57
	8/8/85	1.22	2.14*	2.32*	3.25	1.33	2.05
	9/12/85	1.42	2.44*	2.67*	3.78	1.25	2.31
ouston	9/13/84	1.49	2.51*	2.96*	3.29	1.39	2.33
	8/8/85	1.39	2.06*	2.38*	3.29	1.31	2.09
	9/12/85	1.33	2.28*	3.28*	3.73	1.03	2.33
ackson	9/13/84	1.28	2.48	3.08	3.48	1.43*	2.35
	8/8/85	1.39	2.06*	2.38*	3.29	1.31*	2.09
	9/12/85	1.45	2.45	3.25	4.05	1.75*	2.59
ansas City	9/13/84	1.11	2.22	2.74*	3.65	1.59	2.26
	8/8/85	.94	1.95	2.33*	3.48	1.15*	1.97
	9/12/85	1.02	1.88	2.54*	3.38	.95*	1.95
os Angeles	9/13/84	1.20	1.79*	2.40*	3.04	1.29	1.94
	8/8/85	1.03	1.42*	1.75*	2.65	1.24	1.62
	9/12/85	1.11	1.51*	1.86*	2.68	1.25	1.68
ouisville	9/13/84	1.29	2.56	3.34	4.72	1.62	2.71
	8/8/85	1.42	2.32	3.69	4.52	1.39	2.67
	9/12/85	1.28	2.10*	3.04*	4.12	1.12*	2.33
ew York	9/13/84	1.76	3.11*	3.26	4.29	1.94*	2.87
	8/8/85	1.44	2.99	3.52	4.49	1.74	2.84
	9/12/85	1.49	1.96	3.25	4.39	2.05	2.63
maha	9/13/84	1.22	2.09	2.99	3.96	1.72	2.40
	8/8/85	1.09	2.13	2.62	3.76	1.16	2.15
	9/12/85	1.06	1.42	2.79	3.89	.99	2.03
hoenix	9/13/84	1.29	1.89	3.02*	3.16	1.62	2.20
	8/8/85	1.15	2.12	2.69*	3.59	1.46	2.26
	9/12/85	.92	2.24*	2.75*	3.69	1.59	2.24
ortland	9/13/84	1.57	1.93*	4.10*	4.25	2.08	2.79
	8/8/85	1.58	2.77*	3.91*	4.28	1.88	2.88
	9/12/85	1.28	2.30*	3.96*	3.78	1.94	2.65
an Francisco	9/13/84	1.09	2.14*	3.17*	3.56	1.52	2.30
	8/8/85	1.29	1.91*	3.04*	3.99	1.56	2.36
	9/12/85	1.12	1.64*	2.90*	3.41	1.39	2.09
ington, D.C.	9/13/84	1.52	3.09	3.72	4.79	1.69	2.96
	8/8/85	1.24	3.16	3.16	4.59	1.39	2.71
	9/12/85	1.32	2.81*	2.99	4.62	1.72	2.69
-City Averages	9/13/84	1.39	2.48	3.18	3.97	1.66	2.54
	8/8/85	1.24	2.26	2.90	3.87	1.42	2.34
	9/12/85	1.24	2.10	2.91	3.82	1.40	2.29

...ne-in cuts not available. Bone-in prices estimated, based on boneless cut prices.

Senator ABDNOR. Thank you. We appreciate your testimony and we're looking forward to asking you some questions.

In the meantime, Mr. Krut has arrived. I understand traffic was a bit heavy out there. He's come down from Pennsylvania today. I don't know whether you are aware or not, Mr. Krut, but when I was running around South Dakota last August I was over at the county fair and I ran into one of the members of your association, Mr. Bob Coyne, and I couldn't have been more impressed with this individual. To be honest, because I knew him, I tried to bring him down here. But he said you were the man to testify, you're the executive director of his association. It seemed to scare him off when I told him he would be before a congressional hearing. But we're very, very happy to have you.

This is the American Association of Meat Processors and we certainly appreciate your coming here today and you may proceed.

STATEMENT OF STEPHEN F. KRUT, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF MEAT PROCESSORS

Mr. KRUT. Thank you very much, Senator Abdnor, and I'm very thankful for the opportunity to be here today. I have to apologize as well for a bit of a head cold, so if I sound a little foggy I hope that's understandable.

The organization I'm speaking for today is the largest trade association representing meat plant operations in North America, approximately 1,800 members in total, including suppliers of equipment, but that does include nearly 1,600 small, independently owned meat packing, processing, wholesaling, and retailing firms. They come from virtually every State and have two things in common: They are typically small business and, they are in a fight for their survival.

When asked last week to testify, we began an intensive hunt for some answers. That meant we didn't turn to statisticians or economists, but rather to the hard-working men and women of our industry, many of whom are second and third generation meat business operators.

I will not try to generalize or touch up their words or comments, but share them with you open, because they paint a picture of victims and survivors and not of some mysterious middleman rollicking in obscene profits.

Our question to them was simple: What happened in your business over the past 10 years that can explain the growth in price spread between the farm and the retail counter?

An impromptu survey among 25 meat plant operators in Illinois revealed some striking changes. Utility and insurance rates had doubled since 1975. Paper costs used for wrappings had increased by 41 percent, and wages had risen by 58 percent. Even the advertising rates of newspapers and the electronic media that are often touting rising middlemen profits have risen to incalculable proportions.

One hard-working young meat plant operator in North Carolina was just forced to spend $95,000 on a sewage treatment system for his wastewater and is facing the prospects already of new demands and changes coming by 1988 from the U.S. Environmental Protection Agency. And when I'm referring, Senator, to small businesses, I'm typically referring to a company with fewer than 10 employees.

This same North Carolinian is trying to compete with other available foods offered to the consumer and he notes that many of his fellow meat business owners have already closed their doors in losing efforts to compete. The consumer, he observes, no longer wants meats trimmed like they were 10 years ago. They demand more boneless cuts, with greater trim. And that, he says, translates into less yield for the same size steer and much higher labor costs.

Our same Tarheel member points to a steady decrease in his business profits over the past 5 years, eaten away by newer, more expensive equipment and service costs, and consumer demands for costly clear petroleum base films and wraps for packaging of his products. All the commodities he competes against have those kind of wrappings and he feels it's essential that he gives his package the best presentation possible. The public, he also adds, wants more value in the product and they want an enhanced value. Of course, that means he's got to raise his prices when you're going to have to slice and portion control and often precook your foods. Naturally, he cannot add those services and absorb the increased production costs.

A veteran meat processor in Wisconsin who grew up custom slaughtering and processing animals for the farmer and rancher sympathizes with the plight of today's livestock producer. But he notes that the State has just reduced the farmer's personal property taxes and increased his own.

The prices he receives from the renderer for beef hides and offal—the blood and guts—have fallen steadily. What was once an income-producing byproduct for he and his fellow meat plant operators is now only a minimal income source. In fact, some of his neighbors are now paying rendering firms to pick up their offal.

He, too, complains about a $50,000 sewage treatment facility he had to put in 1½ years ago, and the $35,000 holding pen the inspection officials ordered him to construct.

Still another Wisconsinite, whose letter is attached to this statement, contends that after 39 years in the business he is being forced to remodel his plant at a cost equal to the original investment. When he used 1975 as a base year, ten years ago, he tracked a 239-percent increase in electric costs by 1981, and a 270-percent increase by 1985. Fuel costs have risen by 249 percent since 1975, and many State and Federal taxes on his business have increased by over 150 percent. His employees have not received an increase in wages for the past year, although his volume has increased. He has not made a profit in the past 2 years. And we are talking about one of the most progressive meat plant operators in the Nation.

From Kansas there is word about the price increases at retail forced by bad debts. This plant operator is talking about old line companies who were not bad risks 3 years ago. He faces cutthroat competition that tries to use its strong financial base to take away his wholesale customers by offering lower than market priced meats. He is put in the situation of selling at or below cost to keep that business and he is worried about how long he can hold on.

When he undertook plant renovations and improvements a few years ago, he did so at a long-term interest rate of 15.4 percent.

Today, or at least as of January, he was grossing less than 22 percent gross profit. Now you can call that a markup, but his actual expenses are running about 19.6 percent. He, too, was looking at a monthly check from the renderer of between $400 and $500. Today, that check is for about $50 a month, and he feels it's only a matter of time before he will have to pay the renderer for pickup service.

This Kansas businessman has tried to increase his capacity and expand his business to stay alive, and that meant hiring sales people. But their travel, automobile, fuel, hotel, and subsistence costs have risen so tremendously that it's cheaper for distributors to merchandise his product.

He complains about the quality of cattle today. He is serving restaurants and hotels and finds that the exotic foreign crossbred animals produce less quality. He also buys domestic yield 1 and yield 2 Choice cattle which have more fat. But they too have changed, he responds. What used to have a loss factor of 28 percent today has a 33-percent cutting loss.

A South Dakota meat processor—this is Mr. Coyne you were referring to—feels strongly that consumer preferences have forced price increases in his business. "The whole cow isn't getting eaten," he contends. When his T-bone steaks were $3.89 a pound this summer, he couldn't keep up with demand. But by the same token, he couldn't get rid of his chucks for 79 cents a pound.

In June, he showed a gross profit of $7,915.48. In July, he had a loss of $6,785.81 and in August the loss was $7,415.50.

From Missouri we hear reports from a recently retired meat processor who calls the small plant sector of the meat industry vastly overinspected. His comments are shared by many, many others, including two Pennsylvanians who are bitter about the costs of inspection.

The first, who was asked to complete required improvements to maintain his grant of inspection, was given a new list of demands when he completes the program. He has had 11 such lists of plant improvements forced down his throat in the last 2 years. Another plant, very close to the first, has been paying $16,000 a year for changes and improvements. And that plant is only 8 years old.

But what sticks in the craw of these people is that the demanded changes thrust upon them often have little or no correlation to the quality or wholesomeness of the meat and meat products. It's things like parking lot paving, a new roof over a warehouse, and a hard-boiled attitude among some inspection officials that anyone in business can afford to pay for their demands.

Since the passage of the Federal Meat and Poultry Inspection Act in 1967, the cost of equipment has soared. A small aluminum sausage stuffer that sold for $700 to $1,000 cannot be used today because USDA doesn't like aluminum. A supplier to the industry reports his "cheapo" sausage stuffer, the smallest he makes, is about $5,000 today. And USDA wants stainless steel everywhere in the plant, he maintains.

These comments come from across the country and they should come across like cries of anguish from people who have worked all their lives and are threatened with having their businesses taken away from them if they don't put more money into them. Indeed, one processor was so bitter about the chances for success in the future that he suggested that perhaps Willie Nelson should give a concert to benefit the small meat processors.

We know fully well that the purposes of this hearing and others which have been conducted earlier are to seek constructive solutions to help return the meat industry, from the rancher to the retailer, to a solvent base and avert a looming national disaster in our economy. For this reason, we ask that this sub-committee recommend to the Senate and House Agricultural Committees that a task force by commissioned to recommend ways to reduce the overburdening costs of meat inspection and production that are generated by the Federal laws and regulations.

It seems a shame that meat processors in 27 States under inspection equal to that of USDA can't sell their products across the State line 5 miles away, while foreign products from all over the world can pass across any State border.

We would urge the members of the Joint Economic Committee to assume a role of leadership and responsibility in correcting these wrongs that have been throttling the small plant sector of the meat industry and have been a contributing factor to the increase in the cost of selling meat and meat products in this country. Again, I thank you for the opportunity to present our comments before this subcommittee.

[The letter attached to Mr. Krut's statement follows:]

Knebel's Processing Plant, Inc. "Where Quality Comes First" KNEBEL'S TOP QUALITY MEAT

Home of Mor-Lean Pork Products

Phone 762-5197 (Area Code 608) BELMONT, WIS. 53510

Farm's Finest Country Sausage

September 27, 1985

Mr. Stephen F. Krut
American Association of Meat Processors
P. O. Box 269
Elizabethtown, PA 17022

Dear Steve:

Our meat processing plant has been in continual operation in Belmont, a small rural town in Southwest Wisconsin, for the past 39 years.

In recent years it has been increasingly more difficult to operate at a profit. Following are some statistics from our records since 1975, a year in which we were profitable.

Using 1975 prices as a base, our records show the following changes in some of our operating costs: From 1975:

	1981	1985
Electricity	up 239%	up 270%
Water & Sewer	up 2%	up 156%
Fuels: price per gal,		
Propane	up 126%	up 118%
Unleaded Gas	up 237%	up 249%
Fuel Oil (#2)	up 292%	up 207%
Employee Health Insurance	up 54%	up 185%
Workmen's Comp Insurance	up 107%	up 158%
State Unemployment Tax	(exempt)	up 155%
Federal Unemployment Tax	up 123%	up 163%
Employer Share Social Security Tax	up 5%	up 20.5%
Packaging Marerials		up 6%

During these 10 years, due to the fact that the consumer has switched more and more to fast foods, we were required to remodel the plant at a cost equal to the original investment. We now manufacture fully cooked hams and sausage items.

Our advertising costs are up about 18%, along with numerous requests and soliticitations for outright donations by churches, organizations, and even individuals. We must also compete with cut-rate chain stores.

Our employees have not received an increase in wages for the past year. Although our volume has increased, the plant has not made a profit in the past two years.

Sincerely yours,

Clarence W. Knebel

Clarence W. Knebel

CWK/ls

Senator ABDNOR. Thank you, Mr. Krut. I really appreciate your coming, coming from the small operators, if I can use that word—maybe you don't like to be called operators—but small members by the size of the plant. As I told Mr. Byrne, it was easy to see what he was trying to say.

Mr. Emerling, we're sorry we kept you until the last but you've got to be the culprit. We're looking for the guy who's taking advantage here and the others have a pretty good case in defense of themselves. We're happy to have you, Mr. Emerling, from the National Association of Meat Purveyors, and we're waiting to hear from you. Go right ahead.

STATEMENT OF STANLEY J. EMERLING, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF MEAT PURVEYORS

Mr. EMERLING. Thank you, Mr. Chairman. The National Association of Meat Purveyors is pleased to have this opportunity to appear at this hearing. I am Stanley J. Emerling and I am the executive vice president of our organization. I joined the NAMP office in September 1983 after 30 years of experience as an operator and owner in the meat processing business. I had previously served on the NAMP board of directors for nearly 15 years.

NAMP has approximately 350 members. To be a member of our organization you must process meat, and processing by our definition means doing such things as grinding, cutting steaks, pork chops, lamb chops, making stews, and so forth. Second, you must sell to food service users a prescribed percentage of that meat that's processed within your plant. This meat is served in eating-away-from-home establishments such as restaurants, hospitals, schools, and the like. In addition, you are expected to comply with our code of ethics which stipulate acceptable practices and states our goals and aims.

We are not retailers, but rather wholesalers, in that food-service customers use the products that they buy from our members to prepare meals and then these meals are then sold to their patrons. The beef sold to food service users must meet much more rigid standards of quality, trim, and uniformity of size than those products that are sold in retail stores. The reason for this is that each portion must weigh the same and look the same so that as people sit together in a restaurant there is no discernible difference in what they're being served, and each order being similar, the operator's food cost is exactly the same for each serving.

In the early 1960's, NAMP created the "Meat Buyers Guide" to help food service operators purchase meat products much more successfully, and a copy of that book I believe you have, Senator. We will soon be in a seventh printing of our revised edition. The "Meat Buyers Guide" is sometimes referred to as the "bible of the industry," and opened the way for the shipment of meat products in boxes rather than swinging carcasses. In this way the guide was instrumental in lowering the transportation cost of meat products while at the same time identifying the special types of beef products and other meat products desired by wholesale buyers. We sort of liken the guide to "The Highway System," which expanded the use of automobiles and helped promote the hotel and food and lodging industry.

To cut beef to the special requirements of food service users is much more expensive and complicated than merely slicing it into pieces and displaying it in a retail store counter. Our members serve the entire food service industry with its different needs from fast food restaurants to hospitals to the fanciest white tablecloth restaurants and clubs. We buy our beef daily at changing prices and resell it at changing prices in a value-added form to meet the varying needs of these different types of customers. There is no easy yardstick to use that translates cattle prices into a beef-selling price in wholesale markets. Presently, 35 percent of all the beef sold in the United States is sold through food service. It includes items such as ground beef and filet mignon steaks.

The price of these beef items is predicated on the supply that is available and the demand for the various speciality products desired coupled with the costs of producing them, and seasonality plays an important part in the cost of some of these items. For example, at Mother's Day or during the holiday season in December, prime ribs, strips, and tenderloins demand a higher price. At Easter, hams are the focal point of purchasing.

To clarify it, as an example, I would like to illustrate the reason that a filet mignon steak costs as much as it does and the reason that you cannot equate it to the price of live steers. On today's market, a "Meat Buyers Guide 189 USDA Choice quality tenderloin," and if you will look at page 39 in the "Meat Buyers Guide," there is a picture of that at the top right and at the bottom left—the raw product out of which filet mignon steaks are made—costs approximately $3.15 per pound at wholesale. Its weight only comprises slightly more than 1 percent of the live weight of the cattle it comes from. There are two such tenderloins in the cattle. Taking an example of a 1,200-pound live steer, you would have approximately 12 or 13 pounds of tenderloin.

The tenderloin now needs to be trimmed and cut in order to produce a filet mignon steak, identified also in the book as "Meat Buyers Guide 119A" and that can be seen on the bottom of page 59. In arriving at a selling price you have to determine the yield, and the yield on this steak is only 38 percent, which after allowing a credit of 27 cents per hundredweight for byproducts, the cost of the tenderloin is $7.58 per pound. If you add to this a labor cost of approximately 50 cents per pound and the packaging and shipping costs of approximately 10 cents per pound, and you end up with a cost of $8.18 per pound. And we have not yet taken into consideration any overhead costs and any share for profit.

My personal experience as far as labor costs are concerned, as I was involved in my business back in the Cleveland, OH area before I came down to Washington, ran about $18 an hour or approximately 30 cents per minute.

In general, our members operate with total gross margins of only 16 to 19 percent over the cost of the meat alone. This affords our industry low profits of only about 1 percent before taxes. In addition, many of our members have been forced out of business over the past several years due to high interest rates and high utility and labor costs. This has been typical of other segments of the meat industry as well.

It's an interesting anomaly that besides with the higher price meat most of these cuts are sold with less margin on them than the less expensive cuts.

Furthermore, we are now faced with competition from other protein sources. The increasing popularity of chicken and seafood has cut into the sales of red meat and in particular the sales of beef. This shift in eating patterns and its impact on beef is occurring for several reasons.

Today the consumer demographics are different. There are smaller families, higher incomes, different lifestyles, more adventuresome eating tastes and more awareness to health concerns. These factors have caused beef sales to fall and, in the case of retail sales, changed the types of beef chosen by customers. They no longer want large roasts but they want more steak, as do the restaurant customers. But beef is not all steak. One-half of the animal is comprised of chucks and rounds and they aren't selling. I have in a joking fashion talked to some of the cattle producers and others about the fact what we need is a genetic change in the animal, changing the chuck and round proportion to 15 percent and the loin and rib proportion to 85 percent rather than the half and half split we're presently seeing.

To compound the problem, we have unfortunately increased supply at the same time that total demand was falling. The supply has increased because more cattle are being fed, plus the cattle being raised today are the exotic breeds that grow bigger, which further adds to the excess supplies. They are leaner, but they are also lower in eating quality.

What is needed to solve the price problem is a concentrated effort on all our parts to help market beef. The free market forces of supply and demand will determine the proper pricing. This business is too competitive to allow for excesses by anyone. But first, we must supply the proper products that have taste appeal and that are trimmed correctly so that the buyers at wholesale or retail know they are getting the value for their dollars. I think that we could draw some kind of parallel with the problems the auto industry had when it went about trying to make a small car. They produced a cheaper car, not a less expensive one, and lost their market. We must also provide honest, truthful information about our products.

There has been so much contradictory opinion about the healthful aspects of beef and other red meats that the public is confused. Fortunately, we are now beginning to see more emphasis by health groups on a balanced diet incorporating meat as well as other good foods. This should go a long way toward arresting the decline in meat demand. Then it is up to us as marketeers to provide quality merchandise that "meets" today's different needs. We have been creative in providing the world's best standard of living. We certainly can continue on this path and reach a solution to our present difficulties, but the solution must be approached from other directions than price alone, and perhaps we also need to consider the fact, as happened with blacksmiths in older days, that if there are too many of certain types of persons in a certain industry that perhaps that industry needs to cut itself back somewhat.

The National Association of Meat Purveyors continues to support public needs and has vigorously campaigned for proper inspection procedures and for providing high standards of quality identification. Through these practices we feel that meat, and in particular beef, will be well received by consumers. We know that this is both in their best interest and ours. If we succeed, then our members will continue to stay in business and to prosper.

I appreciate this opportunity and will welcome any questions you might care to ask of me. Thank you.

Senator ABDNOR. Thank you, Mr. Emerling. You stated your case very well, too. Now we've got to start really looking.

Let me introduce you gentlemen to Senator D'Amato, of New York, who's been not only an active member of this committee but he's been extremely interested in this subject. He's on so darned many committees that I have to get him down here for the short time that I can.

Senator D'Amato, would you care to make a statement?

Senator D'AMATO. Thank you very much, Mr. Chairman.

Mr. Chairman, first of all, let me commend you for holding these hearings because obviously we're all concerned. We're concerned with the plight of the farmer, the cattleman, the middleman, and the consumer.

Now having said that, many times there appears to be a question as to why the prices of those who are producing seem to be going down, and we don't see a corresponding reduction in prices in the marketplace. That's why these hearings are important, so that we can keep away from demagoguery and focus in on the facts. We must get a complete picture of the situation so that our committee, the Joint Economic Committee, can give our colleagues and the American people the real, whole picture.

I commend you for holding these hearings. I have an opening statement, Mr. Chairman, that I ask to be put into the record in its entirety in the interest of time. I ask your indulgence inasmuch as I'm conducting a hearing two floors upstairs on the Helsinki process. Let me commend you and also thank the witnesses for taking their time to make known their views and assure you, as a member of this committee, that I will review the record because it's important that we focus in on fact, as opposed to fantasy and misconception. We are deeply appreciative, gentlemen, for your taking time to be here. I want to once again commend the chairman for conducting, not only this hearing, but a whole series of hearings trying to identify the problems. Hopefully we can come up with some realistic answers to some of those problems.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF HON. ALFONSE M. D'AMATO

MR. CHAIRMAN, I COMMEND YOU FOR HOLDING THIS HEARING TODAY ON "LIVESTOCK AND RETAIL MEAT PRICES." I WAS PLEASED TO HAVE PARTICIPATED IN YOUR PREVIOUS HEARING WHEN THE CATTLEMEN TESTIFIED AND I AM EQUALLY PLEASED TO WELCOME THE MIDDLEMEN - THE WHOLESALERS AND PROCESSERS - HERE TODAY.

NEW YORK MAY NOT BE WELL KNOWN AS A GREAT AGRICULTURAL STATE, BUT LET ME TELL YOU THAT NEW YORK'S NUMBER 1 INDUSTRY IS AGRICULTURE. PRIMARILY A DAIRY STATE, NEW YORK'S PRINCIPAL PRODUCTS INCLUDE MILK, CHEESE, GRAPES, SWEET CORN, MAPLE SYRUP AND ICE CREAM. HOWEVER, LAST YEAR WE HAD CASH RECEIPTS OF $150 MILLION FOR THE PRODUCTION OF CATTLE AND CALVES. JUST LAST NIGHT I WAS PLEASED TO HOST "NEW YORK FARM HARVEST DAY," AN EVENT I SPONSOR EACH YEAR IN THE CAUCUS ROOM TO BETTER INFORM MY COLLEAGUES AND THE WASHINGTON COMMUNITY OF THE PRODUCTS OF THE GREAT AGRICULTURAL STATE OF NEW YORK.

MR. CHAIRMAN, I UNDERSTAND THAT PRODUCERS ARE RECEIVING LOWER PROFITS FOR THEIR PRODUCTS; SOME ARE SELLING AT A LOSS RANGING FROM $100 TO $175 A HEAD. HOWEVER, I AM INTERESTED IN ANOTHER ASPECT OF THIS SITUATION, NAMELY, THE CONSUMER BENEFIT. IF THE CATTLE PRODUCER IS RECEIVING A LOWER RETURN FOR HIS PRODUCT, IS THIS REFLECTED IN THE RETAIL PRICE TO THE CONSUMER? IF NOT, WHO IN THE DISTRIBUTION CHAIN IS THE BENEFICIARY OF THIS WINDFALL?

MR. CHAIRMAN, I SUPPORT A STRONG AGRICULTURAL BASE AS WELL AS A STRONG COMPETITIVE CLIMATE. HOWEVER, I ALSO WANT TO SEE THE CONSUMER BENEFIT IF A PRICE REDUCTION OCCURS.

THANK YOU, MR. CHAIRMAN.

Senator ABDNOR. Thank you, Senator D'Amato.

Well, fellows, we do have a few questions we would like to ask you. That's why we brought you here. Incidentally, let me introduce to you Mr. Tosterud. I am vice chairman of the Joint Economic Committee, the representative of it on the Senate side, and Mr. Tosterud not only is my main agricultural economist but heads up our staff on the Senate side. So I've asked him—as we're a little short of manpower here today—to feel free to participate in our discussion.

Let me start off by asking what are the profit margins in retailing beef and pork and have these margins gone up or down the last 10 years, the percent of the margins that you receive? Let's start with Mr. Sullivan.

Mr. SULLIVAN. Mr. Chairman, let me first look at supermarket net profit total store as a percentage of sales. 1984, 1 percent, down from 1983's 1.3, down from 1982's 1.2, 1981 was 1.2, 1980 was 1.2. You have to go back to 1979 where it was nine-tenths of 1 percent to find a lower number.

When you say gross profits, I assume you mean gross margins.

Senator ABDNOR. I said profit margins.

Mr. SULLIVAN. What I've just given you is the net profit for the store. We don't have net profit figures for the meat department broken out from grocery or produce or other commodities.

Senator ABDNOR. You're talking about like Safeways, you don't have their net?

Mr. SULLIVAN. No, we don't. What I do have is something from Progressive Grocer, July 1985, that presents gross margins, the amount that a product has to be marked up over the cost of inventory. Now this doesn't address profits. Here's how the gross margins in the meat department stacked up: 20.4 percent for meat; other things in perishables, dairy products 25.0; delicatessan, 27.1; frozen, 28.8; produce, 32.5. Now I have two other departments I want to contrast. Those were within perishables. Total grocery, 22.6; grocery nonfood such as household supplies, paper, pet foods, tobacco products, 18.5.

Now when you talk about gross margins or gross markups, all that says is how much that category has been marked up. It, for example, doesn't take into account the inventory turnover, the amount of labor required for that product, any kind of spoilage, stale product, or whatever. I think that probably explains why produce, for example, has 32.5 percent where meat only has 20.4. I think there's more peeling of product on lettuce and a lot of fresh vegetables.

Dry groceries are less labor intensive than the meat department, and the nonfood area has an even lower gross markup. So I can't give you and I don't have a net profit for the meat department.

Senator ABDNOR. Do they just refuse to let you have it?

Mr. SULLIVAN. We don't want it.

Senator ABDNOR. Then why are they refusing to come up here and tell us? If I had the story to tell that each of you have had to tell, it wouldn't bother me a bit to come up and tell the facts. What the heck, we ought to be feeling sorry for these people. They're having a heck of a time getting by. They've got a great story to tell if all these things are true. I'm amazed. I wouldn't be reluctant if I was head of Safeway and I was asked to come up here. I wouldn't say, no, I'm not coming; and that's what they're doing to us. Why are they so reluctant?

Mr. SULLIVAN. Well, I don't think Safeway is reluctant. Now that we've mentioned the name of that store, let me——

Senator ABDNOR. Take Giant. I don't care.

Mr. SULLIVAN. Safeway provided me with a swatch of their meat advertisements starting with—and Safeway has been making a very aggressive commitment to beef and to red meat in particular. They have just——

Senator ABDNOR. Has that been a constant thing or is that some kind of recent thing? Has Safeway always given that big a spread?

Mr. SULLIVAN. I think that's been fairly constant throughout the year and I'd like to submit for the record a letter [1] that they have from the California Cattlemen's Association commending them for the meetings they've had throughout the year, the cooperation they've had and the excellent aggressiveness they've shown. But I just don't want to leave it to one company, if we're going to talk about supermarkets.

Senator ABDNOR. Sure. Go ahead. I'm going to listen to all of them.

Mr. SULLIVAN. Let's go to New York and let's look at P&C Supermarkets, a regional chain up there. Their prices are now so low that they put across the top, "Beef market prices down, lowest beef prices in seven years. All beef prices reduced."

Sacramento, CA, boasts of a smaller chain by the name of Belair. They went back and they say, "Enclosed are copies of the ads Belair used to announce our lowest beef prices in 10 years. We've gone back and manually looked at all the tear sheets to make sure all prices were lower." Here's their ads—"Slashed beef prices, lowest in ten years."

Senator ABDNOR. Are those real recent?

Mr. SULLIVAN. These Safeway ones would range from July or August. We looked at Supermarket News and each week they have an article in there on prices and let me just—these would have been June grocery ads compared with June 1 year ago. Atlanta, we only compared those where we could find the identical product. If we were vague on whether one was USDA Choice and the other was a store brand, we didn't take them down. It was only when we knew comparing exact product with exact product.

Here's Atlanta. Boneless rump roast, $1.88 in June 1984, down 20 cents, $1.68 in June 1985. Columbus, ground beef $1.19 in 1984, 99 cents in 1985. The same comparable weeks. Indianapolis, boneless ribeye, $3.48 in 1984, down to $2.99 in 1985. Rib roast, $2.88, down to $2.58. New Orleans, boneless rump roast, $1.89 down to $1.79. Ground beef $1.49 down to $1.29, and so on.

Mr. Chairman, I think the heart of your hearing is the frustration that producers have that without a doubt their prices are down dramatically from previous years. At the National Cattlemen's convention back in January, maybe as many as 21 leading agricultural economists predicted that this would be a good price

[1] The letter referred to may be found in the files of the subcommittee.

year. So all the experts weren't able to predict the oversupply and the overweight that came in.

But throughout that process producers have been extremely frustrated looking for the causes. As the year progressed and organizations came to us and asked us to help get the word around about the oversupply and the plentiful situation, we started to get frustrated. The Safeways, the Krogers, the A&P's, the independent stores all became frustrated when they start becoming the focus. Especially when they think they're aggressively working and doing a good job of promoting meat and beef and then to hear that people think they're capturing all the profits is very frustrating for them. That's why we went back and looked through Supermarket News. We looked at their numbers to see the comparisons. That's why we took the National Cattlemen's own survey and looked at what was happening from the numbers they gathered.

The USDA price spread series, the USDA number, just hasn't moved as rapidly as the other numbers. And let me see if I can't come to this. That number does not reflect the average price of beef in your average supermarket. Back when it was around $2.40 I asked the stores to tell me what your average price of beef is. $1.71 was the average price they were getting for every pound of beef sold when the USDA price was saying in December $2.40.3 or in January $2.39.7. That's a 25-percent variation or more.

So here we are—everything that we do on spreads that is based off that number has got a vacuum in it.

Senator ABDNOR. Well, let me ask you something to help me understand it better. How long does it take for a drop in live cattle prices to be reflected at the counter? Our figures from the Department of Agriculture—they were not mine—it takes a heck of a lot longer for it to come down than it takes it to go up. Maybe you can explain that one to me. Why the big difference in that respect?

Mr. SULLIVAN. I haven't seen that, but I think if we go to table 2 in my prepared statement we'll see that each month where prices either went up or down——

Senator ABDNOR. It's reflected?

Mr. SULLIVAN. Not always in the same amount, not immediately, sometimes less, sometimes more.

Senator ABDNOR. Why? Is there any reason for that? Do the characteristics behind it or the factors, do they differ like when meat drops $5 over a month—and it did—and it came up $5 right after we had our first hearing. It amazed me. The live cattle markets—I was not trying to take credit for me but the people back home were giving me credit for it just because we jogged somebody. It just happened. But it's come way down and I don't mean to be picking on you, but I'll tell you they'll eat you up alive if you went out to my people in July where I was and tried to tell them that meat prices at the counter were being reflected by the drop they got in their cattle sales. I'll tell you that. Now you're telling me that in July it was and I haven't got the exact figures. I'd better go home and do some more checking before I make any strong statements, but I realize that when producers are having difficulties making ends meet it's easy to look around and place the blame somewhere else.

But these people were firmly convinced, I can tell you, meeting after meeting when I got through—this was over the Fourth of July recess after there was a tremendous drop in the marketplace on both hogs and cattle—and that was not being reflected in South Dakota. Now I'll find out and if I'm wrong and they're wrong I'll apologize, but it wasn't more than a month later I think the Department of Agriculture clearly showed us that prices followed the marketplace of live cattle on the increase much quicker than they do on a drop and I just wanted to know why that was.

Mr. SULLIVAN. We haven't seen it be quicker. We have seen it lag on the way down and we've seen it lag on the way up.

Senator ABDNOR. What's the lag? I never got that answer.

Mr. SULLIVAN. Well, I'm sure it depends on area and everything else, but generally retailers tell us it's 4 to 6 weeks from the time the product goes to market until it shows up in their stores. We have processors here. Maybe they have a better idea of how long it takes from the day you market that cow until it is in the retail counter.

Senator ABDNOR. Tell me, Mr. Krut, you ought to be able to give us some thoughts on it.

Mr. KRUT. In most cases a smaller plant, dealing not on a heavy volume but on more of a quality basis, prefers to age their carcasses—you have about 2 weeks aging. Some of our members age cattle as much as 3 weeks after slaughter before selling it. So you will have some lag just on that, but normally it is not reflected in the smaller plant—that long a lag.

Senator ABDNOR. I would think the lag would be greater the bigger the plant.

Mr. KRUT. Your smaller plant typically does its own slaughtering but they supplement what they are selling also with boxed beef and boxed pork from other sources. So they have more than one supply.

Senator ABDNOR. How about you, Mr. Emerling?

Mr. EMERLING. In our type of business, being in the wholesale type, with inventories turning on an average of 26 times maybe a year and in some plants beef inventories maybe 50 times a year, there is not too much of a lag. We're buying on the market and selling on the market.

Now when you're aging and you go into situations such as where you're holding meat for several weeks, you have to in some way take that cost into consideration and the people that buy that type of merchandise obviously will, but I would say pretty much so that on a weekly basis and depending on the quotes because we do quote weekly in our type of business to customers, I would say within a week you would certainly see a reflection in prices.

Senator ABDNOR. Mr. Tosterud.

Mr. TOSTERUD. Mr. Emerling, do you have any observations on the profit margins that restaurants would charge for your beef?

Mr. EMERLING. Well, they have some different other problems and I think what you have to look at is, you have a product mix—we have that in our own businesses also. You sometimes get a lot less for something than you should and maybe you make it up on something else to average out. I think you really have to look at sort of the bottom line which is really the indication—that's what you pay your taxes on. I'm not that conversant with their figures, but probably would relate in a reasonable basis to other businesses.

Unfortunately, the food business and the meat business in particular has been forced to operate at unreasonably low levels from the standpoint of one who's putting his time and work into it, having done that for 30 years myself, I sometimes wondered why I was still in it except for the love and the adventure of it, and I think a lot of the people who are in this business are in it because of the excitement, the day-to-day change. You don't have to be a gambler. You're gambling every day in this. You buy at one price and you may not be able to get that price that you paid for it because the next day the market may be down and you have to reflect those costs.

Mr. TOSTERUD. Mr. Sullivan, I agree entirely with you on the misleading perceptions of percentage changes, so I went back a little bit and I found that steer prices were basically the same in the fall of 1978 as today, roughly $53 to $54 a hundredweight. But according to USDA data, retail beef prices during this same period have gone from $1.89 a pound to $2.31 a pound.

Now given this no absolute difference in the price of the steer, yet there is a 42-cent absolute difference in the price of retail beef.

Could you and others try and explain that difference?

Mr. SULLIVAN. Sure. The USDA number I think you're referring to, is that the number that they report in terms of retail price?

Mr. TOSTERUD. Retail price. I'll read you the footnote on it. "Estimated weighted average price of retail cuts from choice yield grade 3 carcasses."

Mr. SULLIVAN. If we just looked at the CPI, the general runup in the CPI from 1978 to 1985, and you applied it, I think you would find—and I haven't done that. We have done it on previous occasions. But I think that you would find amazingly that that increase generally reflects the cost of doing business that's gone up. Transportation, energy, utilities, insurance, occupancy costs, and labor have all increased since 1978. We went through some tremendous inflationary years in—I don't remember the exact years, but coming into 1981, where we finally got hold of inflation. All of those had a tremendous influence. We have seen in our gross markup number for the whole store a general, gradual creep where maybe 10 years ago it was at 20 percent and it's crept up to 22 and 23. There are some different things there besides just the cost of owning and operating a business. In the supermarket stores, we've seen some subtle changes from where things were more self-service to where they're going back to service departments. For example, more preparation, more cutting. We think one of the ways for getting the consumer back to the meat department is convenience. People don't want to buy a product they're going to take home and have to cook for 3 hours. They want something to prepare within 30 minutes.

So all of those value-added things have caused that gross markup and a retail price to creep. I'd be interested in looking at what the general CPI was compared to that increase. I think that would be pretty close to it.

Mr. TOSTERUD. But you're claiming that there have been increases in costs in transportation and energy and labor, but no increase in retail profit margins?

Mr. SULLIVAN. I only go back to 1979 where we had a 0.9, but traditionally supermarkets have operated on about 1 cent on the dollar after taxes. Cornell University has done an annual study for about 30 years and that's sort of the benchmark study there.

Ironically, in the mid-1970's when we had terrific food price inflation, profits dropped to one-half of 1 cent. Their own costs pressures were increasing, but if you go back 30 years you find that 1 percent is pretty close to it.

Mr. TOSTERUD. Well, we had some testimony presented by Mr. Gene Futrell of Iowa State University that basically concluded, like the U.S. Department of Agriculture, that retail beef prices were just not cost justified.

Mr. SULLIVAN. And I'll tell you why—I'll tell you why they might say that. They got their finger out in the air measuring the temperature of something that isn't taking place. When I mentioned that their number was $2.40 and a major company's average price was $1.71, I mean we're considerably apart. They are not measuring sales in the supermarket. The price that they're reporting is a statistically derived price. It is meticulous and accurate—I have no quarrel with that—for what they're doing. But first of all, they're only measuring 65 percent of the tonnage, 60 percent of the dollars. They've omitted hotels, restaurants, and institutions and what's going on there. Second, there's no lag in there. Third, they discount and leave out specials so all these ads and everything else that's going on in specials aren't measured. That's one of the big reasons.

It is based on carcasses—we'll go back to Mr. Coyne of South Dakota. It is based on the assumption that we sell out the entire carcass when they project back to the carcass level and back to the farm gate, and we're not. We're buying beef in boxes. We're not buying it by carcass.

Last year and FMI survey found that of those who answered the survey, 4.4 percent were buying their beef in carcass form. Now I think that's a little low for the whole industry. I think that probably 15 percent of supermarkets are buying carcasses. In other words, 85 percent of supermarkets are buying boxed beef.

What we're doing is buying the cuts that the customers want to buy. So when we buy—say, 20 years ago when more of the supermarkets bought an entire carcass, they had to push the whole carcass. What I'm saying is that what they're measuring and what we're selling are not the same thing as well as the prices. The specials have been eliminated so there would be statistical comparisons from one year to another. We can't remember if this was on special a year ago or wasn't or what was happening. So just by definition—in other words, this number becomes more of a—not a cost-of-living, but an index. If you bought the same amount of product in the same proportions as you did going back to 1978 and whatever else, then this would be fairly accurate.

The other element of that is that when things are on special people tend to buy up and stock up. So the volume that's bought under that special doesn't get reflected here.

Senator ABDNOR. Do they run specials? Are the specials just on the choice meats? Do they run them equally as much on those products in less demand and those are the better prices?

Mr. SULLIVAN. I think there's a seasonality to it. When outdoor cooking becomes more popular and so on and there's a mix and a pattern I think that probably could be found if you looked at it. If an item happens to be a particularly good value I think that they will probably try to help promote that. But retailers tend to be more focused in buying the products that the consumer wants and not be stuck with the entire carcass.

There was a comment made somewhere along in this testimony about that very same thing. I think it would really be interesting to have a survey of the kinds of cuts that are going through supermarkets and other outlets and then have an artist do a rendering of what that cow would look like if you projected it back from the meat case. It may not be that standard four-legged cow that Mr. Emerling was referring to. In some neighborhoods it might be all sirloin. In other neighborhoods it could be all hamburger, and in others it could be shanks.

Senator ABDNOR. Mr. Hodges, do you have any thoughts on that? I hate to leave you out of this discussion. You represent the packers.

Mr. HODGES. From the meat packers point of view, our gross margins have remained relatively constant the last 3 years and, as I mentioned in my testimony, they are in the neighborhood of about 20 percent. They have ranged, going back to 1979, from 20.6 to a current day level of 21.6 percent gross margin.

Our net profit has been less than our historical averages of 1 percent and it now is approaching the 0.7 range for our beef slaughters.

Senator ABDNOR. Tell me while we're talking about packers, what percentage of the packers have union labor and those that don't. In South Dakota I know they have unionized but many of the bigger plants do not. Is that correct?

Mr. HODGES. I could not give you an accurate figure.

Senator ABDNOR. But there are both kinds?

Mr. HODGES. There are both kinds as far as unionized plants and nonunionized plants.

Senator ABDNOR. Wouldn't it be great difficulty for the one that's unionized to try to compete with the nonunion.

Mr. HODGES. I think that's very true.

Senator ABDNOR. What do they do, absorb the difference?

Mr. HODGES. No. If you'll look at some of the major companies that have been under master agreements—master agreement, as we had known it in past years, has fallen apart and there's not uniform wage rates across the industry. There are plants that are nonunionized and there are plants that are unionized and, very frankly, I think that some of the problems that some of our major companies are facing now is directly related to wage rates. They're virtually struggling for their survival in many cases.

Whether or not we could say that that's related to union or nonunion activity, I would be reluctant to say that. But generally speaking, most of the labor pressure has been exerted from the union side.

Senator ABDNOR. Could you make any kind of comparison between the poultry processing industry and the meat processing industry? Is most of the poultry industry nonunionized? I'm just trying to figure out—there are a lot of factors in this ballgame.

Mr. HODGES. To my knowledge, most of the poultry are nonunionized. I'll be glad to supply for the record, if the Chairman wishes, the Food Safety and Inspection Service did a recent survey on the economics of the meat packing industry and they did some comparisons between poultry and beef as far as labor rates and so forth, and I would be glad to supply that report if the chairman would like it.

Senator ABDNOR. That would be good. Every time you say something about labor they think you're out trying to strike at them and that's not it. I'm just trying to find out, is there differences from one plant to another and how much of a factor that is. You can't talk about a problem if there isn't such a problem. Maybe there isn't. If there is such a problem, you've certainly got to feed in that as one of the components of the whole situation.

[The report referred to follows:]

ECONOMICS OF THE RED MEAT INDUSTRY

Implications for FSIS

Prepared by the

FSIS PLANNING OFFICE

POLICY AND PLANNING STAFF

FSIS, USDA

August 21, 1985

EXECUTIVE SUMMARY

This report was conducted at the request of Dr. Donald Houston, Administrator of the Food Safety and Inspection Service (FSIS). The purpose of the paper was to look at the red meat industry from an economic and financial viewpoint, and to assess the health of the industry. Each chapter discusses a particular aspect of the industry. In the conclusion, projected changes in the red meat industry are then linked with possible implications for the FSIS inspection program.

The red meat slaughter industry historically has operated on relatively small profit margins, depending upon high volume to offset a low rate of return on sales. The low return on sales (historically around 0.9 percent) with a high product turnover combine to produce a rate of return on assets averaging about ten percent.

Since the mid-1970's the red meat industry has been concerned by a decline in beef consumption. Faced with competition from the poultry industry, resistance to high meat prices, public health concerns about red meat, and the emergence of new and nonunion plants with lower operating costs, the red meat slaughter industry has responded in several ways to maintain its profitability. These actions have included (a) reducing payroll costs, (b) moving operations closer to feedlots, and (c) increasing company size.

The most visible change affecting the competitiveness of the industry has occurred in the area of wage rates; average hourly earnings fell from $9.22 in December, 1981 to $8.15 in July, 1984. In a period of high industry unemployment, pressure on wages primarily has come in the form of contract reopenings, wage cuts, and pay freezes. From 1967 to 1982 when industry wages kept up with the rate of inflation, payroll as a percent of value of shipments dropped by one third from 8.0 percent in 1967 to 5.6 percent in 1982.

Data from the the Packers and Stockyards Administration reveal that concentration in the industry is increasing. The top four firms slaughtered 29 percent of the product in 1972 and 51 percent in 1983; concentration measured by the top eight firms increased from 43 percent in 1972 to 63 percent in 1983. The number of packers, with annual livestock purchases greater than $500,000, declined 35 percent from 710 to 462 firms over the same time period.

While there has been a drop in the number of large firms, the industry has remained vibrant, in part due to the low capital requirements for entry into the market. From 1978 to 1984, excluding the influence of state designations, the number of slaughter plants receiving Federal inspection declined by 287 plants. However, including processing plants, the number of new plants receiving inspection exceeded losses by 3,268 to 3,132, with a total of over 7,000 plants under federal inspection.

In the future, the remedies used by the red meat industry to maintain profit levels may not be sufficient. First, payroll only comprises 5.6 percent of value of shipments compared to almost 90 percent for the cost of raw materials and there is little indication that animal costs will or can be forced down. Second, most major firms have already relocated closer to the feedlots and existing technologies place a limit on the economies of scale that can be gained from increasing plant size.

The implications for the inspection program from this industry activity are:

1. There should be no significant increase in the number of slaughter inspectors; small increases in the level of production will probably be offset by a larger number of high-speed lines.
2. To maintain profitability, the industry will be forced to move toward more value-added processing products which would require more processing inspection resources, assuming no change in the nature or intensity of processing inspection.
3. New technologies may be developed to increase line speeds which may require some changes in our inspection procedures to accommodate industry productivity. However, the Agency is always looking at introducing new inspection procedures such as Modified Traditional Inspection and rapid tests.

I. FINANCIAL PERFORMANCE

The red meat industry is characterized by the sale of a high volume of product compared to its fixed assets and capitalization. Historically, in the red meat industry, income as a percent of total sales has averaged slightly under one percent. The retail food industry is comparable, in that it too depends upon high volumes to offset its low rate of return on sales. AMI reported in its Annual Financial Review that, in 1983, income as a percent of sales was 0.9 percent; the comparable figure from Dun & Bradstreet's Key Business Ratios was 0.8 percent in 1983 and 1.0 percent in 1984. From 1971 to 1984, income as a percent of sales averaged 0.93 percent. Table 1 shows selected performance ratios for three industries: (1) meat packing plants, (2) sausage and prepared meats, and (3) poultry dressing plants.

In contrast to the ratio of income to sales, the ratio of income (return) to net worth is approximately ten times greater. In 1983, AMI showed a return on net worth of 10 percent. Dun & Bradstreet reported 9.4 percent in 1983, 9.0 percent in 1984,

TABLE 1: LIQUIDITY, EFFICIENCY, AND PROFITABILITY FINANCIAL RATIOS, BY INDUSTRY, 1971 - 1984

YEAR (1,2)	CURR RATIO	CURR LIAB TO NW	CURR LIAB TO INV	TOTAL LIAB TO NW	FIXED ASSET TO NW	COLL PER-IOD	SALES TO INV	SALES TO NWC	RETURN ON SALES	RETURN ON NW
				MEAT PACKING PLANTS						
1971	2.11	52.0	141.2	91.9	63.5	14	33.1	18.42	0.87	10.14
1972	2.00	52.7	143.3	95.9	63.2	15	30.1	19.79	0.67	8.51
1973	2.00	57.4	130.0	96.7	65.2	14	28.5	20.07	0.64	9.85
1974	2.12	55.4	136.6	104.4	59.4	14	31.7	19.58	0.70	9.31
1975	2.57	42.0	134.7	87.3	56.4	15	30.7	18.58	1.09	13.29
1976	2.37	44.5	97.2	81.5	57.8	14	33.6	17.84	0.75	6.38
1977	2.35	42.5	107.3	94.6	65.7	14	28.1	17.33	1.12	8.28
1979	1.87	48.9	174.9	90.2	66.5	15	34.3	17.56	1.12	12.03
1980	1.79	58.6	155.5	92.2	67.0	14	32.9	18.73	1.04	13.75
1981	2.00	51.1	151.8	89.3	60.2	14	33.8	22.10	1.10	11.10
1982	2.20	48.1	146.8	95.6	69.7	14	33.9	21.20	1.10	12.80
1983	1.80	58.1	152.4	100.5	72.2	14	42.0	23.70	0.80	9.40
1984	2.00	43.3	133.5	82.7	73.8	14	32.0	19.00	1.00	9.00
				SAUSAGE AND PREPARED MEATS						
1979	1.91	48.7	147.2	75.8	62.8	17	27.0	13.58	1.95	16.34
1980	1.97	45.3	127.4	73.3	57.1	15	25.4	15.79	2.28	16.56
1981	2.00	53.8	137.6	74.5	54.3	17	23.0	14.50	2.00	15.00
1982	2.00	56.0	146.6	78.9	60.6	17	23.3	14.30	2.00	14.20
1983	1.90	53.8	152.0	88.7	65.7	18	25.4	17.10	2.70	14.50
1984	2.00	47.7	169.0	72.4	66.9	17	25.3	15.20	2.20	14.00
				POULTRY DRESSING PLANTS						
1979	1.45	44.7	138.7	86.0	85.4	25	16.1	13.17	1.71	19.67
1980	1.83	121.2	128.1	181.5	89.6	23	32.2	12.74	1.15	21.70
1981	1.60	58.3	159.4	109.1	78.0	22	17.7	17.80	2.40	16.20
1982	1.40	178.1	222.2	199.9	89.0	21	43.2	15.30	1.40	4.50
1983	2.00	121.8	106.5	264.1	96.8	24	11.7	12.00	1.70	18.70
1984	1.50	53.0	137.6	101.6	84.8	26	15.1	18.30	2.30	18.90

SOURCE: Industry Norms and Key Business Ratios, annual reports, Dun & Bradstreet Credit Services.

(1) Data not available for 1978.
(2) Series for "Sausage and Prepared Meats" and "Poultry Dressing Plants" began in 1979.

and an average of 9.5 percent since 1971. This is a high volume, low margin industry with low capital requirements.

A review of the liquidity, efficiency and profitability ratios reported by Dun & Bradstreet reveal the following industry characteristics:

1) Current liabilities to net worth have remained steady indicating a mature industry.

2) A high turnover of product exists as evidenced by the ratio of sales to inventory.

3) The current ratio indicates a good ability to cover current liabilities.

Comparing the meat packing industry to the poultry industry, the following differences were found:

1) The return on sales and the return on net worth are twice as high for the poultry industry as for the meat packing industry.

2) The higher level of fixed assets to new worth in poultry indicates a higher level of investment in capital.

3) The high level, and volatility, of the poultry industry's current liabilities to net worth reaffirm the substantial amount of investment being undertaken to change the poultry product line.

The 1982 Census of Agriculture highlighted several important differences between the two industries. Expressed as a percent of value of shipments (VOS), in the meat packing industry, the cost of raw materials averaged 86.8 percent over the last 16 years; in 1982 the ratio was 87.0 percent. Over a fifteen year period when industry wages kept up with the rate of inflation, total payroll costs declined substantially from 8.0 percent in 1967 to 5.6 percent of VOS in 1982 -- a thirty percent cut in labor costs. Capital expenditures as a percent of VOS were 0.7. This is in contrast to the poultry industry which in 1982 has a 78.8 percent cost of raw materials compared to VOS, 11.9 percent of payroll to VOS, and finally 2.1 percent capital expenditures to VOS. Table 2 summarizes the Census from 1967.

The poultry industry has been structured so as to allocate a much lower percent of its total costs to raw materials than does the red meat industry. Although the poultry industry is more labor intensive, it has kept wages low compared to the beef industry and has devoted a much higher percentage of its sales toward purchasing capital equipment. Since the Bureau of Census started keeping data on both industries in 1972, capital expenditures expressed as a percent of value of shipments has averaged 2.7 times higher in poultry than in red meat indicating a higher level of plant construction and equipment purchases.

TABLE 2: INDUSTRY COSTS AS A PERCENT OF VALUE OF SHIPMENTS, BY INDUSTRY, 1967 - 1982

YEAR	MEAT PACKING PLANTS RAW MATERIALS	PAYROLL	CAPITAL EXPENDITURES	POULTRY DRESSING PLANTS RAW MATERIALS	PAYROLL	CAPITAL EXPENDITURES
1967	85.7	8.0	0.7	NA	NA	NA
1968	85.1	8.0	0.6	NA	NA	NA
1969	86.4	7.6	0.7	NA	NA	NA
1970	85.3	7.8	0.8	NA	NA	NA
1971	83.9	7.9	0.8	NA	NA	NA
1972	87.4	6.6	0.7	77.6	12.0	1.3
1973	88.1	5.6	0.6	77.2	9.7	1.2
1974	87.0	6.1	0.7	77.5	10.7	1.6
1975	86.8	6.1	0.7	75.3	9.7	1.2
1976	86.3	6.4	0.6	76.4	10.5	1.6
1977	87.2	6.7	0.7	78.6	10.6	2.1
1978	88.9	5.8	0.6	76.0	10.1	2.1
1979	88.1	5.6	0.5	78.1	10.6	2.0
1980	87.8	5.9	0.6	78.4	11.2	1.9
1981	88.0	5.8	0.7	80.3	11.2	1.9
1982	87.0	5.6	0.6	78.8	11.9	2.1

SOURCE: 1982 Census of Manufactures, Meat Products, Industries 2011 2013, 2016, and 2017; U.S. Department of Commerce, Bureau of the Census; Table 1A; page 20A-4.

II. INDUSTRY CONCENTRATION

In 1980, the House Committee on Small Business issued a report Small Business Problems in the Marketing of Meat and Other Commodities on the increasing concentration in the red meat industry; the report was updated in a July, 1984 memorandum from John Helmuth, Chief Economist for the Committee on Small Business, to Congressman Neil Smith (Democrat, Iowa). In summary, it projected an increased concentration of firms in the industry which would force out small businesses, and suggested that "If the 4 largest firms continue to grow at this pace they will be the only firms left in the industry by the year 2000." Historical data from 1972 was used to document the increase in concentration.

The importance placed on market concentration is rooted in the concern that smaller companies will be forced out of business, competition will be diminished, and prices may rise. Table 3 relates data from the Packers and Stockyards Administration which shows that from 1972 to 1983, the market share controlled by the top four firms slaughtering steers and heifers rose from 29 to 51 percent. The percent controlled by the top eight firms increased from 43 to 63 percent over the same twelve-year period. During the twelve-year period, the number of firms decreased by 35 percent for steer and heifer slaughter, while hog slaughter decreased a little more than 25 percent.

TABLE 3: CONCENTRATION RATIOS AND NUMBER OF FIRMS, BY INDUSTRY, 1972 - 1983

	STEERS AND HEIFERS			HOGS		
YEAR	TOP 4 (in %)	TOP 8 (in %)	TOTAL NUMBER OF FIRMS	TOP 4 (in %)	TOP 8 (in %)	TOTAL NUMBER OF FIRMS
1972	28.96	43.11	710	31.97	46.50	530
1973	29.43	43.44	698	33.15	48.64	495
1974	29.17	43.14	670	34.49	51.38	479
1975	28.01	41.52	656	33.03	49.69	440
1976	28.96	41.70	666	34.59	52.02	438
1977	28.81	42.34	618	33.65	52.51	410
1978	31.56	44.05	617	35.52	54.50	408
1979	36.51	50.58	582	36.47	55.17	425
1980	38.99	56.20	565	34.75	52.62	448
1981	42.75	58.13	489	35.49	52.18	421
1982	44.99	60.93	471	38.85	53.31	405
1983	50.62	62.63	462	32.47	51.29	395

Source: Packers and Stockyards Administration; unpublished data provided to the House Committee on Small Business.

At first these trends appear ominous, but it is also instructive to look at concentration from other perspectives. First, every industry is inherently different and the appropriate standard against which to measure concentration must be determined. In 1950, the top four cattle slaughtering firms controlled 51.5 percent of the market. By 1964 the concentration of the top four firms had declined steadily to 28.0 percent as firms decentralized and plants relocated further West closer to feedlots. (See Table 4.) A similar but less dramatic change also occurred in the concentration of hog slaughter firms. Table 5 lists the top four red meat slaughter firms in 1950, 1960, 1970, and 1980. The question" What is the relevant base line measure?" is left unanswered.

Second, there are a significant number of firms entering the industry each year. Based upon the number of plants under Federal inspection, since 1978, 986 slaughter plants have left the industry while 699 plants have entered. Including processing operations, since 1978, the number of new plants exceeded the number leaving by 3,268 to 3,132. The Packers and Stockyards Administration collects data on packers with annual livestock purchases greater than $500,000. Their data shows a decline in the number of large firms since the series was begun in 1972. (See Table 3.) On average, for all types of red meat packers, the number of large firms has dropped about 30 percent

TABLE 4: PERCENT OF FEDERALLY INSPECTED U.S. OUTPUT BY FOUR LARGEST FIRMS, 1950 - 1964

	PERCENT OF OUTPUT BY FOUR LARGEST FIRMS	
YEAR	CATTLE SLAUGHTER	HOG SLAUGHTER
1950	51.5	48.5
1954	45.2	48.4
1958	35.7	41.3
1962	29.5	39.0
1964	28.0	36.9

SOURCE: Organization and Competition in the Livestock and Meat Industry, Technical Study No. 1, National Commission on Food Marketing, June 1966, page 14.

TABLE 5: LISTING OF FOUR LARGEST CATTLE SLAUGHTER FIRMS, 1950 - 1984

YEAR	TOP FOUR FIRMS (in alphabetical order)
1950	Armour
	Cudahy Packing
	Swift and Company
	Wilson
1960	Armour
	John Morrell
	Swift and Company
	Wilson
1970	Armour
	John Morrell
	Swift and Company
	Wilson
1983	Excel
	Iowa Beef Processors
	Swift Independent Packing Company
	Wilson

SOURCE: Packers and Stockyards Administration, unpublished data.

since 1972. Table 6 shows a distribution of packing plants by number of head slaughtered in 1976 and 1982.

In summary, the major firms have increased in size relative to the industry average, and there has been an increased concentration in the meat packing industry as the plants moved away from the terminal markets and closer to the feedlots. However, the industry has continued to show a healthy influx of new plants each year, especially in processing. The ability of new companies to begin operations is probably attributable to the relatively low capital requirements needed for entry into the market.

TABLE 6: DISTRIBUTION OF STEER AND HEIFER PACKERS, BY NUMBER OF HEAD, 1976 AND 1982

FIRM SIZE[1]	YEAR 1976	1982
LESS THAN 10,000 HEAD	342	236
10,000 TO 49,999 HEAD	125	64
50,000 TO 99,999 HEAD	48	34
100,000 TO 149,999 HEAD	7	10
150,000 TO 499,999 HEAD	19	9
MORE THAN 500,000 HEAD	5	10

SOURCE: Packers and Stockyards Administration, unpublished data.

(1) Firm size is based upon number of head slaughtered for those firms purchasing over $500,000 annually in livestock.

III. WAGES AND LABOR RELATIONS

Labor relations

Until the 1980's, the red meat slaughter industry was a "mature" industry much like the steel and auto industries not only in terms of product but in the realm of labor relations. In the past, wages were negotiated between the United Food and Commercial Workers (UFCW), formerly the Meat Cutters and Butcher Workmen, and a targeted major meat packer. The pattern was then set for wage rates and fringe benefits, and the contract was followed by the rest of the industry.

However, over the last several years, in response to competition from nonunion plants which generally have lower wage rates and the poultry industry which also has significantly lower wage rates, management attempted to reduce its payroll burden. Since 1981, the following major companies have negotiated pay cuts or freezes (listed in alphabetical order): Armour, Dubuque, Esskay, Frederick and Herrud, Hormel, Hygrade, John Morrell, Oscar Mayer, Rath, Swift, Swift Independent, and Wilson. In addition, formerly unionized plants were sold by Dubuque and Armour, and reopened as nonunion plants by FDL and ConAgra, respectively.

According to information from the UFCW 1985 Meat Packing Industry Fact Book, the ability of the meat industry in ending the Master Agreement wage structure is evidenced by a reduction in wage rates such as the cut from $10.69 to $6.50 per hour at Wilson Foods in 1983, and the loss of union representation at thirteen Armour plants which were taken over by ConAgra and reopened as nonunion plants with a $6.00 wage rate.

Wages and employment

In the meat industry, unemployment has remained high compared to the rest of the economy. Table 7 shows the relationship from 1972 to 1984 of unemployment rates for the meat and poultry industry versus the food and kindred products industry and the U.S. economy.

From 1967 to 1982, the annual average hourly earnings (AHE) of production workers in Standard Industrial Classification Code (SIC) 2011 (meat packing plants) increased 178 percent from an annual average of $3.24 to $9.00. In 1983, the annual average AHE dropped five percent to $8.57. In fact, from a high of $9.22 in December of 1981, the AHE fell to $8.15 in July, 1984. From 1967 to 1983, the annual average AHE for all manufacturing rose from $2.82 to $8.83.

Compared to meat packing plants, wages in SIC 2013 (sausages and other prepared meats) have remained relatively steady over the

TABLE 7: UNEMPLOYMENT RATES, BY INDUSTRY, 1972 - 1984

YEAR	MEAT AND POULTRY	ALL FOOD	U.S. AVERAGE
1972	6.3	7.4	5.6
1973	6.0	6.6	4.9
1974	5.3	7.8	5.6
1975	8.0	10.4	8.5
1976	8.1	9.5	7.7
1977	7.6	9.7	7.1
1978	6.6	7.2	6.1
1979	6.5	7.9	5.8
1980	7.9	8.8	7.1
1981	9.6	10.0	7.6
1982	11.9	11.8	9.7
1983	13.6	12.9	9.6
1984	12.9	10.4	7.5

SOURCE: Current Population Survey; published and unpublished data; U.S. Department of Labor, Bureau of Labor Statistics, Division of Employment and Unemployment Statistics.

last few years at approximately the $9.00 level. In SIC 2016 (poultry dressing plants), wages have continued to rise, rising steadily from an annual average AHE of $2.39 in 1967 to $5.32 in 1983.

Table 8 shows that the average hourly earnings in the poultry industry remains substantially below that of the red meat industry. The 1983 annual average AHE was $8.57 in meat packing plants compared to $5.32 in poultry dressing plants. Two of the factors which may account for this are: (1) unionization has been less prevalent in the poultry industry than in red meat, and (2) the percentage of women employees, who historically have earned less than men, in the poultry industry is three times higher than that in SIC 2011 and twice as high as SIC 2013. The relationship from 1967 to 1983 of the number of women employees as a percent of production workers in the meat packing, sausage and prepared meats, and poultry industries is included in Table 9.

TABLE 8: ANNUAL AVERAGE HOURLY EARNINGS, BY INDUSTRY, 1967 - 1983

YEAR	ALL MANUFACTURING	MEAT PACKING	SAUSAGE AND PREPARED MEATS	POULTRY PLANTS
1967	2.82	3.24	3.04	NA
1968	3.01	3.45	3.24	NA
1969	3.19	3.67	3.46	NA
1970	3.35	3.98	3.64	NA
1971	3.57	4.20	3.86	NA
1972	3.82	4.46	4.12	2.39
1973	4.09	4.76	4.43	2.55
1974	4.42	5.24	4.81	2.75
1975	4.83	5.67	5.36	2.99
1976	5.22	6.06	5.87	3.23
1977	5.68	6.57	6.28	3.46
1978	6.17	7.09	6.73	3.79
1979	6.70	7.73	7.40	4.14
1980	7.27	8.49	8.06	4.47
1981	7.99	8.97	8.73	4.83
1982	8.49	9.00	9.08	5.13
1983	8.83	8.57	9.06	5.32

SOURCE: Supplement to Employment and Earnings, July 1983; U.S. Department of Labor, Bureau of Labor Statistics.

TABLE 9: WOMEN EMPLOYEES AS A PERCENT OF PRODUCTION WORKERS, BY INDUSTRY, 1967 - 1983

YEAR	MEAT PACKING	SAUSAGE AND PREPARED MEATS	POULTRY PLANTS
1967	18	41	NA
1968	18	41	NA
1969	18	41	NA
1970	17	39	NA
1971	17	38	NA
1972	16	39	59
1973	17	39	60
1974	18	38	60
1975	18	39	60
1976	19	39	58
1977	19	39	58
1978	20	40	58
1979	21	41	57
1980	22	40	58
1981	22	40	58
1982	22	41	57
1983	23	41	56

SOURCE: Supplement to Employment and Earnings, July 1983; U.S. Department of Labor, Bureau of Labor Statistics.

IV. PRODUCTIVITY

From 1967 to 1983, the level of red meat slaughter rose from 34,194 to 39,272 million pounds (dressed weight) while the number of production workers declined from 145,200 to 116,600. Productivity for the entire red meat industry, measured as output per hour worked, rose 44 percent over that period of time; red meat slaughter alone rose by 57 percent. Table 10 contains productivity rates from 1967 to 1982 for three industry breakdowns: (1) all red meat, (2) meat packing plants, and (3) sausage and prepared meats.

Comparing the poultry industry with the red meat industry over the last ten years, the data show that the annual average increase in productivity in red meat exceeded that of poultry by 2.7 percent to 2.3 percent. This compares to an annual average productivity increase of 1.9 percent for the U.S. manufacturing sector from 1972 to 1982. This would tend to refute the criticism that federal inspection is interfering with industry productivity.

There are no official measures of the productivity of FSIS inspection, but the introduction of new inspection procedures such as Modified Traditional Inspection has allowed FSIS, after adjusting for changes in the number of plants inspected, to reduce its inspector workforce by 397 positions since 1978.

TABLE 10: INCREASES IN PRODUCTIVITY, BY INDUSTRY, 1967 - 1982

YEAR	ALL MANUFACTURING	ALL RED MEAT	MEAT PACKING	SAUSAGE AND PREPARED MEATS
1967	75.3	74.8	73.6	79.2
1968	78.0	76.6	76.1	78.9
1969	79.3	75.7	76.3	73.8
1970	79.2	77.3	78.7	72.8
1971	84.0	79.3	79.8	78.8
1972	88.2	85.0	87.1	80.2
1973	93.0	82.8	88.7	69.1
1974	90.8	84.5	88.1	76.7
1975	93.4	84.4	88.6	74.8
1976	97.6	93.4	97.5	84.2
1977	100.0	100.0	100.0	100.0
1978	100.9	98.7	100.9	93.6
1979	101.6	101.7	104.9	94.6
1980	101.7	107.0	109.1	101.8
1981	104.9	107.9	114.1	94.3
1982	107.1	107.7	115.6	90.4

SOURCE: "Meatpacking and prepared meats industry: above-average productivity gains", Monthly Labor Review, April 1984, U.S. Department of Labor, Bureau of Labor Statistics; page 39.

A different influence on the productivity of FSIS inspection, and on the FSIS budget, is the increase in poultry inspection versus red meat inspection caused by a change in consumption patterns. In 1974, the cost to FSIS of inspecting 60 billion pounds (live weight) of red meat was $100.4 million (including overtime charges and MPIO overhead, but excluding agency overhead). The cost to inspect 22 billion pounds of poultry was $86 million. This results in an average cost, excluding agency overhead, of 0.17 cents per pound of red meat versus 0.39 cents per pound of poultry. As the consumption of poultry increases relative to red meat this will have a depressing effect upon overall FSIS productivity measured in dollars because of the change in the mix of product.

V. CONSUMPTION TRENDS

The production of the red meat industry (measured in total dressed weight) has remained relatively stable since the early 1970's. From 37,752 million pounds in 1971, production reached a peak in 1977 of 39,711 million pounds; since then a minor decline has taken place. However, while production rose four percent from 1971 to 1983, the population of the United States increased 13 percent.

For several years, the red meat industry has faced a declining market for its product. From 1967 to 1983, while the per capita consumption of beef, excluding veal, has remained relatively steady and pork consumption has shown modest increases, the per capita consumption of all red meat including veal declined 1.8 percent. Over the same period, the consumption of poultry rose 44.2 percent and fish consumption rose 21.6 percent. (See Table 11.) In 1967 the per capita consumption of beef, pork and poultry was 78.8 pounds, 60.0 pounds, and 45.4 pounds, respectively. By 1983, beef consumption slipped to 78.7 pounds, pork edged up to 62.2 pounds, and poultry jumped dramatically to 65.5 pounds per person.

TABLE 11: U.S. PER CAPITA CONSUMPTION (IN POUNDS), BY TYPE OF FOOD, 1967 - 1983

YEAR	BEEF	PORK	RED MEAT	POULTRY	FISH
1967	78.8	60.0	156.0	45.4	10.6
1968	81.2	61.4	159.6	45.0	11.0
1969	82.0	60.5	158.9	47.1	11.2
1970	84.0	62.3	162.3	48.8	11.8
1971	83.4	68.3	167.6	49.0	11.5
1972	85.4	62.9	163.6	51.1	12.5
1973	80.5	57.3	151.4	49.4	12.8
1974	85.6	61.8	161.8	49.9	12.1
1975	87.9	50.7	153.8	49.0	12.2
1976	94.4	53.7	163.6	52.3	12.9
1977	91.8	55.8	162.7	53.7	12.7
1978	87.2	55.9	156.4	56.3	13.4
1979	78.0	63.8	155.2	60.9	13.0
1980	76.5	68.3	157.2	61.0	12.8
1981	77.1	65.0	154.5	62.8	12.9
1982	77.2	59.0	148.0	64.1	12.3
1983	78.7	62.2	153.2	65.5	12.9

SOURCE: Food Consumption Prices and Expenditures, 1963-1983; U.S. Department of Agriculture, Economic Research Service; Tables 6A, 7, and 8.

Several factors are attributable for the change in the eating habits of the American public. In 1983, a Yankelovich, Skelly, and White, Inc. report commissioned by AMI on consumer attitudes to meat products cited price, taste, and health concerns as the major reasons for reduced beef consumption. From 1967 to 1984, the wholesale price of beef rose more than twice as fast as poultry prices -- 237 percent compared to 106 percent. Over that time frame, retail prices rose 276 and 219 percent, respectively. This compares to a 303 percent price increase for all food products.

VI. STATE PROGRAMS

In 1981, FSIS assumed inspection for the following states: Arkansas, Idaho, Michigan, and Rhode Island. When these inspection programs were assumed by FSIS, the number of plants coming under Federal jurisdiction increased by 510, and 257 inspection positions were added.

As of 1984, twenty-seven states continue to maintain State inspection programs. These programs cover 5,904 plants and require 2,204 state inspection employee staff years. The five largest State programs in terms of employees are Texas (260 staff years, 656 plants), Ohio (201 staff years, 583 plants), Illinois (178 staff years, 553 plants), North Carolina (177 staff years, 323 plants), and Florida (139 staff years, 346 plants).

VII. CONCLUSION

Trends and changes in the meat and poultry industries can have significant effects upon the need for and allocation of FSIS resources. The preceding sections attempted to lay the groundwork for four potential areas of change which may affect the budget resources of FSIS,

First, the red meat slaughter industry has always existed on very small margins making up for that with high sales volume. As margins decrease, as has happened over the past few years, firms must cut costs to maintain profit levels. The easiest route has been to reduce wages which has been done. However, payroll now only comprises 5.6 percent of total sales from a high of 8.0 percent in 1967 and additional reductions would appear to be more difficult to achieve; further decreases will most likely have to come from increased automation and not from decreases in wage rates. The major cost to the packer is for the animal itself. Raw materials as a percent of sales are 87.0; however, given crop subsidies which maintain feed prices and the possibility of a limitation placed on the use of animal drugs, there does not seem to be much of a chance of reducing those costs either. Therefore, firms in the red meat industry will find that to increase profits they will have to move to higher value-added products such as prepared frozen meat entrees which have a greater profit margin. The implication is that while total slaughter will continue to increase marginally, the processing of red meat will rise and FSIS will have to increase the number of processing meat inspectors relative to slaughter inspectors, assuming no change in the nature or intensity of inspection.

Further accentuating this shift is the trend toward more concentration among a few major slaughter firms. While this may not portend new technological advances which can increase line speeds, it will lead to newer plants with a larger number of efficient lines. The more efficient the line, the more efficient the FSIS inspector. On a per carcass basis, FSIS can inspect more animals per unit of time in a large, high line speed plant than in a less automated slower line speed plant. Therefore, increased concentration of the industry may reduce the number of slaughter inspectors.

A third change with the potential to impact FSIS resources is the shift from red meat consumption to poultry. On a live weight per pound basis, the direct cost of poultry inspection is more than twice as expensive to perform than red meat inspection. As poultry consumption, and therefore poultry slaughter, increases vis-a-vis red meat, this will require more FSIS dollars and inspectors solely due to the change of product mix between the species.

A fourth area which could affect future resources is the possibility that some states may turn over their inspection activities to the Federal government. This would increase the number of inspectors in a fashion similar to fiscal years 1981 and 1982 when four state programs were assumed by FSIS, and 257 inspectors were hired to staff 510 additional plants.

Mr. HODGES. I just want to make one small comment. Labor is one of our most controllable costs in that 20 cents that we have and it's approximately half of it, and that seems to be a place to look when our profitability in our industry is subpar. That's one of the places that you can try to gain some efficiencies. But I think we must keep in mind that we do have to maintain a relationship with our work forces. They are a very integral part of our operation. So the workplace environment, we do try to maintain that as best we can, while still maintaining a profitable industry.

Senator ABDNOR. Mr. Emerling, in your end of the distributing process, can you tell where your meat is coming from, whether one source comes from a unionized plant and another one from a nonunionized plant? Does that make a difference in what you offer in the price or is it all the same?

Mr. EMERLING. The meat that our members would receive is bought from packing plants. They're buying it, of course, based on what the market offering price is. It's conceivable that a labor cost could make that meat be less expensive, but generally——

Senator ABDNOR. Would it be less?

Mr. EMERLING. Well, if it were nonunion, for instance. But generally speaking, in any market situation, one—and I think it is important to recognize that—that you do tend to sell to the market. No one picks up your marbles if the price is dropped for some reason or another and you're stuck with high priced goods. Nor if you bought at low prices and the market went up, you would maybe have to react to that to overcome a loss that might have occurred to you at a previous time maybe the week before when you had to sell for less than what you paid. I think that has to be understood as you try to evaluate what a price is. It reflects the market, particularly at wholesale. It may not be as elastic at retail, but it certainly is along the wholesale level.

Mr. TOSTERUD. Mr. Sullivan, you mentioned the recent specials on beef. Have you been able to gauge whether there's been a significant volume response?

Mr. SULLIVAN. I don't have real recent figures, but back in July and August from people that we talked to—and this is not statistical, it's only individual companies relating what their experience has been—two major companies both indicated that their volume was up 5 percent for beef. A regional company that prides themselves on their meat department, and in particular their beef, said their volume was up 12 percent.

Mr. TOSTERUD. Do you consider that volume change significant given the drop in prices?

Mr. SULLIVAN. Yes; especially the regional one. I just wish that every store in the country had that same kind of experience. I don't know what suppliers are finding in terms of the volume of products going through. I know that from USDA reports in terms of slaughter and production we've had 3 percent fewer numbers slaughtered but we've had 2 percent more total beef. It's got to be going out there. It's got to be sold, I assume.

So it may be that this is going to be a year where we will have an uptake on consumption per capita and stop that slide that we've been on.

Mr. TOSTERUD. That would be a tremendous accomplishment and a reversal of a major long trend.

Mr. SULLIVAN. I think that's going to be one of the real keys here is to get our supply and demand into line with each other and from a merchandiser's standpoint we'd like to see it be an increase in the demand.

Mr. TOSTERUD. But that takes a decline in retail prices?

Mr. SULLIVAN. Such as we've had, according to NCA, of 25 cents from 24 cents since just February.

Senator ABDNOR. And that reduction was going on since February?

Mr. SULLIVAN. Mr. Chairman, here's what according to the NCA, in November down 3 cents, in December up 5 cents, February up 4, March down 5, April down 3, May down 6, June and July no change, August down 5, September down 5.

Senator ABDNOR. That's down 5 in the retail price?

Mr. SULLIVAN. From the previous month. In other words, 25 cents over that period of time, but in that pattern.

Senator ABDNOR. That must have averaged out. All I know is that the cattle prices ended up about $10 less or $12 less and you gave me those figures up and down and you lost me there.

Mr. SULLIVAN. Cattle prices for that period were down $12 hundredweight or 12 cents a pound, Omaha prices.

Senator ABDNOR. But I wasn't able to compute in my mind as you were reading the ups and downs of the selling price.

Mr. SULLIVAN. The selling price, the net was down 25 cents, the cumulative of it.

Senator ABDNOR. I want to ask Mr. Krut a followup on Mr. Sullivan. Has your volume gone up in your organization because of the lower price?

Mr. KRUT. No; it has always run in cycles. There are very heavy slaughter times. I think last fall——

Senator ABDNOR. Price isn't that important?

Mr. KRUT. No; I guess I can't emphasize enough the one concern when you alluded to the 42-cents-a-pound difference, you're not selling as much meat. You take a look in the meat case today and you don't find the T-bone with the long tail on it. People don't want that. If you go to look at the chuck roast, they don't want the bone in it either. These are items that were sold in the poundage and volume that are no longer desirable. The customer looks at that and says, "I don't want it." They go buy another product.

So I think we're looking at an awful lot less product that's actually being sold and, of course, that makes the price ultimately higher because you're not only removing product but you're adding a labor cost to take that bone out and trim that fat out as well.

Mr. TOSTERUD. Both the Senate and the House agricultural bills have provisions that provide for beef and pork marketing boards calling for mandatory checkoffs. What would your advice be to those beef and pork board members in terms of promoting their products? I think, Mr. Krut, you've alluded to several of the nonprice problems that red meat confronts today. What suggestions would you have for those producers that are going to be sitting on those boards trying to promote their products?

Mr. KRUT. Well, I think they've got to work on the premise that people do not go buy cattle because they love cattlemen. People like what they have on the table because they have a perception about it. And I think they should never lose sight of the fact that the customer's preferences have changed. They are more diet conscious. They don't want the fatty foods. I think things like the Nutri-Facts Program cannot be considered ever as being done enough. You cannot sell a product that the consumer does not want. You're always competing and it's always going to be a changing marketplace. They're going to have to look at foods that are meat items basically that are served in new formats and precooked as components in other items like salads. There are new markets. But I think when you walk into a supermarket today it doesn't look anything like it did 10 years ago in terms of what's on the shelves and packaging and certainly in the meat case the way things are trimmed.

Senator ABDNOR. Let me go back one moment. Where is the greatest labor cost, when it becomes a carcass, the time it leaves the yards to become a carcass hanging in the plant, or is it from that point to the time it gets to the retailer?

Mr. SULLIVAN. I can't comment beyond—let him get it in the store and then I'll try to do what I can to shed light from there.

Senator ABDNOR. All right.

Mr. HODGES. From a labor standpoint?

Senator ABDNOR. Where is the greatest labor cost breaking it halfway between the yards where it's sold to the time it's hanging as a carcass in a meat packing plant or from that point or from that until it goes across the counter? Where do we find the greatest labor cost?

Mr. HODGES. I do not have the actual figures to give you, but I can give you some personal impressions.

In essence, when you go into further value-added, more highly processed items, then in general your labor costs will be higher than it is for the nonprocessed items. I think nonprocessed in this case being fresh carcass items.

Now if we take a look at what the labor cost is to go into a carcass, it would be somewhat less than what it would be to go into a boxed beef cut. The boxed beef would be somewhat less than it would be to go into retail. So I think that sheds some perspective on what you're saying.

Senator ABDNOR. What do you sell mostly, Mr. Emerling? Do you sell the carcass or do you sell——

Mr. EMERLING. In our industry, most of the cost would be in producing the final finished products. We do not sell in carcasses. We sell in portions, a portion of steak, a portion of lamb chops, and individual to an exact weight, and the more of that value-added work you put on to the meat the greater the labor cost.

In the lamb rack or anything, the cents per pound multiplies tremendously against the yield.

If I might just make one other comment. We talked about more of the meat being made in boneless cuts. I think there's also may be a mistaken perception about what that price really is because if you look at chicken and turkey which have been considered to be maybe some very good values, they are mostly sold bone in now.

And a turkey relatively yields about 33 percent. So if you go in and buy a 90-cent turkey, the meat cooked there is closer to $3, and in chicken it's about four times. And I think that as you look at some of our meat prices they are reflecting some very good value because of the change in which they are now being delivered to our consumers.

Senator ABDNOR. Mr. Sullivan, I'll come back to you again.

Mr. SULLIVAN. Storewide—and I'll give you those numbers first and maybe we can work from there. Storewide in 1983–84, payroll and fringe benefits amounted to 15.39 percent of sales or of everything we add above the cost of inventory 64.4 percent is labor. So basically, of what a supermarket adds to the cost of the inventory, two-thirds of it is for labor. Then I think you really just have to speculate in terms of where that labor may go.

Dry groceries where you put the product on the shelf, you may not have to handle it as much, and you don't have to change the product. It's already packaged and you've got the unit product code on it and so on. I think the speculation is that the labor would be less not only in terms of time but those people are less skilled. In the meat department, those people would probably be our most skilled people in the supermarket.

If you're comparing poultry, for example, where quite a bit of it comes in wrapped, packaged, and tray-ready, ready to go into the meat counter, there's probably less labor involved there than when we bring the product in primals and subprimals. Again, we talked about we're only getting 4.4 percent in carcass, so we're getting the rest in boxed beef.

I was looking in the Wall Street Journal—boxed beef yesterday was $92.19 a hundredweight. A year ago it was $97.67. So for us the carcass as a benchmark doesn't have a lot of relevance for supermarkets. But it depends on how much further breaking down you're going to do. There are some stores where they're doing central cutting and putting things in tray-ready, customer-ready packages. I'm not sure how far we'll get in terms of that kind of centralization, but I think generally the meat department requires more labor and of a higher skill and a higher price than the general store does.

Senator ABDNOR. Thank you. I only once again want to say that I was very disappointed that the United Food and Commercial Workers Union wouldn't appear before us today because I think they could have given us some valuable input into this. For heaven's sake, we wanted to congratulate them. I can tell you this much. Up to the packing part, the portion of the price spread attributable to meat packing labor has declined. I wanted to congratulate them for it. We're not picking on them, but they are quite an item in the formula. You can't ignore that. We dug this out and I'm glad that story has been told. If I were them, I would have been happy to come here and tell the story, but apparently they felt not to. But anyway, it is part of the overall formula of what the price of meat is selling for across the counter.

We've got to close, but we haven't even touched, Mr. Krut, about the burden you carry with Government inspection. I ran into that before I ever got down here in Congress or I guess right after I got here. I was a State senator before and I know it put a lot of my very poor clients out of business—small ones, I mean. They just couldn't afford to buy all that stainless steel. It's very, very expensive.

Is this thing getting worse or is it starting to improve?

Mr. KRUT. Well, I guess the heart of the problem is that USDA, the Food Safety Inspection Service, wants to do a good job and I think they try to document that they are doing a good job, and you can take a brand new plant that has just come under Federal inspection and everything is fine, and tomorrow they have a list of new changes they've got to make.

There does not seem to be a sense within the inspection system of whether anything is cost justified. It's just the way they would like to see it. It's a never-ending battle. I've talked to meat plant owners who say,

> I would love to do some things that could reflect a better product, to reflect a better service area or processing technique, but I can't afford it now because I've got to put a new roof over a warehouse or pave a new area or they told me to put a new wall or a new ceiling in here.

We had one instance last week where an inspector walked into a plant—this is a man who's been in the business for 30 years—the inspector walked in and told him to remove an old wooden loft, and he said, "Why?" And the inspector told him, "Well, you can either remove the roof or tear that loft down because I have to be able to stand up when I walk up there." It had nothing to do with meat and these are the kinds of things that are frustrating people very much.

Senator ABDNOR. I can believe that. There are people in South Dakota who won't tell me much because they are afraid that if this gets back to the Department of Agriculture, they will be harassed to death. And I mean this. I've seen it happen. It's a lot like OSHA.

Mr. KRUT. I can sympathize with some inspection people very much because part of the problem, too, is, they have a mandate from Congress to conduct a continuous form of inspection which means you put an official in a plant and you give him a manual book a foot thick and tell him to find something, and he's got to find something or human nature says that he's not really doing his job. And there tends to be a bit of harassment and nitpicking in this way.

So we would really support legislation that would allow less than continuous inspection because we think it would bring down the cost of the operation of the meat businesses.

Senator ABDNOR. I noticed your statement about forming a task force to find ways of reducing the overburdening cost of inspection. That would be good. I think we should look into that because certainly that is an added dollar.

Well, Mr. Tosterud, I've got to go. Do you have any closing questions?

Mr. TOSTERUD. If I could just ask one quick question and hopefully get a quick response. All four of you have your fingers on the pulse of the livestock industry. I'd be more interested in learning your response to this question than USDA's.

From your perspective, where are cattle prices going in the next 6 to 12 months?

First, Mr. Hodges.

Mr. HODGES. Well, I have the good fortune of having our economist behind me and he's pointing upward.

Mr. TOSTERUD. Mr. Sullivan.

Mr. SULLIVAN. As I said in my prepared statement, we don't make price predictions and even if I thought I was qualified, there were 21 experts that really missed it this January.

Let me just say that all elements of the food industry in the beef chain need to be healthy or none of us are going to survive and stay in business.

On that particular note, I'd like to thank the chairman for holding this hearing. To the extent that we either find the causes or we eliminate segments as the cause, I think it's healthy so that we work on what the real problem is and that's really cooperation up and down the line on demand and getting the consumer to appreciate and understand that product better.

Mr. TOSTERUD. Mr. Krut.

Mr. KRUT. Well, this does not come from me or our organization, but in the review of the literature I've seen, it appears that they are heading upward.

Mr. TOSTERUD. Mr. Emerling.

Mr. EMERLING. We do not track that in the sense or have the ability to, but I would say it reflects certainly what happens in the farm bill as far as grains. If those prices are supported higher, there will be some higher prices. If the dairy-type diversion thing throws more animals on, that could change certain pictures. I would hope it would stay the same and we would increase demand which would be the solution to the whole problem rather than price.

Mr. TOSTERUD. Thank you, Mr. Chairman.

Senator ABDNOR. Thank you. I just want to say to all four of you gentlemen that I really do appreciate your coming here. The purpose is not to accuse anybody or work anybody over, but just to get some figures and facts because if we could come up with some kind of a report or substantiate whatever we say with things right and proper in this area, it would be good. It would clear the air. I realize that the producers with the price the way it is, feeders are losing up to $150 a head now and that really hurts. They think that prices are not clearly being reflected at the retail level. We had seven statements and I didn't hear anybody think that things were quite right when we had hearings here. So we're just trying to find out. We are not—as I said at the outset—pointing a finger at anyone. I'm just asking questions. I don't know if we got any solutions or not. We'll have to stop and look over all of our statements and the background material that we have and maybe search out other people. If we have to, we'll hold another hearing, but I'm not saying that we're going to. We have plenty of material to review.

But I do want to thank you for coming and I guess, in my mind, I'm asking myself, where do we go from here? The complete records of the three hearings will now be delivered to the Department of Justice and the Federal Trade Commission for their evaluation and their evaluation coupled with the views of the livestock industry will probably determine what we do next. So stay in contact and if we have anything new to report, you'll be the first to know. Thank you all very, very much for attending the hearing.

[Whereupon, at 12:10 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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